

CHINA NATURAL RESOURCES INC
Form 20-F
May 26, 2010

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

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

For the fiscal year ended December 31, 2009

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)

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. 21,123,416 Common Shares as of December 31, 2009.

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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 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 "RMB" 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 "RMB Exchange Rate") as quoted by Bloomberg Finance L.P. (Bloomberg) on December 31, 2009, which was US\$1.00 = RMB6.8270. 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, 2009. 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 RMB 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 "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 after 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 Hong Kong company and a wholly-owned subsidiary of CHNR.

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

References to Feishang Copper are to Bayannaer City Feishang Copper Co. Ltd., a company organized in the PRC and a wholly-owned subsidiary of Mark Faith.

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 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 British Virgin Islands corporation and, since February 3, 2006, a wholly-owned subsidiary of CHNR.

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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 Feishang Corporate Services Inc, a Florida corporation 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.

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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 is 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 Yangpu Shuanghu.

References to Hainan are to Hainan Province of the PRC.

References to Hainan Haiyu are to Hainan Yangpu Mining Co. Ltd., a company organized in the PRC and a 70%-owned subsidiary of Hainan Nonferrous Metal.

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 is collectively owned by Yangpu Lianzhong and its nominee.

References to JORC are to the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy.

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 Longfei are to Societe D'investissement Miniere Longfei, a Madagascar company, and an 85% owned subsidiary of Hainan Nonferrous Metal.

References to "Mark Faith" are to Mark Faith Technology Development Limited, a Hong Kong company and a 60%-owned subsidiary of CHNR. On September 29, 2009, the Company disposed of its 60% interest in Mark Faith to an unaffiliated third party.

References to Medi-China are to Zhongwei Medi-China.com Limited, a Hong Kong company and a wholly-owned subsidiary of Silver Moon. Medi-China was dissolved on May 2, 2008.

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

References to "Pineboom" are to Pineboom Investment Limited, a British Virgin Islands company 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 Sinocean are to Sinocean Mining Company Limited, a Hong Kong company and a 60%-owned subsidiary of Hainan Nonferrous Metal.

References to Silver Moon are to Silver Moon Technologies Limited, a British Virgin Islands company 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 British Virgin Islands company and a wholly-owned subsidiary of the Company. Sunwide is currently inactive.

References to "Wealthy Year" are to Wealthy Year Limited, a British Virgin Islands company 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 Feishang Dayun.

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 Hainan 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 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 3D 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 Information**

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. Accordingly, the following selected financial data for the years ended December 31, 2005, 2006, 2007, 2008 and 2009, represent the operations of Feishang Mining and its wholly-owned subsidiary, Wuhu Feishang, through February 2, 2006 and the consolidated operations of Feishang Mining and the Company subsequent to February 2, 2006. We have retroactively restated our issued share capital to reflect the acquisition by Feishang Mining. The selected financial data are stated in RMB and are derived from (I) the audited consolidated financial statements of Feishang Mining for the years ended December 31, 2005, (II) the audited consolidated financial statements of the Company for the years ended December 31, 2006, 2007, 2008 and 2009, as adjusted by the immaterial correction of errors in accordance with the guidance of Staff Accounting Bulletin No. 99 and 108 contained in Form 6-K dated December 2, 2009, and should be read in conjunction therewith. We have also revised the financial data to present non-controlling interests, formerly referred to as minority interest, as a component of equity in accordance with ASC 810-10-65 Transition related to FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which was adopted by us on January 1, 2009, and the classification of Mark Faith as discontinued operations because of its disposal in 2009. Details of the Company's acquisition of Feishang Mining are described elsewhere in this report.

Amounts in thousands, except share amounts and per share data				
Feishang Mining (I)	Company (II)	Company (II)	Company (II)	Company (II)
Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
December 31,	December 31,	December 31,	December 31,	December 31,
2005	2006	2007	2008	2009
RMB	RMB	RMB	RMB	RMB

Operating Statement Data

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Net sales					
- Related parties				26,210	63,025
- Others	98,962	145,389	125,963	74,707	44,725
	98,962	145,389	125,963	100,917	107,750
Cost of sales					
- Related parties				(25,452)	(61,887)
- Others	(42,932)	(38,058)	(39,855)	(34,953)	(33,749)
	(42,932)	(38,058)	(39,855)	(60,405)	(95,636)
Income from continuing operations before income taxes	47,851	98,994	35,472	(18,421)	(63,277)
Income from continuing operations	40,028	83,855	23,456	(24,715)	(65,715)
Income/(loss) from discontinued operations before income taxes		(12,560)		106,092	118,780
Income/(loss) from discontinued operations		(12,560)		103,437	112,196

Amounts in thousands, except share amounts and per share data

	Feishang Mining (I) Year Ended December 31, 2005 RMB	Company (II) Year Ended December 31, 2006 RMB	Company (II) Year Ended December 31, 2007 RMB	Company (II) Year Ended December 31, 2008 RMB	Company (II) Year Ended December 31, 2009 RMB
Net income (loss) attributable to:					
CHNR shareholders	40,028	71,295	23,456	78,722	54,140
Non-controlling interests					(7,659)
	40,028	71,295	23,456	78,722	46,481
Net income (loss) attributable to					
CHNR shareholders:					
Continuing operations	40,028	71,295	23,456	(24,715)	(62,431)
Discontinued operations				103,437	116,571
	40,028	71,295	23,456	78,722	54,140
Net income/(loss) per share:					
Basic					
Continuing operations	4.01	7.35	1.76	(1.28)	(2.97)
Discontinued operations		(1.10)		5.36	5.55
	4.01	6.25	1.76	4.08	2.58
Net income/(loss) per share:					
Diluted					
Continuing operations	3.96	6.08	1.35	(1.11)	(2.86)
Discontinued operations		(0.91)		4.64	5.34
	3.96	5.17	1.35	3.53	2.48
Weighted average number of shares outstanding					
Basic	9,980,593	11,402,372	13,290,471	19,276,019	21,004,238
Diluted	10,110,036	13,798,731	17,347,024	22,278,600	21,817,907
Balance Sheet Data					
Total assets	100,113	174,964	574,966	810,109	693,076
Current assets	70,987	143,330	513,814	390,277	481,764
Current liabilities	50,191	43,127	38,131	96,782	131,837
Working capital	20,796	100,203	475,683	293,495	349,927
Non-current liabilities	4,274	6,577	8,312	20,867	181,962
Non-controlling interests				13,919	25,856

Total China Natural
Resources,

Inc. equity	45,647	125,260	528,523	678,541	353,421
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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 as reflected in its statutory financial statements are to be allocated to each of the general reserve, enterprise expansion reserve and staff bonus and welfare reserve, respectively, 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 dividends of RMB44,005,000 and RMB38,462,000 on February 28, 2005 and January 27, 2006, respectively.

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. The average rate means the average of the exchange rates of the last date of each month during a year. 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. 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 RMB Exchange Rate or at all.

YEAR	2005	2006	2007	2008	2009
High	8.2767	8.0702	7.8170	7.3041	6.8519
Low	8.0702	7.8051	7.2971	6.8113	6.8192
Average for period	8.1826	7.9573	7.5841	6.9256	6.8315
End of period	8.0702	7.8051	7.2971	6.8277	6.8270

MONTH	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10
High	6.8311	6.8302	6.8277	6.8338	6,8271	6.8276
Low	6.8259	6.8255	6.8263	6.8260	6.8257	6.8236

The exchange rate on May 20, 2010 was USD\$1.00 = RMB 6.8277.

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 our Business Operations**

Our inability to fund our capital expenditure requirements may adversely affect our growth and profitability.

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:

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our financial condition and results of operations;

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

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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.

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, zinc and, through September 29, 2009, blister copper 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, zinc and copper 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, iron and copper may adversely affect our operating results. We do not have any formal hedging policies to manage possible price fluctuations.

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

The coal mines expected to be operated by our subsidiaries are currently under construction. During the construction process, the coal mine sites are expected to produce some raw coal. However, the future financial performance of the mines are and will continue to be significantly affected by the market prices of the raw coal or anthracite that it produces.

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.

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 prove to contain sufficient mineral deposits to justify further exploration activities.

If we do not replace revenues from operations that we have disposed of, our revenue production and profitability will be adversely affected.

Our revenues and profitability for the fiscal year ended December 31, 2009 were significantly less than we achieved for the 2008 fiscal year, due in substantial part to the disposition of our remaining interest in Mark Faith. Unless we are able to replace the revenues from discontinued operations with increased revenues from existing operations or revenues derived from acquired operations, our future revenue-production and, therefore, our profitability, will be adversely affected.

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, we may not be able to acquire attractive mineral rights on acceptable terms.

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

We sub-contract 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 adversely affect our operating results.

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:

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environmental hazards;

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industrial accidents;

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unusual or unexpected geologic formations;

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explosive rock failures; and

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flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

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damage to or destruction of mineral properties or production facilities;

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personal injury or death;

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environmental damage;

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delays in mining;

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monetary losses; and

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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 its employees.

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, 2007, 2008 and 2009 were sold to a single customer, Huludao Zinc Industry Co. Ltd. (葫芦岛), 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 in the past, 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.

Risks Relating to PRC Operations and Foreign Private Issuer Status

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

Since 1997, 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 socialist market 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. In addition, in line with its transformation from a centrally-planned economy to a more free market-oriented economy, 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. Other examples include that the PRC government may impose restrictions on the amount of tariff that may be payable by municipal governments to waste water treatment service providers like us. 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. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, 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 two 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.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC 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 services. 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 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 state bank lending. Such an austere policy can lead to a slowing of economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. Repeated rises in interest rates by the central bank would likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our services and recycled products. Although the People's Bank of China continued to lower interest rates since 2008 as part of the economic boosting policy and revitalization scheme in order to combat the impact of the current global financial crisis, it is generally believed that inflation will have an impact on the economy as conditions improve.

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 or conduct any business operations 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 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 according to PRC accounting standards and regulations to fund certain reserve funds. The PRC government also imposes controls on the conversion of RMB 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 on their own in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our common shares.

Governmental control of currency conversion may affect 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 substantially 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 from the transaction, 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 in the future to foreign currencies for current account transactions. 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.

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

The value 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. 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. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced. In addition, the depreciation of significant U.S. dollar denominated assets could result in a charge to our income statement and a reduction in the value of these assets.

On July 21, 2005, the PRC government changed its decade-old policy pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 11.9% appreciation of the RMB against the U.S. dollar up to December 31, 2007. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. The appreciation of the RMB against the U.S. dollar has slowed since 2008, however, it is generally believed that RMB 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 undertaken 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.

Recent regulations promulgated by the PRC State Administration of Foreign Exchange, or SAFE, regarding offshore financing activities by PRC residents have undergone a number of changes which may increase the administrative burden we face. The 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, SAFE promulgated regulations in the form of public notices, which require registrations with, and approval from, 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. Without registration, the PRC entity cannot remit any of its profits out of the PRC as dividends or otherwise.

Because our principal 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.

During 2004, we became 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 United States issuers are required to file. In this regard we are not required to file quarterly reports on Form 10-Q or Current Reports on Form 8-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; and our officers, directors and principal shareholders are not required to file reports detailing their beneficial ownership of our shares. There is generally greater information available about United States issuers than about foreign private issuers such as us, and the lack of information about us makes it more difficult to make investment decisions about us.

As a foreign private issuer we are not subject to certain rules promulgated by NASDAQ 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 not to comply with the following NASDAQ rules:

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a majority of our Board of Directors are not independent as defined by NASDAQ rules;

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

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;

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

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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

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

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

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 7,260,897 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. 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 65% 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 subject to British Virgin Islands law, the provisions of which may not be as favorable to shareholders as US 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 has 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, we acquired the entire issued and outstanding capital stock of Feishang Mining from Feishang Group Limited (Feishang Group). Feishang Mining beneficially owns 100% of the capital stock of Wuhu Feishang, a PRC company. Wuhu Feishang is principally engaged in the mining of zinc, iron and other minerals for distribution in the PRC. Mr. Li Feilie, our Chief Executive Officer, Chairman and principal shareholder, is the sole beneficial owner of Feishang Group. Since May 2003 and continuing following the reverse acquisition, Wuhu Feishang has engaged in the exploration, development and mining of minerals at mines located in Anhui Province, the PRC.

Other Mining/ Exploration Activities

On June 12, 2007, Yunnan Mining was formed as a wholly-owned subsidiary of Wuhu Feishang. 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. During the year ended December 31, 2007, Hainan Nonferrous Metal acquired exploration rights at 12 mines located in Hainan Province, PRC, which are believed to contain molybdenum, copper, lead, zinc and gold. Hainan Nonferrous Metal has engaged third party subcontractors to perform the exploration of the mines, including topographical and geological surveys, exploratory drilling and sampling. However, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained in the mines, or the commercial viability of pursuing a plan of extraction.

On April 3, 2008, Longfei was formed in Madagascar as an 85%-owned subsidiary of Hainan Nonferrous Metal for the purpose of identifying potential mining projects in Madagascar with an initial capital of US\$100,000. In November 2008, Yunnan Mining transferred its 48% interest in Hainan Nonferrous Metal to Yangpu Lianzhong as a result of an internal group restructuring.

During the year ended December 31, 2007, Wuhu Feishang acquired exploration rights to the Si Chong Gold-Silver-Lead-Zinc Mine. The mine is located in Anhui Province, PRC, approximately 3 km west of Fanchang City. The exploration right covers approximately 5.81 square kilometers and it is anticipated that the area covered by the exploration right contains mineable quantities of silver, lead, zinc and copper.

On January 12, 2009, CHNR acquired from Feishang Group Limited all the issued and outstanding capital stock of Newhold and the outstanding indebtedness owed to Feishang Group Limited at a consideration of US\$42 million. Newhold, through its subsidiaries, owns a 70% interest in Guizhou Yongfu which in turn owns the mining rights to Yongsheng Coal Mine, a coal mine located in Huajuexiang, Jinsha County, Guizhou Province, the PRC.

On July 10, 2009, CHNR acquired from Feishang Group Limited all the issued and outstanding capital stock of Pineboom and the outstanding indebtedness owed to Feishang Group Limited at a consideration of US\$22.6 million. Pineboom, through its subsidiaries, wholly-owns Guizhou Dayun, which in turns owns exploration right to Huajuejingtian North Sector Coal Mine, a coal mine located in Jinsha County, Guizhou Province, the PRC.

In October 2009, Yunnan Mining acquired exploration rights to the Bai Guo Chong Mine. The Bai Guo Chong Lead-Zinc Mine is located in E Shan Town, Fanchang, Anhui Province in the PRC, approximately 6 kilometers south of Fanchang City. It is anticipated that the mine contains mineable quantities of lead and zinc.

On May 14, 2009, Sinocean was formed in Hong Kong as a 60% owned subsidiary of Hainan Nonferrous Metal with an initial capital of HK\$100,000 (US\$12,851) for the purpose of identifying potential mining projects in Philippines.

On April 30, 2010, CHNR acquired from Feishang Group Limited all of the issued and outstanding capital stock of Wealthy Year and the outstanding indebtedness of Wealthy Year to Feishang Group Limited at a consideration of US\$87 million (subject to adjustments). Wealthy Year, through its wholly-owned and majority-owned subsidiaries, owns mining rights to five coal mines located in Guizhou Province, the PRC.

Discontinued Businesses

On March 4, 2008, CHNR acquired all of the issued and outstanding capital stock of Mark Faith and its wholly-owned subsidiary Feishang Copper, from Feishang Group, a related party, for a purchase price of RMB22.15 million (US\$3.24 million). Feishang Copper is engaged in the smelting and refining of blister copper and sulfuric acid for distribution in the PRC, from facilities located in Inner Mongolia. On December 30, 2008, CHNR completed the disposition of a 40% equity interest in Mark Faith to an unrelated third party for consideration of US\$14 million. On September 29, 2009, CHNR completed the disposition of the remaining 60% equity interest in Mark Faith to that unrelated third party for consideration of US\$21 million. The disposal of the copper smelting business (which was considered a reporting segment) is consistent with the Company's policy to focus its activities in the up-stream exploration and exploitation activities in the field of iron, non-ferrous metal and coal.

On January 15, 2008, Yunnan Mining acquired a 45% joint venture interest in Guangdong Longchuan from its then shareholders. Guangdong Longchuan was formed to engage in the exploration, development, mining and sale of non-ferrous metals in Guangdong Province in the PRC. Guangdong Longchuan owns exploration right to Jinshizhang Mine in Guangdong Province, the PRC, which is believed to contain silver, lead, zinc and copper. Guangdong Longchuan has obtained the mining permit for a 1.45 square kilometer site area of this mine; and the first stage geochemical exploration, field geology work, geophysics exploration, trenching and drilling activities for the remaining 51.48 square kilometer area are in progress. In November 2008, Yunnan Mining internally transferred its 45% interest in Guangdong Longchuan to Yangpu Lianzhong as a result of an internal group restructuring. On February 1, 2010, Yangpu Lianzhong disposed of its 45% interest in Guangdong Longchuan to an unaffiliated third party.

Financing Activities

On August 24, 2007, the Company consummated the sale, to six non-U.S. persons, of an aggregate of 2,187,500 units, each unit consisting of two Common Shares and one warrant to purchase one Common Share, for a purchase price of \$16.00 per unit, or an aggregate purchase price of \$35,000,000. Each warrant entitles the holder to purchase one Common Share at an exercise price of \$10.00 per share for a three year period commencing August 24, 2008.

On February 1, 2008, warrants to purchase 2,000,000 Common Shares were exercised by Feishang Group, our principal shareholder, and the Company received gross proceeds of US\$8,000,000 in connection therewith. On January 29, 2009, warrants to purchase 1,500,000 Common Shares were exercised by Feishang Group and the Company received gross proceeds of US\$6,750,000 in connection therewith. On January 26, 2010, warrants to

purchase 1,000,000 Common Shares were exercised by Feishang Group, and the Company received gross proceeds of US\$5,000,000 in connection therewith.

From October 2007 through December 2007, employee options to purchase 1,400,000 Common Shares granted under our equity compensation plan were exercised by certain employees and officers, and the Company received gross proceeds of US\$11,914,000. On August 4, 2008, employee options to purchase 300,000 Common Shares granted under our equity compensation plan were exercised by Mr. Li Feilie, our Chairman and CEO, and the

Company received gross proceeds of US\$2,553,000 in connection therewith. On May 6, 2010, employee options to purchase 400,000 Common Shares granted under our equity compensation plan were exercised by Mr. Wong Wah On Edward, our secretary and Chief Financial Officer, and the Company received gross proceeds of US\$3,404,000 in connection therewith. On May 17, 2010, employee options to purchase 200,000 Common Shares granted under our equity compensation plan were exercised by Mr. Tam Cheuk Ho, our Executive Vice President, and the Company received gross proceeds of US\$1,702,000 in connection therewith.

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 sale 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, exploration, construction, development and operation of coal mines located in Guizhou Province, the PRC.

Mining of Zinc, Iron and Other Non-Ferrous Metals

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 generally recognized 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.

Our metal mining operations are conducted by:

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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; and

Yangpu Lianzhong, a PRC company established on January 21, 2008 as a wholly owned subsidiary (together with its nominee) of China Coal. Yangpu Lianzhong owns a 48% joint venture interest (together with its nominee) in Hainan Nonferrous Metal. Hainan Nonferrous Metal owns exploration rights to 12 mines located in Hainan Province, PRC. Guangdong Longchuan, a 45% joint venture interest of Yangpu Lianzhong, owns the exploration right (a portion of which has been granted a mining right permit) to a silver and multi-metallic ore located in Guangdong Province. Hainan Nonferrous Metal also owns an 85% equity interest in Longfei, a Madagascar company exploring mining resources in Madagascar, a 60% equity interest in Sinocean, a Hong Kong company exploring mining resources in the Philippines and a 70% equity interest in Hainan Haiyu a PRC company exploring mining resources in Mozambique.

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.

According to the International Lead and Zinc Study Group, (ILZSG), global zinc metal production was 11.287 million tonnes in 2009. Despite an 11.3% increase in Chinese production of refined zinc metal, overall global output declined by a significant 9.1%. This was primarily due to a range of plant cutbacks, closures and suspensions implemented in response to the economic downturn. Zinc metal consumption amounted to 10.843 million tons in 2009, a decrease of 5.6% resulting in a surplus of 380,000 tons of metal on the market. Another surplus is anticipated in 2010.

Global economic activity continued to contract during the first half of 2009, with the notable exception of China and India. As global economic activity began recovering during the third quarter, global demand for zinc began to increase. By the end of 2009, however, China (by 17%) and India (by 6%) were the only two countries where zinc consumption increased year over year. China's rise in consumption is thought to have been supported partly by its RMB 4 trillion fiscal stimulus package, which directed investment into infrastructure.

Chinese net imports of refined zinc metal rose to a record 641kt of which more than 70% was imported during the first half of 2009. At 1.9 million tonnes, imports into China of zinc contained in zinc concentrates were also at the highest level so far recorded. The following table shows the production, consumption and prices of zinc in China over the past five years:

	2005	2006	2007	2008	2009
Metal production (in thousand tons)	2,776	3,163	3,743	3,913	4,357
Consumption (in thousand tons)	3,037	3,156	3,750	3,925	4,730
Average price (RMB/ ton)	13,713	27,765	28,166	15,465	13,721

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 is concentrated in Australia, Brazil, the PRC, India and South Africa, which together account for over 70% of the world's total.

In 2008, the total world iron ore production was approximately 2.22 billion tonnes. While the PRC is the largest producer of crude iron ore, it is also the largest importer of iron ore in the world. According to the National Bureau of Statistics of China, iron ore production in the PRC increased from 260 million tonnes in 2004 to 880 million tonnes in 2009, representing a compound annual growth rate of over 20%. As the PRC economy is expected to grow following the PRC government's unveiling of a RMB4 trillion (US\$585.91 billion) stimulus package for ten sectors, the PRC is expected to remain the dominant source of iron ore demand growth.

China is the world's largest iron ore importer and consumer. China increased iron ore imports in 2009 by 42% to a record 628 million metric tonnes as demand expanded because its RMB4 trillion stimulus spending has boosted steel demand from automakers, home-appliance manufacturers and builders.

In 2010, the Chinese government is expected to continue to support steel product consumption. As the price of imported iron ore is higher than domestically produced iron ore, domestic iron ore miners are likely to ramp up production which may alleviate China's iron ore supply shortage in 2010.

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 account for approximately 70% of world's total iron ore exports.

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 the 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. The use of coatings containing MIO pigments is becoming increasingly popular in manufacturing and industries and products such as durable antiseptic coating paint, primer and finish paint on steel structures.

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 Limited (the "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 its 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. As of January 26, 2010, all of the Warrants had been exercised and the Company received gross proceeds of US\$19,750,000 in connection therewith.

Wuhu Feishang

History and Overview of Wuhu Feishang

Wuhu was established as a Sino-foreign joint stock limited liability company between Wuhu Feishang Enterprise Development Company Limited ("WFED") (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 is RMB12,000,000 (US\$1,757,000), of which RMB6,000,000 (US\$878,000) was contributed by each of WFED and FIH. In May 2003, Wuhu acquired the entire business of Anhui Fanchang Zinc and Iron Mine, a state-owned enterprise ("Anhui Fanchang"). In April 2005, WFED 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.

Wuhu Feishang 's principal activities are the mining of zinc, iron and other minerals for distribution in the PRC. Wuhu Feishang currently operates two mines located in Wuhu Feishang City, Anhui Province, the PRC, for which it has acquired mining rights: the Yang Chong Mine contains iron and zinc minerals and the Zao Yuan Mine contains mainly iron minerals. The two mines produced approximately 54,000 tons of iron, 800 tons of zinc and 7 tons of copper concentrates in 2008, and approximately 60,000 tons of iron and 650 tons of zinc in 2009. The majority of the iron and zinc ore is mined from Yang Chong Mine. Zao Yuan Mine ceased its operation in

October 2009. Wuhu Feishang acquired the entire business of Anhui Fanchang in May 2003, including but not limited to the mining rights of the two mines, the properties and the processing facilities of the mines. Wuhu City is located in the northwestern Yangtze River Delta and the center of East China, approximately 384 kilometers from Shanghai. In August 2007, Wuhu Feishang acquired exploration rights to a third mine the Si Chong 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 metals 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, iron and copper 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 AND COPPER CONCENTRATE PRODUCTS, THE FOLLOWING ADDITIONAL PROCESSES OCCUR FOLLOWING FLOTATION:

Pooling Mineral Concentrate Dehydration Finished Zinc/ Copper Concentrate Products

IN THE CASE OF IRON CONCENTRATE PRODUCTS, THE FOLLOWING ADDITIONAL PROCESSES OCCUR FOLLOWING FLOTATION:

Magnetic Separation Finished Iron Concentrate Products

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 concentrate 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 concentrate 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 concentrate 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).

Copper: Our copper concentrate product is sold in its entirety to Tongling Nonferrous Metals Group Holdings Co. Ltd. a Shenzhen-listed company which is located in Anhui Province, the PRC, and which is primarily engaged in the copper smelting business. The price of our copper concentrate is generally set at 86% (to be adjusted by the grading of the product) of the monthly average price of #1 electrolytic copper announced by Shanghai Nonferrous Metals on its website (www.smm.com.cn).

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.

The average selling prices per metric ton of our major products for each of the three years ended December 31, 2007, 2008 and 2009, are set forth on the table below:

Major Product	2007	2008	2009
	<i>RMB/ MT</i>	<i>RMB/ MT</i>	<i>RMB/ MT</i>
Zinc concentrate (Grade 42% ~ 44%)	17,873	8,057	6,616
Iron concentrate (Grade 65% ~ 66%)	849	1,176	648
Micaceous Iron Oxide Grey (Grade 160, 240, 320)	1,296	2,158	2,017
Copper concentrate (Grade 18% ~ 20%)	49,711	48,268	

The table below summarizes the production quantity and sales quantity for each of the years ended December 31, 2007, 2008 and 2009 included in continuing operations.

	2007	2008	2009
Production quantity (tons):	3,925	795	644
Zinc	55,580	54,150	59,500
Iron	1,080	1,025	1,001
Micaceous iron oxide grey	53	7	
Copper concentrates			
Sales quantity (tons):			
Zinc	4,113	907	740
Iron	56,070	53,888	58,779
Micaceous iron oxide grey	1,296	1,099	744
Copper concentrates	51	7	

Yang Chong Mine

The Yang Chong Mine is an underground mine located in Fanyang Town, Fanchang, 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 east of Fanchang City and 13.5 kilometers north-west of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers from Wuhu City. Yang Chong Mine has a total mining area of 0.186 square kilometers. The Yang Chong 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 tons of ore. Full scale ore production started in 1999, and the daily mining capacity gradually increased to approximately 900 tons of ore in 2007.

Since all mineral resources in the PRC are owned by the State, the Company's right to extract minerals at Yang Chong 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 Yang Chong Mine. The Company's current license to mine the Yang Chong Mine expires on December 31, 2011, and may be renewed upon expiry.

Yang Chong 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 porphyry 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 paragenic deposits. The low side of the ore body is uncontinuous magnetite deposits. Ore body II consists of zinc-iron paragenic deposits and zinc deposits. Ore body III consists of continuous deposits and iron deposits.

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

Wuhu Feishang outsources mine extraction to an unrelated third party. Under an agreement dated January 1, 2009, Wuhu Feishang entered into sub-contracting agreements with Wenzhou Mining Engineering Co. Ltd. for outsourcing the mine extraction work for Yang Chong Mine. Under the agreements, the subcontractor charges a service fee of RMB59.90 (US\$8.77) per ton of ore extracted, and RMB13.00 (US\$1.90) per ton of useless stone removal. For the developing of ramps, the subcontractor charges a service fee of RMB1,500 (US\$220) per extra meter of inclined shaft and RMB1,188 (US\$174) per extra meter of flat shaft. Except for the mining of raw minerals, which is outsourced to an unrelated third party (as described above), all the procedures of the ore processing are performed by Wuhu Feishang. Raw minerals extracted from Yang Chong Mine are processed into iron and zinc metals in factories located near the mine.

All equipment, infrastructure and facilities material to Wuhu Feishang's operations are believed to be in good condition. The plant was constructed in 1991 and has been periodically upgraded. The processing plant is capable of producing approximately 600 tons of finished products per day. The processing facilities process raw ore from both the Yang Chong Mine and Zao Yuan Mine. Site infrastructure includes roads, water supply system, electric supply system, warehouses, living quarters, dining facilities and an administration building. At December 31, 2008 and 2009, the net book value of property, plant and equipment of Yang Chong Mine was approximately RMB17,103,000 (US\$2,505,000) and RMB16,709,000 (US\$2,447,000), respectively.

As of December 31, 2009, the reserve and mineralized material estimates of Yang Chong Mine are as follows:

	As of December 31, 2009		
	Probable Reserve (in metal tons)	Mineralized Material (in ore tons)	(Average Quality)
Yang Chong mine			
Zinc	7,250		
Iron	133,643		
Zinc-Iron		3,308,037	Zn: 5.15%; Fe: 44.89%

Note: The probable reserve as of December 31, 2009 has been adjusted by removing those reserves extracted by the Company's past mining activities. Based on the 2009 production levels, the length of the mining activity of our probable reserves for Yang Chong mine is approximately 2 years for iron and 11 years for zinc respectively. The mine dilution loss and the mining recovery factor of Yang Chong Mine are approximately 10% and 90%, respectively. The metallurgical recovery factor of zinc and iron are approximately 96% and 87%, respectively. The selling price used in estimating the probable reserve was RMB6,300 (US\$923) for zinc concentrates and RMB800 (US\$117) for iron concentrates.

Zao Yuan Mine

The Zao Yuan Mine is also an underground mine located in Fanyang Town, Fanchang, Anhui Province in the PRC, the centre of which has a geological coordinate EL 118°12' 47", NL 31°08' 54". The mine is approximately 8.5 kilometers east of Fanchang City and 17 kilometers northwest of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers through Wuhu City. Zao Yuan Mine has a total mining area of approximately 0.0136 square kilometers. The Zao Yuan Mine contains mainly iron. Since the fourth quarter of 2006, a small quantity of copper was found in Zao Yuan Mine, and Wuhu Feishang has installed processing equipment for copper which is currently under production.

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

October 2009.

At December 31, 2008 and 2009, the net book value of property, plant and equipment of Zao Yuan Mine was nil and nil, respectively as they were fully depreciated and scrapped. All of the minable reserves of Zao Yuan mine have been fully extracted in 2009 and, as a result, the Company did not renew the mining license covering this property.

Si Chong Mine

During the year ended December 31, 2007, Wuhu Feishang acquired exploration rights to Si Chong Mine for RMB700,000 (US\$103,000). The geological coordinate of this property is EL 118°10' 15" ~ 118°11' 30" and NL 31°01' 30" ~ 31°03' 00" covering a site area of 5.20 square kilometers. The Si Chong Gold-Silver-Lead-Zinc Mine is located in Sun Cun Town, Fanchang, Anhui Province in the PRC, approximately 4 kilometers north of Fanchang City with an exploration permit running from September 28, 2009 to September 28, 2011. The mine has engaged Geological Brigade of East-China Metallurgy Geological Exploration Bureau, Anhui Hydro-geology Survey & Engineering Geology Survey Corporation and Shandong Zhengyuan Geological Exploration Institute to carry out prospecting which includes geophysical, geochemical and drilling works, and through December 31, 2009 has incurred exploration expenses of approximately RMB2,757,000 (US\$404,000). It is anticipated that the mine contains mineable quantities of gold, silver, lead and zinc. However, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained at the mines, or the commercial viability of pursuing a plan of extraction. The geo-physical and geo-chemical survey will be completed by the end of 2010. The exploration report is expected to be completed by 2011. The total budgeted amount for this project is approximately RMB4.15 million (US\$0.61 million). This exploration project is expected to be financed by internally-generated funds.

Suppliers

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

For the years ended December 31, 2007, 2008 and 2009, the largest five suppliers accounted for 44%, 33% and 40%, respectively, of Wuhu Feishang's purchases. For the year ended December 31, 2007, the largest supplier accounted for 12% of Wuhu Feishang's purchases. For the year ended December 31, 2008, no supplier accounted for more than 10% of Wuhu Feishang's purchases. For the year ended December 31, 2009, the largest supplier accounted for 13% of Wuhu Feishang's purchases.

Customers

Wuhu Feishang sells zinc and iron products to companies in the PRC. All of Wuhu Feishang's zinc products were sold to a single customer, Huludao Zinc Industry Co., Ltd., which is the largest zinc smelter in Asia. Wuhu Feishang has a one-year master sales contract with Huludao subject to renewal every year; however, the sales contract does not obligate Huludao to purchase zinc from Wuhu Feishang. The loss of Huludao as a source for Wuhu Feishang's zinc production would require Wuhu Feishang to identify new outlets for its zinc and could delay revenue generation and adversely affect our results of operations (see Item 3D - Risk Factors). Most sales to Huludao were made on a cash on delivery basis. For iron and other products, sales are generally made under sales contracts with customers, typically with a one-year term. Over 90% of these sales are made on a cash on delivery basis. For the others, management may extend up to one month's credit to customers who are determined to be creditworthy.

For the three years ended December 31, 2007, 2008 and 2009, Wuhu Feishang's five largest customers accounted for 100%, 89% and 85% of Wuhu Feishang's sales, respectively. During the year ended December 31, 2007, the three largest customers accounted for 59%, 13% and 8%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2008, the three largest customers accounted for 45%, 17% and 11%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2009, the three largest customers accounted for 32%, 19% and 15%, respectively, of Wuhu Feishang's sales.

Competition

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

Yunnan Mining

History of Yunnan Mining

Yunnan Mining is a PRC company established on June 12, 2007 and is a wholly owned subsidiary of Wuhu Feishang with a registered capital of RMB50,000,000 (US\$7,324,000). Yunnan Mining was established to engage in the mining and processing of nonferrous metals in the PRC.

Acquisition of Bai Guo Chong Exploration Mine

During the year ended December 31, 2009, Yunnan Mining acquired exploration rights to Bai Guo Chong Mine for consideration of RMB800,000 (US\$117,000). The geological coordinate of this property is EL 118°11' 30" ~ 118°12' 15" and NL 31°02' 00" ~ 31°03' 15" covering a site area of 2.72 square kilometers. The Bai Guo Chong Lead-Zinc Mine is located in E Shan Town, Fanchang, Anhui Province in the PRC, approximately 6 kilometers south of Fanchang City with an exploration permit running from October 23, 2009 to May 25, 2010. The Company intends to seek renewal of the exploration right permit upon its expiry in 2010. The mine has engaged Geological Brigade of East-China Metallurgy Geological Exploration Bureau to carry out prospecting which includes geophysical and drilling works, and incurred exploration expenses of approximately RMB943,000 (US\$138,000). The exploration stage drilling, with a budget of RMB904,200 (US\$132,000), has been commenced and completion will be expected by the end of 2010. It is anticipated that the mine contains mineable quantities of lead and zinc. However, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained at the mines, or the commercial viability of pursuing a plan of extraction. The total budgeted amount for this project is anticipated to be RMB4 million (US\$0.59 million). This exploration project is expected to be financed by internally-generated funds.

Yangpu Lianzhong and China Coal

Pursuant to an agreement dated February 29, 2008 between Yunnan Mining and China Coal Mining Investments Limited (China Coal), a wholly-owned subsidiary of the Company established in January 2008, China Coal agreed to invest US\$47.61 million in Yangpu Lianzhong (accounted for as 97.2% of the enlarged capital of Yangpu Lianzhong), of which US\$15 million was paid on May 8, 2008. Pursuant to an internal group restructuring, 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.

Pursuant to the internal group restructuring described above, Yangpu Lianzhong currently holds a 48% equity interest (together with its nominee Yangpu Fengyu) in Hainan Nonferrous Metal. The 45% equity interest in Guangdong Longchuan originally held by Yangpu Lianzhong was disposed to an unaffiliated party on February 1, 2010.

Hainan Nonferrous Metal

History of Hainan Nonferrous Metal

On September 10, 2007, Yunnan Mining entered into a Founder Shareholders Agreement with Hainan Jindi Industry Corporation (Hainan Jindi), Yangpu Fengyu Industry Development Co. Ltd. (Yangpu Fengyu) and six individual residents of the PRC, to form Hainan Nonferrous Metal as a stock company under the laws of the PRC, Hainan Jindi, a state-owned enterprise, is a subsidiary of the Hainan Bureau of Geological Exploration, and Yunnan Mining understands that the six individual PRC residents are members of management of Hainan Jindi. Yangpu Fengyu is the nominee of Yunnan Mining.

Hainan Nonferrous Metal has a registered capital of RMB68,000,000 (US\$9,960,000), which was contributed 40% by Hainan Jindi, 30% by Yunnan Mining, 18% by Yangpu Fengyu and 12% by the six individuals. Yunnan Mining, together with its nominee Yangpu Fengyu, collectively owned a 48% equity interest in Hainan Nonferrous Metal.

On December 3, 2008, as part of the internal group restructuring, Yunnan Mining transferred its interest in Hainan Nonferrous Metal to Yangpu Lianzhong, for consideration of RMB32,640,000 (US\$4,781,000). Since the date of such transfer, Yangpu Lianzhong, together with its nominee Yangpu Fengyu, collectively own a 48% equity interest in Hainan Nonferrous Metal.

Acquisition of Exploration Rights

Hainan Nonferrous Metal was formed to engage in the exploration, development, mining and sale of nonferrous metals in Hainan Province and other regions in the PRC. During the year ended December 31, 2007, Hainan Nonferrous Metal acquired exploration rights covering 12 mines located in Hainan Province, PRC, for RMB33 million (US\$4,834,000). All the required formalities for the transfer of the exploration rights were completed in 2008.

Hainan Nonferrous Metal has engaged third party subcontractors to perform the exploration of the 12 mines, including topographical and geological surveys, exploratory drilling and sampling. However, until further exploration and analysis is completed we cannot predict the nature and extent of minerals contained in the mines, or the commercial viability of pursuing a plan of extraction. Further details of the exploration projects are shown in the following table:

Exploration projects	Location	Exploration Area		Validity period of the exploration right		Purchase consideration
		(square kilometers)		From	To	RMB
Mineral exploration of Zhengmianling Copper Polymetallic Mine	Anding County, Hainan Province	19.05		04/30/2007	04/30/2010	8,677,100
Mineral exploration of Jinling Gold Mine	Chengmai County, Hainan Province	38.84		01/06/2010	01/06/2012	854,100
Mineral exploration of Laomaogou Lead-Zinc Mine	Zhongsha Town, Dongfang City, Hainan Province	5.49		02/28/2010	02/28/2012	638,600
Mineral exploration of Hanxiao Copper Mine	Qianjia Town, Ledong County, Hainan Province	8.55		09/21/2009	09/21/2011	1,117,600
Mineral exploration of Dadao Molybdenum-Lead-Zinc Mine	Qianjia Town,	12.21		02/28/2010	02/28/2012	5,108,800

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	Ledong County,				
	Hainan Province				
Mineral exploration of Baowenling	Nanlin Town,	42.35	02/28/2010	02/28/2012	5,140,800
Molybdenum-Lead-Zinc Mine	Baoting County,				
	Hainan Province				
Mineral exploration of Daogangling	Baisha County,	14.60	02/28/2010	02/28/2012	638,600
Lead-Zinc Mine	Hainan Province				
Mineral exploration of Dayinling	Qiongzong City,	26.33	02/28/2010	02/28/2012	830,200
Copper Polymetallic Mine	Hainan Province				
Mineral exploration of Xinyuan	Dongfang City,	5.08	01/06/2010	01/06/2012	383,200
Lead-Zinc Mine	Hainan Province				
Mineral exploration of Yitong Copper	Ledong County,	26.66	01/06/2010	01/06/2012	1,117,600
Polymetallic Mine	Hainan Province				
Mineral exploration of Baoshi Copper	Baoting County,	26.47	09/21/2009	09/21/2011	5,140,800
Polymetallic Mine	Hainan Province				
Mineral exploration of Haoganling	Fenghuan Town,	40.72	06/13/2008	04/30/2010	3,352,600
Molybdenum-Copper Mine	Sanya City,				
	Hainan Province				

Geology Team No. 934 of Geology and Mineral Resources of Hainan Province has been engaged to conduct the exploration projects of Baowenling Molybdenum-Lead-Zinc Mine, Laomaogou Lead-Zinc Mine, Dadao Molybdenum-Lead-Zinc Mine and Hanxiao Copper Mine. Hainan Provincial Institute of Nonferrous Exploration Technology has been engaged to conduct the exploration projects of Dayinling Copper Polymetallic Mine and Zhengmianling Copper Polymetallic Mine. Resources and Environment Survey Team, directly under the Bureau of Geological Exploration of Hainan Province, has been engaged to conduct the exploration projects of Haoganling Molybdenum-Copper Mine, Baoshi Copper Polymetallic Mine, Yitong Copper Polymetallic Mine, Xinyuan Lead-Zinc Mine. Bureau of Marine Geological Survey of Hainan Province has been engaged to conduct the exploration projects of Jinling Gold Mine and Daogangling Lead-Zinc Mine. They are all qualified geology surveyors holding qualification certificates issued by the Ministry of Land Resources of the PRC. All of our exploration projects are expected to be financed by internally-generated funds.

A detailed summary of the exploration rights held by Hainan Nonferrous Metal Company Limited is as follows:

Mineral Exploration of Zhengmianling Copper Polymetallic Mine

The geological coordinate of this property is EL 110°15' 00" ~ 110°17' 00" and NL 19°16' 00" ~ 19°18' 30" covering a site area of 19.05 square kilometers. The forming of this ore field experienced a long period of magma crystallization and quartz pyrites. This type of ore deposit is estimated to be a copper-molybdenum deposit with good exploration prognosis. The first stage of geochemical survey has been completed. Currently we have no detailed plan to survey this property; however, the Company is currently applying for renewal of the exploration right permit covering this property.

Mineral Exploration of Jinling Gold Mine

The geological coordinate of this property is EL 110°00' 00" ~ 110°03' 00" and NL 19°30' 00" ~ 19°34' 00" covering a site area of 38.84 square kilometers. This exploration property is located on a gold-silver-lead-zinc polymetallic metallogenic belt in northern Hainan Island. The geological structure and condition are favorable for the mineralization of gold deposits. The geochemical exploration was completed in 2008 and the prospecting was completed in 2009. The total budgeted amount for this project is anticipated to be RMB4.31 million (US\$631,000). The exploration is expected to be completed by the end of 2010.

Mineral Exploration of Laomaogou Lead-Zinc Mine

The geological coordinate of this property is EL 108°45' 15" ~ 108°46' 00" and NL 18°45' 00" ~ 18°47' 15" covering a site area of 5.49 square kilometers. The exploration property is located on a gold polymetallic metallogenic belt in Hainan Island. The environment and geological condition in this exploration area are favorable for mineralization as the granite massif outcrop in the exploration area was the ore-forming mother rocks of lead-zinc deposit. There is a lead-zinc deposit found in the southwest of the exploration property and a gold deposit found in the east, indicating a favorable prospecting potential. The first stage of geochemical survey has been completed. Currently we have no detailed plan to survey this property.

Mineral Exploration of Hanxiao Copper Mine

The geological coordinate of this property is EL 109°06' 15" ~ 109°08' 00" and NL 18°33' 15" ~ 18°34' 45" covering a site area of 8.55 square kilometers. The exploration property is located on a gold-molybdenum-copper metallogenic belt in southern Hainan Island. A lead-zinc deposit and a molybdenum polymetallic deposit have been discovered in the southwest of the exploration area. Several 50-200m long and 10-15m wide outcrops of mineral-enriched skarn have been found in granite, indicating a favorable mineralization potential. The first stage geochemical survey has been completed. Currently we have no detailed plan to survey this property.

Mineral Exploration of Dadao Molybdenum-Lead-Zinc Mine

The geological coordinate of this property is EL 108°58' 00" ~ 108°59' 30" and NL 18°31' 30" ~ 18°34' 30" covering a site area of 12.21 square kilometers. The exploration property is located on a molybdenum-copper metallogenic belt in southern Hainan Island. The ore deposit is estimated to be a polymetallic ore deposit, with favorable exploration prospect of molybdenum-lead-zinc polymetallic ore. The first stage of geochemical survey has been completed. Currently we have no detailed plan to survey this property.

Mineral Exploration of Baowenling Molybdenum-Lead-Zinc Mine

The geological coordinate of this property is EL 109°30' 00" ~ 109°32' 30" and NL 18°24' 00" ~ 18°30' 00" covering a site area of 42.35 square kilometers. The entire site, which is located in the center of Tonganling volcanic basin, is covered by anomalous 50 square kilometers zone of damp sediment enriched with copper, gold and molybdenum. These anomalous zones are distributed orderly with strong sign of mineralization. A copper and molybdenum ore field has been found to the east of our site, indicating a good prospecting potential of large and medium size copper and molybdenum deposit. The first stage geochemical survey has been done. Currently we have no detailed plan to survey this property.

Mineral Exploration of Daogangling Lead-Zinc Mine

The geological coordinate of this property is EL 109°26' 30" ~ 109°28' 45" and NL 19°07' 00" ~ 19°09' 00" covering a site area of 14.60 square kilometers. The exploration area is located on a gold-silver-lead-zinc polymetallic belt of Hainan Island. The geological structure has a strong metallogenic sign of mineralization. The geochemical survey, geophysical survey and prospecting have been completed. Based on the prospecting result, we intend to engage an exploration team to conduct the exploration. The total budgeted amount for this project is anticipated to be RMB4.27 million (US\$625,000).

Mineral Exploration of Dayinling Copper Polymetallic Mine

The geological coordinate of this property is EL 109°41' 00" ~ 109°44' 15" and NL 19°21' 00" ~ 19°23' 30" covering a site area of 26.33 square kilometers. The exploration area is located on a gold-silver-lead-zinc polymetallic belt of Hainan Island. The tectonic and magmatite structure is favorable to mineralization. The first stage geochemical survey has been done. Currently we have no detailed plan to survey this property.

Mineral Exploration of Xinyuan Lead-Zinc Mine

The geological coordinate of this property is EL 108°46' 00" ~ 108°47' 15" and NL 18°46' 15" ~ 18°47' 30" covering a site area of 5.08 square kilometers. The exploration property is located on a polymetallic belt of Hainan Island. There are medium-grade lead and zinc ore bodies outcrops found in the exploration area. The ores are also associated with gold and silver. We believe that this property has a favorable prospecting potential. The geochemical and geophysical surveys have been completed, and a general exploration program is being planning.

Mineral Exploration of Yitong Copper Polymetallic Mine

The geological coordinate of this property is EL 109°12' 30" ~ 109°15' 00" and NL 18°30' 00" ~ 18°33' 30" covering a site area of 26.66 square kilometers. The exploration property is located on a leading molybdenum-copper polymetallic belt in southern Hainan Island. A few copper, gold, molybdenum ore occurrences were discovered in the area. The property is believed to have a good metallogenic potential for molybdenum-copper deposit and gold deposit. The geochemical and geophysical surveys have been completed. At this time we have no detailed plan to conduct exploration on this property.

Mineral Exploration of Baoshi Copper Polymetallic Mine

The geological coordinate of this property is EL 109°34' 00" ~ 109°37' 00" and NL 18°27' 00" ~ 18°30' 15" covering a site area of 26.47 square kilometers. The exploration property is located on a leading molybdenum-copper polymetallic belt in Hainan Island. Four molybdenum-copper ore deposits have been discovered around the property and we believe that the property has a good prospecting potential of molybdenum-copper deposit and gold deposit. The first stage geochemical exploration, field geology work and second stage geochemical exploration were completed in 2008. To date, the geophysical exploration and prospecting fieldwork have been completed. The exploration team is currently

compiling and finalizing its survey report. Our plan is to conduct site visit and sampling analysis on the two discovered mineralized alteration belts. The total budgeted amount for this project is RMB1.33 million (US\$195,000).

Mineral Exploration of Haoganling Molybdenum Copper Mine

The geological coordinate of this property is EL 109°25' 00" ~ 109°27' 30" and NL 18°25' 00" ~ 18°28' 00" covering a site area of 40.72 square kilometers. The tectonic structure of this exploration property is favorable for forming molybdenum-copper deposit. To date, the first stage geochemical survey, field geology work and second stage geochemical survey have been completed. There is no current plan for geophysical survey at the moment. The Company is currently applying for renewal of the exploration right permit covering this property.

Research and Sampling Procedures

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

(a)

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

(b)

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

(c)

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

A brief description of our sampling procedures is as follows:

(a)

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

(b)

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

(c)

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

(d)

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

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

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

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

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

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

.

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

.

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

Government Regulation of Iron/ Non-ferrous Metal Mining Activities

Under the Mineral Resources Law , all mineral resources in the PRC are owned by the State. Mining rights are granted by the State permitting recipients to conduct mining activities in a specific mining area during the specified license period. On December 31, 2005, Wuhu Feishang renewed its mining rights to 0.186 square

kilometers covering Yang Chong Mine, which will expire in December 2011, subject to renewal upon expiry. In October 2006, Wuhu Feishang renewed its mining rights to 0.0136 square kilometers covering Zao Yuan Mine, which has expired in October 2009. Although Wuhu Feishang believes that it will be able to renew the licenses as it has done in the past, there can be no assurance that Wuhu Feishang will be able to exploit the entire mineral resources of its mines during its license period. If Wuhu Feishang fails to renew its mining rights upon expiry or if it cannot effectively utilize the resources within a license period, the operation and performance of Wuhu Feishang may be adversely affected.

Wuhu Feishang's mining rights entitle it to undertake mining activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. Wuhu Feishang is required to submit a mining proposal and feasibility studies to the relevant government authority. Wuhu Feishang is also obligated to pay a natural resources fee to the State in an amount equal to 2% of annual sales. License fees of RMB500,000 (US\$73,000), RMB 1.0 million (US\$146,000) and RMB 614,000 (US\$90,000) were paid in November 2007, November 2008 and July 2009, respectively. The license fee for the renewal of the mining rights to Yang Chong Mine of RMB3,002,900 (US\$440,000) was paid in December 2005 whereas that of Zao Yuan Mine of RMB354,000 (US\$52,000) was paid in October 2006. License fees are not required to be paid in connection with the grant of exploration rights and, therefore, no license fees are payable for the Si Chong Mine, Bai Guo Chong Mine, the 12 mines undergoing reconnaissance/ prospecting/ exploration by Hainan Nonferrous Metal or the mine portion undergoing prospecting/ exploration by Guangdong Longchuan until such time, if any, as we seek mining rights with respect to those mines.

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

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

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

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

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

Discontinued Operations/ Disposal Activities

Mark Faith and Feishang Copper

Mark Faith Technology Development Limited (Mark Faith) was incorporated under the laws of the Hong Kong Special Administrative Region (Hong Kong) in August 2006. Mark Faith currently operates through its wholly owned subsidiary, Bayannaoer City Feishang Copper Company Limited ("Feishang Copper), a company established under the laws of the People's Republic of China ("PRC") in Inner Mongolia. Mark Faith treats the business of Feishang Copper, an enterprise principally engaged in the smelting and refining of copper for distribution in the PRC, as its principal business activity.

Feishang Copper was established as a limited liability company with an initial registered capital of RMB50,000,000 (US\$7,324,000) between two related parties, Shenzhen Feishang Industrial Development Co. Ltd. (Shenzhen Feishang) (RMB45,000,000, US\$6,591,000 or 90%) and Shenzhen Caopeng Investment Co. Ltd. (Caopeng) (RMB5,000,000, US\$732,000 or 10%) on May 26, 2005. In December 2006, Shenzhen Feishang and Caopeng transferred their equity interests in Feishang Copper to Mark Faith, at cost, and since the date of such transfer, Mark Faith has been the owner of 100% of the paid-up capital of Feishang Copper. In July 2007, the registered capital of Feishang Copper was increased to RMB174,200,000 (US\$25,516,000), of which RMB75,190,000 (US\$11,013,000) was paid up by Mark Faith and the balance of RMB99,010,000 (US\$14,503,000) was paid on March 4, 2008.

On February 20, 2008, the Company entered into an agreement to acquire all of the issued and outstanding capital stock of Mark Faith and Feishang Copper (the "Mark Faith Group"), from Feishang Group Limited (Feishang Group), a related party. The purchase price for the shares was an amount equal to the lesser of (a) the audited consolidated net asset value of the Mark Faith Group as at December 31, 2007 and (b) RMB24,252,000 (US\$3,552,000). In addition, China Natural Resources paid Feishang Group RMB47,292,000 (US\$6,927,000) in satisfaction of outstanding indebtedness of the Mark Faith Group to Feishang Group. The Company paid Feishang Group RMB30,000,000 (US\$4,394,000) at the time the Agreement was signed, and the balance of RMB41,544,000 (US\$6,085,000) was paid at closing on March 4, 2008. In the event that the audited consolidated net asset value of the Mark Faith Group as at December 31, 2007 was lower than RMB24,252,000 (US\$3,552,000), Feishang Group is obligated to return to China Natural Resources the difference between RMB24,252,000 (US\$3,552,000) and the audited consolidated net asset value of the Mark Faith Group as at December 31, 2007. As the audited consolidated net asset value of Mark Faith was RMB2,101,000 (US\$308,000) below the purchase price of RMB24,252,000 (US\$3,552,000), Feishang Group refunded RMB2,101,000 (US\$308,000) to the Company in January 2009.

On December 30, 2008, the Company completed the disposition of a 40% interest in Mark Faith to an unrelated third party, Joysight Limited (the Purchaser), for a purchase price of US\$14 million. The disposition was governed by the terms and conditions of a Sale and Purchase Agreement entered into at the time of closing. The purchase price was evidenced by a promissory note executed and delivered by the Purchaser which bears interest at the rate of 5% per annum and matured on June 30, 2009. The promissory note, together with accrued interest, were fully paid to the Company on February 27, 2009.

On June 30, 2009, Feishang Copper entered into a series of agreements relating to a RMB250 million (approximately US\$36.62 million) bank loan from The Bank of China, Shenzhen Branch. The purpose of the bank loan is to finance the operation of Feishang Copper. The principal amount of the bank loan is to be repaid in installments, each in the amount of RMB50 million (approximately US\$7.32 million), commencing on October 1, 2010 and terminating on July 1, 2013, when the then outstanding principal amount of the bank loan is due and payable. Interest on the bank loan is payable quarterly, commencing September 21, 2009, at the base lending rate stipulated by The People's Bank of China from time-to-time in effect (currently 5.76% per annum).

To concentrate the Group's resource on the core coal and non-ferrous metal mining businesses, on September 29, 2009, the Company completed the disposition of the remaining 60% interest in Mark Faith to the Purchaser, for a sales price of US\$21 million. The disposition was governed by the terms and conditions of a Sale and Purchase Agreement entered into at the time of closing. The purchase price was evidenced by a promissory note executed and delivered by the Purchaser which bears interest at the rate of 5% per annum and matures on February 26, 2010. The promissory note, together with accrued interest, was fully paid to the Company on January 11, 2010.

As a result of the dispositions, the operations of Mark Faith have been presented as discontinued operations in the financial statements for the year ended December 31, 2009 and 2008.

Guangdong Longchuan

On January 17, 2008, Yunnan Mining consummated the acquisition of a 45% equity interest in Guangdong Longchuan Jinshi Mining Development Co. Limited (Guangdong Longchuan) and a 45% interest in the exploration right at a mine designated as Silver and Multi-Metallic Ore (Jinshizhang Mine), located at Jinshizhang District, Longchuan County, Guangdong Province, the PRC (the Exploration Right) from Beijing SinoTech Institute of Mineral Exploration Co. Ltd. (BSTIME) (15%) and Lueyang Longda Stone Casting Co. Ltd. (LLSC) (30%) for a total purchase price of RMB38,896,300 (US\$5,697,000). On November 21, 2008, as part of an internal group restructuring, Yunnan Mining transferred its interest in Guangdong Longchuan to Yangpu Lianzhong at cost, and since

the date of transfer Yangpu Lianzhong owns a 45% equity interest in Guangdong Longchuan. On February 1, 2010, Yangpu Lianzhong disposed of its 45% equity interest in Guangdong Longchuan to an unaffiliated third party at a consideration (including the assigned debt) of approximately RMB44.55 million (US\$6,526,000).

The geological coordinate of this property is EL 115°19'00" 115°25'00" and NL 24°42'00" 24°45'00" covering a site area of 52.93 square kilometers. The exploration area is located on Nanlin metallogenic belt, an important metallogenic belt in China, which is rich in mineral resources such as silver, lead, zinc, tungsten and tin. The geological environment and metallogenic condition of this exploration area is very similar to other large scale silver-gold ore deposits found on Nanlin metallogenic belt. There are fourteen ore bodies found in the exploration area, six of them are outcrops, indicating a great prospecting potential of silver polymetallic deposit. BSTIME, a qualified geological surveyor holding a qualification certificate issued by the Ministry of Land Resources of the PRC, has been engaged to conduct the detailed geological survey; of which 1.45 square kilometers site area was completed in November 2007. The property is estimated to be a silver, lead, zinc and copper polymetallic mine with excellent exploration prognosis. On December 8, 2009, the mining permit for 1.1434 square kilometers site area of this property with a tenure from December 8, 2009 to December 8, 2019 was obtained. The first stage geochemical exploration, field geology work, geophysics exploration, trenching and drilling activities for the remaining 51.79 square kilometers area are in progress. The total amount incurred to date for detailed exploration and licensing of the 1.14 square kilometers property is RMB 3.31 million (US\$ 485,000) and a budget of an additional RMB 2.40 million (US\$352,000) has been set aside for the prospecting/ exploration of the remaining 51.79 square kilometers area.

Coal Mining and Development

History and Overview of Newhold and Guizhou Yongfu

Newhold was incorporated under the laws of the British Virgin Island in July 2008. Newhold currently operates, 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. Newhold treats the business of Guizhou Yongfu, an enterprise principally engaged in coal mine development in the PRC, as its principal business activity.

On January 12, 2009, the Company acquired from Feishang Group Limited (a) all of the issued and outstanding capital stock (the Newhold Shares) of Newhold and its subsidiaries (collectively, the "Yongfu Coal Group") and (b) the outstanding indebtedness owed by Newhold to Feishang Group Limited (Indebtedness). Feishang Group Limited, a British Virgin Islands corporation, is also the principal shareholder of the Company and Mr. Li Feilie, the sole officer, director and beneficial owner of Feishang Group Limited, is the Chairman and Chief Executive Officer of the Company.

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 RMB1 million (US\$146,000) by Wu Tianping and Zhu Zheng. In March 6, 2008, Wu Tianping and Zhu Zheng transferred their respective equity interests in Yangpu Shuanghu to Zhang Huachun and Yang Haibi, at a total consideration of RMB1 million (US\$146,000). In July 31, 2008, Zhang Huachun and Yang Haibi transferred their respective equity interests in Yangpu Shuanghu to Feishang Yongfu, at a total consideration of RMB1 million (US\$146,000), 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 June 2005 under the laws of the PRC with an initial registered capital of RMB1 million (US\$146,000) by Li Qing (80% interest) and Li Lihui (20% interest). In June 2006, the registered capital of Guizhou Yongfu was increased to RMB16,880,000 (US\$2,472,000). In July 2008, Li Lihui, an unaffiliated party, transferred all his equity interest and Li Qing, an unaffiliated party, transferred part of his equity interest in Guizhou Yongfu to Yangpu Shuanghu, at cost, and since the date of such transfer, Yangpu Shuanghu has been the owner of 70% of the paid-up capital of Guizhou Yongfu. In July 2008, the registered capital of Guizhou Yongfu was increased by RMB83,120,000 (US\$12,175,000) to RMB100,000,000

(US\$14,648,000), of which RMB58,184,000 (US\$8,523,000) of the increase was paid up by Yangpu Shuanghu (70%) and RMB24,936,000 (US\$3,652,000) was paid by Li Qing (30%) on November 13, 2008.

History and Overview of Pineboom and Guizhou Dayun

Pineboom was incorporated under the laws of the British Virgin Islands in May 2008. Pineboom currently operates 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. Pineboom treats the business of Guizhou Dayun, an enterprise principally engaged in coal mine development in the PRC, as its principal business activity.

On July 10, 2009, the Company acquired from Feishang Group Limited (a) all of the issued and outstanding capital stock (the Pineboom Shares) of Pineboom and its subsidiaries (collectively, the "Dayun Coal Group") and (b) the outstanding indebtedness owed by Pineboom to Feishang Group Limited (Indebtedness). Feishang Group Limited, a British Virgin Islands corporation, is also the principal shareholder of the Company and Mr. Li Feilie, the sole officer, director and beneficial owner of Feishang Group Limited, is the Chairman and Chief Executive Officer of the Company.

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 RMB1 million (US\$146,000) by Li Xuezhuan and Kang Jing. In March, 2008, Li Xuezhuan and Kang Jing transferred their respective equity interests in Yangpu Dashi to Wan Chunpeng and Dang Junyan, at a total consideration of RMB1 million (US\$146,000). In July, 2008, Wan Chunpeng and Dang Junyan transferred their respective equity interests in Yangpu Shuanghu to Feishang Dayun, at a total consideration of RMB1 million (US\$146,000), and since the date of such transfer, Feishang Dayun has been the owner of 100% of the paid-up capital of Yangpu Dashi.

Guizhou Dayun was established as a limited liability company in April 2004 under the laws of the PRC with an initial registered capital of RMB1 million (US\$146,000) by Yu Xiang (50.0% interest), Wang Fang (40.0% interest) and Wang Yongzhi (10.0% interest). In May 2004, the registered capital of Guizhou Dayun was increased to RMB4 million (US\$586,000) by Liu Min (25.0% interest), Yu Xiang (62.5% interest), Wang Fang (10.0% interest) and Wang Zhiyong (2.5% interest). In June 2008, Liu Min, Yu Xiang, Wang Fang and Wang Zhiyong transferred all their respective equity interests at cost in Guizhou Dayun to Yangpu Dashi, and since the date of such transfer, Yangpu Dashi has been the owner of 100% of the paid-up capital of Guizhou Dayun.

History and Overview of 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 five majority-owned subsidiaries, namely Baiping Mining, Dayuan Coal, Gouchang Coal, Linjiaao Coal and Xinsong Coal, companies established under the laws of the PRC in Guizhou Province. Wealthy Year treats the business of the five majority-owned subsidiaries enterprises principally engaged in the coal mine business and second stage coal mine development in the PRC as its principal business activities.

On April 30, 2010, the Company entered into an agreement (the Wealthy Year Agreement) with Feishang Group Limited, a related party, pursuant to which the Company acquired from Feishang Group Limited (a) all of the issued

and outstanding capital stock (the Wealthy Year Shares) of Wealthy Year and its subsidiaries (collectively, the "Wealthy Year Coal Group") and (b) the outstanding indebtedness owing by Wealthy Year to Feishang Group Limited on the closing date (Indebtedness). Feishang Group Limited, a British Virgin Islands corporation, is also the principal shareholder of the Company and Mr. Li Feilie, the sole officer, director and beneficial owner of Feishang Group Limited, is the Chairman and Chief Executive Officer of the Company. A closing of the Company's acquisition of the Wealthy Year Shares also took place on April 30, 2010.

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 RMB10 million (US\$1.46 million) by Ren Xiaogang. In April 2010, Ren Xiaogang transferred his equity interest in Guizhou Fuyuantong to Smartact, for total consideration of RMB10 million (US\$1.46 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 RMB150 million (US\$21.97 million) by Yangpu Jindin Industrial Co Ltd (99%) and Zhang Xiaofeng (1%). 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 RMB150 million (US\$21.97 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 RMB58 million (US\$8.50 million) by Li Liangbo (68.88% interest), Zhang Li (22.08% interest) and Tan Guihua (9.04% interest). In March 2009, Zhang Li and Tan Guihua, both unaffiliated parties, transferred all their respective equity interests to Li Liangbo, at cost. In April 2009, Li Liangbo, an unaffiliated party, 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 RMB46 million (US\$6.74 million) by Li Shenggen. In March 2009, Li Shenggen, an unaffiliated party, transferred his 99% equity interest in Dayuan 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.

Gouchang Coal was established as a limited liability company in September 2009 under the laws of the PRC with a registered capital of RMB40 million (US\$5.86 million) by Huang Bin. In December 2009, Huang Bin transferred his 99% 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 RMB30.60 million (US\$4.48 million) by Lin Peilin (70% interest), Chen Daowang (20% interest) and Zheng Shengjian (10% interest). In March 2009, Zheng Shengjian, an unaffiliated party, transferred a 9% equity interest, and Lin Peilin and Chen Daowang, both unaffiliated parties, 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 RMB60 million (US\$8.79 million) by Cai Songqing (10% interest), Hu Chunlan (50% interest) and Jiang Honghai (40% interest). In March 2009, Cai Songqing, an unaffiliated party, transferred a 9% equity interest, and Hu Chunlan and Jiang Honghai, both unaffiliated parties, 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.

Industry Overview

Coal (chemical element symbol C) is a combustible, sedimentary, organic rock which is composed of carbon, hydrogen and oxygen. The fossil fuel is formed from vegetation which has been consolidated between other rock strata and altered by the combined effects of pressure and heat over millions of years to form the coal seams mined today. Various types of coal exist, which are dependent on the degree of change undergone by the coal as it matures from its lowest form, peat, to its highest form in terms of carbon content, anthracite. Anthracite coal typically contains 86% to 97% carbon. It is the purest form of coal and is used primarily for residential and commercial heating.

Coal is one of the largest and most important energy resources in the world. Approximately 13% (approximately 717 million tons) of total hard coal production is currently used by the steel industry and almost 70% of total global steel production is dependent on coal. Coal is also the major fuel used for generating electricity worldwide, particularly in mainland China. According to the BP Statistical Review June 2009, world coal consumption grew by 3.1% from 2008, the first below-average increase since 2002. But coal was the world fastest-growing fuel for the sixth consecutive year. China accounted for more than 85% of global growth even though Chinese consumption growth was below average. In 2008, the world total hard coal production reached 3,324.9 million tonnes. China was the largest coal producer in the world in 2008, providing 1,414.5 million tons or 42.5% of the world production. China was the largest consumer of coal in 2008, providing 1,406.3 million tonnes or 42.6% of the world consumption. The spot price for thermal coal at Newcastle port, a benchmark for Asia, hit a low of US\$61 in March 2008. While in November 2009, the spot price was US\$80, an increase of 34% from March 2009 when coal prices were at their recent lows as a result of the global economic downturn. During 2009, domestic coal prices in China have remained high relative to the delivered price of imported coal.

In the first nine months of 2009, China's thermal coal imports totaled 60 million tonnes, compared with 27 million tonnes in the same period in 2008. Strong import growth has occurred in China because of a combination of factors, including lower international coal prices and freight rates, growing electricity demand and limited growth in domestic production. China's thermal coal exports in the first nine months of 2009 totaled 16 million tonnes, compared with 33 million tonnes in the corresponding period in 2008. This trend is expected to continue in 2010 with exports of thermal coal decreasing due to strong local demand.

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

	2005	2006	2007	2008	2009
Production (in million tonnes)	2,190	2,326	2,523	2,716	3,050
Consumption (in million tonnes)	2,167	2,392	2,586	2,740	3,020

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

Coal Mining Operations

Our coal mining operation involves four main processes, i.e. mine development, mine production, coal transportation and reclamation.

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

Coal Production: Longwall caving mining technology and coal blasting method are adopted in our coal mining operation. Raw coal is transported by scraper conveyor or belt transportation system. A fully mechanized coal mining method is applied to those coal working faces with good geologic structure and stable coal seams with thickness above 2 meters. Raw coal is then transported by the main tunnel belt conveyor to the work site on the ground for screening and grading processing where it is stored for load-out to customers. Coal mining faces are supported by individual hydraulic prop and articulated roof beam. Waste edge prop and security system of roof fall are adopted to secure the safety of workers.

Marketing and sales: After loading to trucks from the ground warehouse of the mine, coal products are delivered to Jinsha power plant or other customers. The responsibility of marketing activities is to establish sales networks, contract management, customer satisfaction, and collection of proceeds on time.

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

Business of Guizhou Yongfu

On November 8, 2007, Guizhou Yongfu was granted a coal mining right to 18.234 square kilometers located in Huajuexiang, Jinsha County, Guizhou Province, the PRC, with an annual production capacity of 600,000 MT, which will expire in November 2027, subject to renewal upon expiry. The geological coordinate of this property is EL 106°23 00 ~ 106°25 45 and NL 27°10 00 ~ 27°13 00 . The coal mine is currently under construction and construction work is expected to be completed in 2011. The estimated construction cost of the first phase is approximately RMB360 million to 400 million (US\$52.73 million to 58.59 million).

On February 2, 2009, Guizhou Yongfu received a RMB200 million (US\$29.30 million) long term bank loan from China Minsheng Banking Corp. Ltd., to be repaid in installments over five years commencing in 2013. The purpose of the loan is to finance the construction of the coal mine. The loan bears a floating annual interest rate of 7.722% (30% above the over-5-year official base lending rate stipulated by The People's Bank of China). Guizhou Yongfu drew down RMB 100 million (US\$14.65 million) of the loan in April 2009. The RMB100 million (US\$14.65 million) balance of the loan is expected to be drawn down as needed in accordance with the construction plan for the mine, which is currently anticipated to be in the second half of 2010.

On September 11, 2009 the Company received the results of an Independent Technical Report (ITR) commissioned to determine the amount of reserves contained in the Guizhou Yongfu Yongsheng Coal Mine, to which the Company owns exploration rights through its indirect 70%-owned subsidiary. The ITR concluded that the total JORC-compliant reserves of Guizhou Yongfu, an indirect 70%-owned subsidiary of the Company, were 21 million tonnes of anthracite, of which 7.9 million tonnes are proven reserves and 13.1 million tonnes are probable reserves. The ITR also stated that the status of some of the resources has significant potential to be improved by the increase in barehole density within the mining license area. If this in-fill exploration program is completed and the results are positive, then the mining plan could be amended to include additional areas not presently covered and this would increase the JORC mining reserves. The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. Had the proven and probable reserves of the Guizhou Yongfu Yongsheng Coal Mine been determined using procedures and protocols generally recognized in the United States, the proven and probable reserves might be substantially different from the results of the ITR.

In addition, on January 12, 2010, Guizhou Yongfu received a RMB50 million (US\$7.32 million) long term bank loan from Bank of China Corp. Ltd., to be repaid in installments over five years commencing in 2012. The purpose of the loan is to finance the construction of the coal mine. The loan bears a floating annual interest rate of 5.94% (the over-5-year official base lending rate stipulated by The People's Bank of China). Guizhou Yongfu drew down approximately RMB 29.52 million (US\$4.32 million) of the loan by April 2010. The remaining portion of the loan is expected to be drawn down as needed in accordance with the construction plan for the mine, which is currently anticipated to be by the end of 2010.

As the coal mine of Guizhou Yongfu is still under construction/development, we will not be able to obtain safe production and coal production permits until completion of inspection of the construction/development project under applicable PRC laws. Thereafter, commercial production is expected to commence.

Recent Operating Results of Newhold

The following consolidated financial information, including consolidated results of operations and consolidated operating data of Newhold, has been prepared by management, without audit, in accordance with generally accepted accounting principles in the United States of America. As of December 31, 2008, Newhold had total assets of approximately RMB191.95 million (US\$28.12 million) and total liabilities of approximately RMB164.86 million (US\$24.15 million). For the period from July 10, 2008 to December 31, 2008, Newhold reported a total net loss of approximately RMB2.89 million (US\$0.42 million), of which a net loss of approximately RMB0.86 million (US\$126,000) was attributable to non-controlling interests. As of December 31, 2009, Newhold had total assets of approximately RMB338.45 million (US\$49.57 million) and total liabilities of approximately RMB322.35 million (US\$47.22 million). For the year ended December 31, 2009, Newhold reported a total net loss of approximately RMB10.99 million (US\$1.61 million), of which a net loss of approximately RMB3.28 million (US\$0.48 million) was attributable to non-controlling interests.

Despite signs of recovery, the worldwide post-crisis economy is still unpredictable. However, management continues to believe that the PRC remains the world's largest consumer of coal and that prospects in the PRC's coal market will improve. The current development strategy of Guizhou Yongfu is to complete the construction of its coal mine according to its planned schedule.

Business of Guizhou Dayun

On March 22, 2010, Guizhou Dayun was granted an extension of a coal exploration right to 16.93 square kilometers located in Huajuexiang, Jinsha County, Guizhou Province, the PRC, which will expire on April 19, 2012. The geological coordinate of this property is EL 106°25'30" ~ 106°27'30" and NL 27°10'30" ~ 27°17'45". The mine design and mine plan of the coal mine are currently being compiled. It is expected that the mining right permit will be obtained on or before July 10, 2010. The construction work is expected to be completed in 2012. The estimated construction cost of the first phase is approximately RMB360 million to 400 million (US\$52.73 million to 58.59 million). The construction cost is expected to be funded by internal resources and bank borrowings.

As the coal mine of Guizhou Dayun has not commenced construction/development, we will not be able to obtain safe production and coal production permits until completion of inspection of the construction/development project under applicable PRC laws. Thereafter, commercial production is expected to commence.

Recent Operating Results of Pineboom

The following consolidated financial information, including consolidated results of operations and consolidated operating data of Pineboom, has been prepared by management based on its carrying amount, without audit. As of December 31, 2008, Pineboom had total assets of approximately RMB8.16 million (US\$1.20 million) and total liabilities of approximately RMB15.34 million (US\$2.25 million). For the period from May 9, 2008 to December 31, 2008, Pineboom reported a net loss of approximately RMB7.15 million (US\$1.05 million). As of December 31, 2009, Pineboom had total assets of approximately RMB2.66 million (US\$0.39 million) and total liabilities of approximately RMB26.39 million (US\$3.87 million). For the year ended December 31, 2009, Pineboom reported a net loss of approximately RMB16.55 million (US\$2.43 million).

Despite signs of recovery, the worldwide post-crisis economy is still unpredictable. However, management continues to believe that the PRC remains the world's largest consumer of coal and that prospects in the PRC's coal market will improve.

A brief description of the indirect non-wholly owned subsidiaries of Wealthy Year is as follows:

Business of Baiping Mining

On October 10, 2008, Baiping Mining was granted a coal mining right to 3.0142 square kilometers located in Gaoping, Jinsha County, Guizhou Province, the PRC, which will expire in August 2014. The geological coordinate of this property is EL 106°24 06 ~ 106°25 21 and NL 27°15 00 ~ 27°16 04 . The current annual production capacity of Baiping Mining is 150,000 metric tonnes (“MT”) of anthracite. It is expected that the annual production capacity will be expanded to 300,000 MT upon the completion of the second phase of coal mine construction, which is expected to be completed by the end of 2010. The estimated construction cost of the second phase is approximately RMB40.48 million (US\$5.93 million). The construction cost is expected to be funded by internal resources and bank borrowings.

Business of Dayuan Coal

On February 20, 2009, Dayuan Coal was granted a coal mining right to 1.6490 square kilometers located in Xintang, Nayong County, Guizhou Province, the PRC, which will expire in April 2014. The geological coordinate of this property is EL 105°07' 31" ~ 105°08' 42" and NL 26°38' 06" ~ 26°38' 52". The current annual production capacity of Dayuan Coal is 90,000 MT of anthracite. It is expected that the annual production capacity will be expanded to 300,000 MT upon the completion of the second phase of coal mine construction, which is expected to be completed by the end of 2010. The estimated construction cost of the second phase is approximately RMB52.01 million (US\$7.62 million). The construction cost is expected to be funded by internal resources and bank borrowings.

Business of Gouchang Coal

On April 7, 2009, Gouchang Coal was granted a coal mining right to 1.7198 square kilometers located in Kunzhai, Nayong County, Guizhou Province, the PRC, which will expire in April 2017. The geological coordinate of this property is EL 105°10' 30" ~ 105°11' 15" and NL 26°54' 15" ~ 26°55' 00". The current annual production capacity of Gouchang Coal is 90,000 MT of anthracite. It is expected that the annual production capacity will be expanded to 300,000 MT upon the completion of the second phase of coal mine construction, which is expected to be completed by the end of 2011. The estimated construction cost of the second phase is approximately RMB26 million (US\$3.81 million). The construction cost is expected to be funded by internal resources and bank borrowings.

Gouchang Coal has not yet commenced its mining operation. The first phase of commercial run will be commenced in 2010.

Business of Linjiaao Coal

On January 5, 2010, Linjiaao Coal was granted a coal mining right to 1.4104 square kilometers located in Xin Hua, Liuzhi Special Zone, Guizhou Province, the PRC, which will expire in July 2017. The geological coordinate of this property is EL 105°26' 28" ~ 105°28' 17" and NL 25°21' 48" ~ 25°23' 32". The current annual production capacity of Linjiaao Coal is 30,000 MT of anthracite. It is expected that the annual production capacity will be expanded to 300,000 MT upon the completion of the second phase of coal mine construction, which is expected to be completed by the end of 2010. The estimated construction cost of the second phase is approximately RMB59.51 million (US\$8.72 million). The construction cost is expected to be funded by internal resources and bank borrowings.

The existing first phase mine production system ceased operation since 2009 pending the completion of the second phase mine production system. Linjiaao Coal will commence its second phase commercial run by 2010.

Business of Xinsong Coal

On September 7, 2009, Xinsong Coal was granted a coal mining right to 3.7891 square kilometers located in Xinhui, Lizhi Special Zone County, Guizhou Province, the PRC, which will expire in September 2019. The geological coordinate of this property is EL 105°29' 30" ~ 105°30' 50" and NL 26°24' 00" ~ 26°25' 15". The current annual production capacity of Xinsong Coal is 90,000 MT of anthracite. It is expected that the annual production capacity will be expanded to 300,000 MT upon the completion of the second phase of coal mine construction, which is expected to be completed by the end of 2010. The estimated construction cost of the second phase is approximately RMB60.62 million (US\$8.88 million). The construction cost is expected to be funded by internal resources and bank borrowings.

Customers and Competition

Guizhou Province ranks fifth in terms of coal resource in China. There are many small to medium size coal mines and coal washing plants in Guizhou Province. Guizhou Province is also the primary power exporting province in South

West China. We plan to sell our raw coal to coal traders and coal washing plants in Guizhou Province. However, unlike block coal, all of the pulverized coal produced during the coal construction process must be sold to power plants as thermal coal.

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

Government Regulation of Coal Mining Activities

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

Under the Mineral Resources Law, all mineral resources in the PRC are owned by the State. According to the Coal Law and the Mineral Resources Law, the exploration and exploitation of coal is subject to supervision under the Mineral Resources Law and the relevant local mineral resource bureaus and coal administration departments. Upon approval, an exploration license for each proposed mine or a mining right permit for each mine will be granted by the relevant local mineral resource bureau responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of mining right permits with the administrative authorities that issued the permits. A coal producer must also obtain a coal production permit for each of its mines in order to begin production and sale of coal in China. In addition, the production capacity of each coal mine is subject to annual review. All coal producers are required to achieve certain reserve recovery rates and a failure to achieve the applicable recovery rate may result in penalties, including revocation of production permits of coal producers.

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

Pursuant to the Provisional Regulation of Resources Tax and the Rules Administering Levy of Mine Resource Compensation Fees, resources taxes and resources compensation fees are levied on the coal industry. Since 2004, the Ministry of Finance and the State Administration of Taxation have issued a series of notices on coal resources taxation adjustments. The coal resources tax rates of Guizhou Province have been increased, and the current resources tax rate for Guizhou Yongfu is RMB2.5 per ton.

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

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

If an enterprise fails to report or register the environmental pollution caused by it, it is subject to receiving a warning or penalty. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time are also subject to penalty or termination of their business licenses. Enterprises which have polluted

and endangered the environment are responsible for remedying the danger and effects of the pollution, as well as for the payment of compensation for any losses or damages suffered as a result of such environmental pollution. A material violation of the Environmental Protection Law that causes a material loss to public and private belongings or personal injuries or death may result in criminal liability.

Mining rights are granted by the State permitting recipients to conduct mining activities in a specific mining area during the license period. On November 8, 2007, Guizhou Yongfu was granted a mining right to 18,234 square kilometers, with an annual production capacity of 600,000 tons, which will expire in November 2027, subject to renewal upon expiry. Although Guizhou Yongfu believes that it will be able to renew its license, there can be no assurance that Guizhou Yongfu will be able to exploit the entire coal resources of its mine during its license period. If Guizhou Yongfu fails to renew its mining rights upon expiry or if it cannot effectively utilize the resources within a license period, the operation and performance of Guizhou Yongfu may be adversely affected.

Guizhou Yongfu's mining rights entitle it to undertake mining activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. Guizhou Yongfu is required to submit mining proposal and feasibility studies to the relevant authority. As required by applicable PRC laws in respect of undeveloped coal mines, coal mine operators are required to conduct trial production and subsequently obtain regulatory certifications to commence commercial production. In order to commence commercial production, a coal mine must obtain permits including (a) a mining extraction permit; (b) a safe production permit; and (c) a coal production permit. To date, Guizhou Yongfu has obtained a mining extraction permit. Management believes that the remaining two permits will be obtained following completion of mine construction.

Other Subsidiaries

Feishang Management

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

FMH Services

FMH Services is a Florida company incorporated in November 2007 in connection with a proposed transaction that was not consummated. FMH Services, which is 100%-owned by CHNR, has been dormant since its incorporation.

Sunwide

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

Silver Moon and Medi-China

Silver Moon is a British Virgin Islands company incorporated on March 24, 2000. The principal business of Silver Moon and its wholly-owned subsidiary, Medi-China, a Hong Kong company incorporated on October 15, 1999, is to provide online Internet healthcare content, through its website, medi-china.com, which offers health-related content in both English and Chinese, with a focus on Chinese herbal medicine and therapies. Silver Moon is owned 80% by us and 20% by E-Link Investment Limited, an unaffiliated party. Neither Silver Moon nor Medi-China is currently engaged in active business operations. Medi-China was dissolved on May 2, 2008.

Employees

The Company's executive offices in Hong Kong employed seven persons, including the Company's executive officers. In addition, as of December 31, 2009, (a) Wuhu Feishang employed 369 persons on a full time basis, (b) Feishang Yongfu and Feishang Dayun together employed 59 persons on a full time basis, and (c) Feishang Management employed 10 persons on a full time basis. The Company believes that its relations with employees are generally good.

C.

Organizational Structure

China Natural Resources is a holding company owning the following operating subsidiaries and participating in the following joint ventures, with the interests indicated (as of May 26, 2010):

CHNR							
(BVI)							
100%	100%	80%	100%	100%	100%	100%	100%
FMH Corporate Services Inc.	Feishang Mining Holdings Limited	Silver Moon Technologies Limited	Wealthy Year Limited (BVI)	China Coal Mining Investment Ltd. (HK)	Sunwide Capital Limited (BVI)	Newhold Investments Limited (BVI)	Pineboom Investment Limited (BVI)
(Florida, US)	(BVI)	(BVI)					
	100%		100%	100%		100%	100%
	Wuhu Feishang Mining Development Co. Limited (PRC)		Hong Kong Smartact Limited (HK)	Yangpu Lianzhong Mining Co., Ltd. (PRC)		Feishang Yongfu Mining Limited (HK)	Feishang Dayun Coal Mining Limited (HK)
	100%		100%	48%		100%	100%
	Yunnan Feishang Mining Co. Limited (PRC)		Guizhou Fuyuanton Energy Co., Ltd (PRC)	Hainan Nonferrous Metal Mining Co., Ltd. (PRC)		Hainan Yangpu Shuanghu Industrial Co., Ltd. (PRC)	Hainan Yangpu Dashi Industrial Co., Ltd. (PRC)
	100%		100%	85%	Societe D'investissement Miniere Longfe (Madagascar)	70%	100%
	Shenzhen Feishang Management and Consulting Co.		Guizhou Puxin Energy Co., Ltd. (PRC)			Guizhou Yongfu Mining Co., Ltd. (PRC)	Guizhou Dayun Mining Co., Ltd. (PRC)

Limited

(PRC)

**99% Liuzhi
Linjiaao
Coal**

**Mining
Co.,
Ltd.**

(PRC)

**70% Hainan
Haiyu
Mining Co.,
Ltd.**

(PRC)