

CHINA NATURAL RESOURCES INC  
Form 20-F  
April 28, 2016

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

**FORM 20-F**

**(Mark One)**

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

OR

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

For the fiscal year ended December 31, 2015

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)*

**Bonaventure Yue, Chief Financial Officer**

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

**bonyue@chnr.net**

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 24,910,916 common shares as of December 31, 2015.

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

U.S. GAAP

International Financial Reporting Standards as issued  
By the International Accounting Standards Board

Other

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

Item 17  Item 18

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

Yes  No



## CONVENTIONS

Unless otherwise specified, all references in this Annual Report to "U.S. Dollars," "Dollars," "US\$," or "\$" are to United States dollars; all references to "Hong Kong Dollars" or "HK\$" are to Hong Kong dollars; and all references to "Renminbi" or "CNY" are to Renminbi Yuan, which is the lawful currency of the People's Republic of China ("China" or the "PRC"). The accounts of the Company and its subsidiaries are maintained in either Hong Kong Dollars or Renminbi. The financial statements of the Company and its subsidiaries are prepared in Renminbi. Translations of amounts from Renminbi to U.S. Dollars and from Hong Kong Dollars to U.S. Dollars are for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to U.S. Dollars or from U.S. Dollars to Renminbi have been made at the single rate of exchange (the "CNY Exchange Rate") as quoted by [www.oanda.com](http://www.oanda.com) on December 31, 2015, which was US\$1.00 = CNY6.4917. 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, 2015. The Renminbi is not freely convertible into foreign currencies and no representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the CNY Exchange Rate or at all.

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

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

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

References to common shares are to the common shares, without par value, of CHNR after the Redomicile Merger.

References to "common stock" are to the common stock, \$0.001 par value, of China Resources.

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

References to Distribution are to a special interim dividend declared by the Company satisfied by way of a distribution in specie of the entire issued share capital of Feishang Anthracite, being an aggregate of 124,554,580 ordinary shares in the capital of Feishang Anthracite with a par value of HK\$0.01 each.

References to Distribution Record Date are to January 13, 2014, being the record date for ascertaining entitlements to the Distribution.

References to "Feishang Anthracite" are to Feishang Anthracite Resources Limited (formerly known as Wealthy Year Limited), a company organized in the British Virgin Islands whose ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange) on January 22, 2014, and, until January 22, 2014, a wholly-owned subsidiary of the Company.

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

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

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

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

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

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

References to the Group are to the Company and its directly or indirectly owned subsidiaries.

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

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

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

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

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

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

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

References to "Series B preferred shares" are to the Series B preferred shares, without par value, of CHNR, after the Redomicile Merger.

References to "Series B preferred stock" are to the Series B preferred stock, \$.001 par value, of China Resources.

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

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

References to "Spin-Off" are to the January 22, 2014 Distribution to the Company's shareholders of the outstanding shares of Feishang Anthracite, which operated the Company's coal mining and related business prior to January 22, 2014.

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

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

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

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



## Forward-Looking Statements

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

## **PART I**

### **ITEM 1.**

#### **IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

No disclosure is required in response to this Item.

### **ITEM 2.**

#### **OFFER STATISTICS AND EXPECTED TIMETABLE**

No disclosure is required in response to this Item.

### **ITEM 3.**

#### **KEY INFORMATION**

##### **A.**

#### **Selected Financial Data**

On February 3, 2006 (the Acquisition Date), we consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining (the Acquisition). Our acquisition of Feishang Mining was accounted for using the purchase method of accounting and was treated as a reverse acquisition because on a post-merger basis, the former Feishang Mining shareholder holds 86.4% of our outstanding common shares. As a result, Feishang Mining is deemed to be the acquirer for accounting purposes. We have retroactively restated our issued share capital to reflect the acquisition by Feishang Mining. The selected financial data are stated in CNY and are derived from the audited consolidated financial statements of the Company for the years ended December 31, 2011, 2012, 2013, 2014 and 2015, prepared and presented in accordance with IFRS. Details of the Company's acquisition of Feishang Mining are described elsewhere in this Annual Report.

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Ernst & Young, our independent registered public accounting firm, has issued an unqualified auditor's report on our consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2013 and 2014. Ernst & Young Hua Ming LLP, which has been engaged as our independent registered public accounting firm for the year 2015, has issued an unqualified auditor's report on our consolidated statement of financial position as of December 31, 2015, and the related consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2015. Details of the changes in our certifying accountant is disclosed in Current Report on Form 6-K furnished September 14, 2015.

The selected financial information as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto included elsewhere in this Annual Report.

The statements of profit or loss data for each of the years ended December 31, 2013, 2014 and 2015 and the statements of financial position data as of December 31, 2014 and 2015 are derived from our audited consolidated financial statements included in Part III, Item 18, "Financial Statements" of this Annual Report. The statements of financial position data as of December 31, 2011, 2012 and 2013 and the statements of profit or loss data for the years ended December 31, 2011 and 2012 are derived from our audited consolidated financial statements that are not included in this Annual Report. Our historical results are not necessarily indicative of our results in any future period.

In accordance with IFRS 5, statements of profit or loss have been restated retrospectively for all periods presented due to the Spin-Off and listing by way of introduction on the Hong Kong Stock Exchange of the Company's wholly owned subsidiary, Feishang Anthracite, which operated the Company's coal mining and related business. The Spin-Off was completed on January 22, 2014. The coal mining and related operations are therefore presented as discontinued operations.

Amounts in thousands, except share amounts and per share data

|  | Year Ended<br>December 31,<br>2011<br>CNY | Year Ended<br>December 31,<br>2012<br>CNY | Year Ended<br>December 31,<br>2013<br>CNY | Year Ended<br>December 31,<br>2014<br>CNY | Year Ended<br>December 31,<br>2015<br>CNY |
|--|---|---|---|---|---|
| <b>Statements of Profit or Loss Data</b> |   |   |   |   |   |
| Continuing operations                    |   |   |   |   |   |
| Revenue                                  | 42,940                                    | 14,728                                    | 41,360                                    | 8,303                                     | 18,342                                    |
| Cost of sales                            | (21,245)                                  | (9,036)                                   | (25,101)                                  | (6,563)                                   | (31,936)                                  |
| Gross profit/(loss)                      | 21,695                                    | 5,692                                     | 16,259                                    | 1,740                                     | (13,594)                                  |

|   |         |          |         |          |          |
|---|---------|----------|---------|----------|----------|
| Profit/(loss)<br>before income<br>taxes from<br>continuing<br>operations  | 3,069   | (15,356) | 857     | (26,384) | (34,003) |
| Loss for the<br>year from<br>continuing<br>operations<br>attributable to: |         |          |         |          |          |
| Owners of the<br>Company  | (1,216) | (14,391) | (1,285) | (33,223) | (35,507) |
| Non-controlling<br>interests  | (1,216) | (14,391) | (1,285) | (33,223) | (35,507) |

|  | <b>Amounts in thousands, except share amounts and per share data</b> |   |   |   |   |
|--|--|---|---|---|---|
|  | <b>Year Ended<br/>December 31,<br/>2011<br/>CNY</b>                  | <b>Year Ended<br/>December 31,<br/>2012<br/>CNY</b> | <b>Year Ended<br/>December 31,<br/>2013<br/>CNY</b> | <b>Year Ended<br/>December 31,<br/>2014<br/>CNY</b> | <b>Year Ended<br/>December 31,<br/>2015<br/>CNY</b> |
| Loss from discontinued operations attributable to: |  |   |   |   |   |
| Owners of the Company                              | (64,759)   | (75,312)  | (334,119)   | (9,925)   |   |
| Non-controlling interests                          | (141)  | 8,256   | (418)   | (783)   |   |
|  | (64,900)   | (67,056)  | (334,537)   | (10,708)  |   |
| (Loss)/profit attributable to:                     |  |   |   |   |   |
| Owners of the Company                              | (65,975)   | (89,703)  | (335,404)   | (43,148)  | (35,500)  |
| Non-controlling interests                          | (141)  | 8,256   | (418)   | (783)   |   |
|  | (66,116)   | (81,447)  | (335,822)   | (43,931)  | (35,500)  |
| Loss per share:                                    |  |   |   |   |   |
| Basic  |  |   |   |   |   |
| For loss from continuing operations                | (0.05)   | (0.58)  | (0.05)  | (1.33)  | (1.40)  |
| For loss from discontinued operations              | (2.74)   | (3.02)  | (13.41)   | (0.40)  |   |
|  | (2.79)   | (3.60)  | (13.46)   | (1.73)  | (1.40)  |
| Diluted  |  |   |   |   |   |
| For loss from continuing operations                | (0.05)   | (0.58)  | (0.05)  | (1.33)  | (1.40)  |
| For loss from discontinued operations              | (2.74)   | (3.02)  | (13.41)   | (0.40)  |   |
|  | (2.79)   | (3.60)  | (13.46)   | (1.73)  | (1.40)  |
| Weighted average number of shares outstanding      |  |   |   |   |   |
| Basic  | 23,613,238   | 24,910,916  | 24,910,916  | 24,910,916  | 24,910,916  |
| Diluted  | 23,613,238   | 24,910,916  | 24,910,916  | 24,910,916  | 24,910,916  |
| <b>Statements of Financial Position Data</b>       |  |   |   |   |   |
| Total assets*                                      | 2,418,168  | 2,854,260   | 3,024,564   | 80,036  | 51,640  |
| Current assets*                                    | 255,733  | 347,255   | 2,997,211   | 62,524  | 37,380  |
| Current liabilities*                               | 585,046  | 1,097,879   | 2,568,144   | 37,827  | 59,270  |
| Total equity/(deficiency in assets)                | 625,893  | 546,875   | 255,518   | 22,614  | (12,270)  |
| Non-controlling interests                          | 85,685   | 93,941  | 93,523  |   |   |
| Equity attributable to Owners of the Company       | 540,208  | 452,934   | 161,995   | 22,614  | (12,270)  |
| Capital stock                                      | 312,081  | 312,081   | 312,081   | 312,081   | 312,081   |

\*

In December 2013, the assets and liabilities of the coal mining segment and related business were reclassified to held for distribution, only as at December 31, 2013, and not as at the other year ends in the table.

The Company has not paid any dividends with respect to its common shares and has no present plan to pay any dividends in the foreseeable future. The Company intends to retain its earnings to support the development of its business. Any dividends paid in the future by the Company will be paid at the discretion of the Company's Board of Directors and will be dependent upon distributions, if any, made by its subsidiaries, and on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. In accordance with the relevant PRC regulations and the Articles of Association of companies incorporated in the PRC, appropriations of net income of wholly owned foreign enterprises and sino-foreign joint venture companies as reflected in its statutory financial statements are to be allocated to either (i) each of the general reserve, enterprise expansion reserve and staff bonus and welfare reserve, respectively, or (ii) statutory reserve, as determined by the resolution of the Board of Directors annually. Prior to the Acquisition, the Board of Directors of Wuhu Feishang declared and paid dividends of CNY44.01 million (US\$6.78 million) and CNY38.46 million (US\$5.92 million) on February 28, 2005 and January 27, 2006, respectively. Wuhu Feishang declared dividends of CNY127.10 million (US\$19.58 million) to its parent on April 27, 2012 which were paid in 2013. On June 28, 2013, Feishang Mining declared and paid dividends of HK\$155.00 million (US\$19.87 million) to the Company. On September 24, 2014, Wuhu Feishang declared dividends of CNY39.24 million (US\$6.04 million) to its parent which was paid in 2015. On May 19, 2015, Feishang Mining declared and paid dividends of HK\$39.50 million (US\$5.06 million) to the Company.

### 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 for each of the preceding five years, and for each month during the preceding six months. The rates of exchange for 2011 to 2014 are the rates quoted by Bloomberg L.P. The rates of exchange for 2015 and the preceding six months are the rates quoted by www.oanda.com. The Renminbi is not freely convertible into foreign currencies and the quotation of exchange rates does not imply convertibility of Renminbi into U.S. Dollars or other currencies. All foreign exchange transactions take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China, the PRC's central bank. No representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the CNY Exchange Rate or at all.

The exchange rate on April 22, 2016 was US\$1.00 = CNY6.4913.

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

| MONTH | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 |
|-------|--------|--------|--------|--------|--------|--------|
| High  | 6.3600 | 6.3982 | 6.4917 | 6.6058 | 6.5854 | 6.5543 |
| Low   | 6.3185 | 6.3181 | 6.3980 | 6.5022 | 6.5169 | 6.4494 |

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

| YEAR | 2011 | 2012 | 2013 | 2014 | 2015 |
|------|------|------|------|------|------|
|------|------|------|------|------|------|

|                    |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|
| High               | 6.6350 | 6.3885 | 6.2445 | 6.2598 | 6.4917 |
| Low                | 6.2949 | 6.2223 | 6.0543 | 6.0406 | 6.0933 |
| Average for period | 6.4479 | 6.2993 | 6.1417 | 6.1711 | 6.2436 |

**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 Metal Mining Operations**

*We have temporarily suspended mineral extraction at our sole operating mine and we cannot predict when extraction will resume.*

Due to the depressed market price for iron, it is not currently economical to conduct mineral extraction at Yangchong Mine, the Company's sole operating mine, and extraction was temporarily suspended on December 27, 2015. We are in the early stages of exploration for additional mineable ore at Yangchong Mine. In March 2016, we engaged Anhui Province Mine Geology Bureau No. 2 Exploration Brigade to survey geology and mineral resources within our licensed zones at Yangchong Mine. Management believes that zinc can currently be mined on a profitable basis and hopes that the survey will confirm that there are additional mineral reserves, including zinc, that can be extracted from Yangchong Mine at costs that justify extraction in light of prevailing market prices for metals. However, the Company cannot accurately predict whether the outcome of the survey will be positive, or whether the outcome of the survey will justify the expenditure of additional resources to pursue mineral extraction.

Although management expects to resume mineral extraction at current zones of Yangchong Mine when market conditions improve, we cannot predict when market conditions will improve; and the continued depressed market price for iron may adversely affect the results of our operations. Due to the temporary suspension of mineral extraction at Yangchong Mine, it can be expected that the availability of internally generated funds to sustain operations will decrease until the resumption of mining or the infusion of other revenue-generating assets. If we cannot resume mining operations or we are unable to inject revenue-generating assets into the Company, in the near term, we may be unable to sustain operations.

*We depend on our ability to obtain mining rights in order to sustain operations; and various factors impact on our retention of mining rights and the continued availability of minerals which to mine. We may be unable to successfully compete for mineral rights with companies having greater financial resources than we have.*

We are currently licensed to conduct mining operations at one mine - Yangchong Mine - and the life of probable iron ore reserves is coming to an end. We estimate that probable iron reserves at the Yangchong Mine will be depleted during the one year period from the resumption of mineral extraction at the mine. Following depletion of probable reserves, we intend to continue mining inferred resources at the Yangchong Mine. Further, we are subject to the jurisdiction of local and provincial governmental authorities that have suspended operations of mines, including mines previously operated by the Company, in furtherance of environmental initiatives by governmental authorities that have led to the designation of certain mines as exploration restricted areas.

For example, prior to November 2013, we conducted exploration and mining operations at four non-ferrous mines located in the PRC, and we submitted our application to renew the exploration rights for three of these mines on their expiry. In November 2013, the Fanchang County Bureau of Land and Resources redesignated the Sichong Mine, the Baiguochong Mine and the Luojiachong Mine as exploration restricted areas. As a result, the Company's exploration rights at these mines were not renewed and further exploration activities at these mines have ceased. We are dependent on acquiring mining rights in order to generate revenues and the non-renewal of our exploration rights at these mines limits our mining operations unless and until we are able to secure mining rights at additional mines.

For the foregoing and other reasons, many of which are outside of our control, mining permits are difficult to obtain and retain, mines have limited lives and the number of mines at which mining can be conducted is limited. As a result, we seek to expand mineral reserves through the acquisition of additional mining rights. However, 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 and, even if we are able to do so, we may be unable to retain the mining rights. If we are unable to identify, acquire and retain additional mining rights, we may be required to cease operations.

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

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

.  
our financial condition and results of operations;

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

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

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

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

In addition, the minable ore at Yangchong Mine will likely be depleted during 2016. At this time, we have no operating assets other than Yangchong Mine. Management is in the process of seeking additional mining licenses, as well as exploring new businesses opportunities, that will enable us to sustain operations following depletion of minable ore at Yangchong Mine. However, to date we have not identified new mining licenses or new business opportunities for acquisition. If we are unable to identify and acquire additional mines or new business opportunities, we may be required to cease operations.

***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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personnel 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 our employees.

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

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

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Environmental concerns;

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Safety concerns; and



Licensing, permitting, taxes and fees.

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

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

State and local laws regulating work safety conditions have also been adopted. Compliance with these regulations can be expensive and until compliance is achieved, our mining operations will be delayed or suspended. In addition, it is common for provincial governments to suspend the operations of local mines to investigate mining accidents and to order remedial action to be taken. Production suspensions disrupt our mining operations, delay our receipt of revenues from the suspended operations and otherwise adversely affect our financial condition and results of operations.

***Our earnings and, therefore, our profitability, are affected by metals price volatility.***

The majority of our revenue is currently derived from the sale of iron, and as a result, our earnings are directly related to the prevailing prices of iron ore. At present, the price of iron in the PRC, while generally in line with those in the international markets, is relatively low. However, there are many factors influencing the price of metals 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 metals may adversely affect our operating results. We do not have any formal hedging policies to manage possible price fluctuations.

***Our estimates of probable reserves are based upon various assumptions, and if our assumptions prove to be inaccurate, or if minerals are depleted from our mine(s) 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 rely on sub-contractors to perform mineral extraction and we have little control over their operations.***

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

*We produced no zinc in 2013, 2014 and 2015 due to the inferior quality of zinc at current mining zones and there is no assurance if and when zinc production will continue.*

We produced no zinc in 2013, 2014 and 2015 due to the inferior quality of zinc at current mining zones. At this time we do not know if and when zinc production will recommence or may be recoverable from further mining zones.

### **Risks Relating to Our Financial Condition**

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

For the three years ended December 31, 2013, 2014 and 2015, we incurred operating losses from continuing operations of CNY2.88 million (US\$0.44 million), CNY27.38 million (US\$4.22 million) and CNY34.18 million (US\$5.27 million), respectively. Our operating losses are attributable, in part, to depressed prices for ore that we mine. Our profitability is dependent upon many factors, including our ability to fund our operating expenses, mine ore, and sell our production output to third parties. There is no assurance that we will be successful in our efforts to achieve profitability.

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

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

Our management has concluded that our internal control over financial reporting as of December 31, 2015 was effective. However, we cannot assure you our management will not identify material weaknesses in the future during the Section 404(a) process or our independent public registered accounting firm will not identify material weaknesses during the Section 404(b) process if it was performed in the current year or in the future or for other reasons. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal control over financial reporting or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, investors could lose confidence in the reliability of our financial statements, which in turn could harm our business, results of operations and negatively impact the market price of our shares, and harm our reputation. Furthermore, we have incurred and expect to continue to incur considerable costs and to use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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

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



*We face uncertainties with respect to the significant decrease in our assets/ liabilities.*

We have discontinued our coal segment and we are currently dependent upon the success of one line of business mining of iron, and, in the past, zinc and other non-ferrous metal. While this business generates operating revenues, those revenues are not sufficient to offset expenses, resulting in continued losses from operations. Unless we are able to expand our mineral reserves through acquisition of additional mining rights, we will likely continue to incur losses.

### **Risks Relating to PRC Operations**

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

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

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

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

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

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

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

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

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

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

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

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on bank lending. Such an austere policy can lead to a slowing of economic growth, and recent statistics have, indeed, suggested that China's high annual economic growth will slow down. According to China National Bureau of Statistics released data, China's consumer price index (CPI) remained stable for 2015, rising 1.6 percent year on year well below the government's 3.0 percent target. As CPI is the main gauge of inflation, the lower than targeted CPI increase reflects that inflation in China remains largely in check.

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

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

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

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive all of our revenues in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures can be made in foreign currencies without prior approval from the PRC State Administration of Foreign

Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

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

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

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

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

In 2015, the annual cumulative depreciation of the exchange rate of the Renminbi against the U.S. dollar was 5.60%. Since the beginning of 2016 to late March 2016, the exchange rate of the Renminbi against the U.S. dollar dropped by 1.00%.

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

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

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

Our independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. On May 24, 2013, the PCAOB announced

that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission ( CSRC ) and the Ministry of Finance of the PRC, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC, or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor s audit or quality control procedure. As a result, investors may be deprived of the benefits of PCAOB inspections.

***Proceedings instituted by the SEC against certain PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.***

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On February 12, 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our stock may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NASDAQ or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our stock in the United States.

***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company should be treated as a foreign-invested enterprise, or an



FIE. According to the definition set forth in the draft Foreign Investment Law, FIEs refer to enterprises established in China pursuant to PRC law that are solely or partially invested by foreign investors. The draft Foreign Investment Law specifically provides that entities established in China (without direct foreign equity ownership) but controlled by foreign investors, through contract or trust for example, will be treated as FIEs. Once an entity falls within the definition of FIE, it may be subject to foreign investment restrictions or prohibitions set forth in a negative list to be separately issued by the State Council later. If an FIE proposes to conduct business in an industry subject to foreign investment restrictions in the negative list, the FIE must go through a market entry clearance by the Ministry of Commerce before being established. If an FIE proposes to conduct business in an industry subject to foreign investment prohibitions in the negative list, it must not engage in the business. However, an FIE, during the market entry clearance process, may apply in writing to be treated as a PRC domestic enterprise if its foreign investor(s) is/are ultimately controlled by PRC government authorities and its affiliates and/or PRC citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% of more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

### **Risks Relating to Foreign Private Issuer Status**

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

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

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

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

.

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

.

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

.

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

.

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

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

***Our status as a foreign private issuer allows us to adopt IFRS accounting principles, which are different than accounting principles under U.S. GAAP.***

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

***Filers of financial statements under IFRS are not currently subject to the SEC's XBRL requirements which may provide less information to investors than is provided by filers utilizing XBRL.***

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

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

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

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

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

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

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

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

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

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

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

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

**Risks Related to our Common Shares**

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

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

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

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

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

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

Our directors have the power to take certain actions without shareholder approval, including an amendment of our Memorandum of Association or Articles of Association (unless such amendment varies the rights attached to shares) or an increase or reduction in our authorized capital, which would require shareholder approval under the laws of most jurisdictions in the United States. In addition, the directors of a British Virgin Islands company, subject in certain cases to court approval but without shareholder approval, may, among other things, implement a reorganization, certain mergers or consolidations with a subsidiary, the sale, transfer, exchange or disposition of any assets, property, part of the business, or securities of the company, or any combination (provided the assets do not represent more than 50% of the total assets of the company and the sale is not outside of the usual or ordinary course of the company's business), if they determine it is in the best interests of the company. Our ability to amend our Memorandum of Association and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in our control without any further action by the shareholders, including a tender offer to purchase our common shares at a premium over then current market prices.

***The 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.

## **Risks Related to the Spin-Off**

*We face uncertainties with respect to the applicability of PRC withholding tax on the Distribution.*

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises ( SAT Circular 698 ) issued by the State Administration of Taxation ( SAT ) on December 10, 2008, with retroactive effect from January 1, 2008, if a non-PRC resident enterprise transfers its indirect equity interests in a PRC resident enterprise by disposing of its equity interests in an overseas holding company ( Indirect Transfer ), and such overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-PRC resident enterprise, as the transferor, is required to report the Indirect Transfer to the relevant PRC tax authorities.

SAT issued an announcement in February 2015, i.e., the Notice of SAT on Several Issues Concerning the CIT on the Indirect Transfers of Properties by PRC Non-Residents or Announcement 7, which stipulates in greater detail how to evaluate the reasonable commercial substance.

Using a substance over form principle, the PRC tax authorities may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax, in which case the gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, if a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant PRC tax authorities have the authority to make reasonable adjustments to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698 and Announcement 7. For example, while the term Indirect Transfer is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with the PRC. As a result, there is a risk that the PRC tax authorities would regard the Distribution as an Indirect Transfer by CHNR of our PRC subsidiaries to CHNR's shareholders subject to SAT Circular 698. If SAT Circular 698 were determined to be applicable to the Distribution by the PRC tax authorities, CHNR could be required to withhold taxes at a rate of up to 10% on any gains derived from the Distribution, which may be deemed as the difference between the fair value of our ordinary shares at the time of the Distribution and CHNR's tax basis in our ordinary shares.

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

## **ITEM 4.**

### **INFORMATION ON THE COMPANY**

#### **A.**

#### **History and Development of the Company**



**From Inception Until 2006**

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

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

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

### **Reverse Acquisition of Feishang Mining**

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

The Warrants entitled the holder to purchase: 2,000,000 common shares at an exercise price of \$4.00 per share for a period of two years from the closing date; 1,500,000 common shares at an exercise price of \$4.50 per share for a period of three years from the closing date; and 1,000,000 shares at an exercise price of \$5.00 per share for a period of four years from the closing date. The Warrants were fully exercised by Feishang Group, our principal shareholder, and the Company received gross proceeds of US\$8,000,000, US\$6,750,000 and US\$5,000,000 in connection therewith during the years ended December 31, 2008, 2009 and 2010, respectively.

### **Non-ferrous Metal Exploration and Mining Activities**

Wuhu Feishang was established as a Sino-foreign joint stock limited liability company between Wuhu City Feishang Industrial Development Company Limited (WFID) (50%) and Feishang International Holdings Limited (FIH) in June 2002 with tenure of 20 years from the date of its business license. The tenure can be extended by agreement between the joint venture partners with the necessary approval from the relevant government agencies. The registered capital of Wuhu Feishang is CNY12 million (US\$1.85 million), of which CNY6 million (US\$0.92 million) was contributed by each of WFID and FIH. In May 2003, Wuhu Feishang acquired the entire business of Anhui Fanchang Zinc and Iron Mine, a state-owned enterprise (Anhui Fanchang). In April 2005, WFID and FIH transferred their interests in Wuhu Feishang to Feishang Mining, at cost, and since the date of such transfer, Feishang Mining has been the owner of 100% of the capital stock of Wuhu Feishang.

Yunnan Mining was formed in January 2008 as a wholly-owned subsidiary of Wuhu Feishang with a registered capital of CNY50 million (US\$7.70 million). In October 2009, Yunnan Mining acquired exploration rights to the Baiguochong Mine. The Baiguochong Lead-Zinc Mine is located in E Shan Town, Fanchang County, Anhui Province in the PRC, approximately six kilometers south of Fanchang County. On October 8, 2014, in an internal group restructuring, Wuhu Feishang transferred its 100% interest in Yunnan Mining (Including Feishang Management, a wholly owned subsidiary of Yunnan Mining) to Yangpu Shuanghu for consideration of CNY35 million (US\$5.39 million).

Yangpu Shuanghu was established as a limited liability company in May 2004 under the laws of the PRC with an initial registered capital of CNY1 million (US\$0.15 million) by Wu Tianping and Zhu Zheng, unrelated parties. In March 2008, Wu Tianping and Zhu Zheng transferred their respective equity interests in Yangpu Shuanghu to Zhang Huachun and Yang Haibi, for total consideration of CNY1 million (US\$0.15 million). In July 2008, Zhang Huachun

and Yang Haibi transferred their respective equity interests in Yangpu Shuanghu to Feishang Yongfu, related parties, at a total consideration of CNY1 million (US\$0.15 million), and since the date of such transfer, Feishang Yongfu has been the owner of 100% of the paid-up capital of Yangpu Shuanghu.

Yangpu Lianzhong was established in January 2008 with a registered capital of US\$16.37 million (CNY106.27 million) which is a wholly owned by China Coal, a Hong Kong company established in January 2008. Yangpu Lianzhong is currently dormant following disposition of two unconsolidated investees in 2010.

#### **Other Matters**

On December 31, 2013, the Board of Directors approved a conditional special interim dividend to the shareholders of CHNR satisfied by way of a distribution in specie of the entire issued share capital of Feishang Anthracite to all shareholders of CHNR in proportion to their respective shareholdings in CHNR on the Distribution Record Date. The Distribution became unconditional upon successful listing by way of introduction on the Main Board of the Hong Kong Stock Exchange of Feishang Anthracite on January 22, 2014.

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**

Following the January 2014 Spin-Off and listing on the Main Board of the Hong Kong Stock Exchange of the shares of Feishang Anthracite, which had operated our coal mining and related businesses, we intend to continue our acquisition and exploitation of mining rights, including the exploration, mineral extraction, processing and sales of iron, zinc and other nonferrous metals extracted or produced at mines primarily located in Anhui Province in the PRC, as well as our operation of related businesses. We conduct these activities through our indirect wholly-owned subsidiary, Wuhu Feishang.

Prior to November 2013, we conducted exploration and mining operations at four non-ferrous metals mines located in Anhui Province in the PRC, and we submitted our application to renew the exploration rights for three of these mines on their expiry. In November 2013, the Fanchang County Bureau of Land and Resources redesignated the Sichong Mine, the Baiguochong Mine and the Luojiachong Mine as exploration restricted areas. As a result, the Company's exploration rights at these mines were not renewed and further exploration activities at these mines have ceased.

We currently hold mining rights that allow us to mine, process and sell non-ferrous metals extracted or produced at Yangchong Mine located in Anhui Province in the PRC. Historically, we have extracted or produced iron, zinc, micaceous oxide and sulphur concentrates at Yangchong Mine. However, we produced no zinc in 2013, 2014 or 2015 due to the inferior quality of zinc at current mining zones; and we produced no micaceous oxide in 2013, 2014 or 2015 because it could not be produced and sold on a profitable basis. Sales of sulphur concentrates are not material to our results of operations. Due to the depressed market price for iron, it is not currently economical to conduct mineral extraction at Yangchong Mine, and extraction was temporarily suspended on December 27, 2015.

We maintain an inventory of iron concentrates and zinc for sale, from time to time, as warranted by market conditions or as otherwise necessary. We are also in the early stages of exploration for additional mineable ore at Yangchong Mine. In March 2016, we engaged Anhui Province Mine Geology Bureau No. 2 Exploration Brigade to survey geology and mineral resources within our licensed zones at Yangchong Mine. Management believes that zinc can currently be mined on a profitable basis and hopes that the survey will confirm that there are additional mineral reserves, including zinc, that can be extracted from Yangchong Mine at costs that justify extraction in light of prevailing market prices for metals. However, the Company cannot accurately predict whether the outcome of the survey will be positive, or whether the outcome of the survey will justify the expenditure of additional resources to pursue mineral extraction.

Although management expects to resume mineral extraction at current zones of Yangchong Mine when market conditions improve, we cannot predict when market conditions will improve; and the continued depressed market price for iron may adversely affect the results of our operations. In addition, mineable ore at Yangchong Mine will likely be depleted within approximately one year following resumption of extraction.

Management is also exploring new businesses opportunities to contribute to revenues and enhance shareholder values.

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

Mining operations include the exploration for, and extraction, production and sale of, non-ferrous metals. Our metal mining operations are conducted by Wuhu Feishang, a PRC company that is wholly-owned by Feishang Mining. Wuhu Feishang is principally engaged in the mining of zinc, iron, and other minerals and nonferrous metals, and their sale in the PRC.

### **Industry Overview of Our Major Products**

#### ***Iron***

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

In 2015, iron ore price slumped 45%. Iron ore companies including BHP Billiton Limited (Australia), Rio Tinto Plc (Australia) and Companhia Vale do Rio Doce (Brazil) still maintained a large number of production and continued to compress costs. The trend of global macroeconomic decelerated growth also led to the iron ore oversupply. Since major exporters of iron ore suffered large currency devaluation, the cost of iron ore exports was decreased. In addition, the strong U.S. dollar also put downward pressure on price of iron ore.

China produced 1,381 million tonnes of iron-ore in 2015, decreased by 8.8% compared with 2014. China imported 952.7 million tonnes of iron ore in 2015, increased by 2.2% from 932.5 million tonnes in 2014. According to the data disclosed by the China Iron and Steel Association (CISA), the average CIF price of the imported iron ore with grade 62% was US\$55.0 (CNY357) per tonne, down US\$45.4 (CNY295) per tonne or 45.2% from 2014.

### 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. We produced no zinc in 2013, 2014 or 2015 due to the inferior quality of zinc at current mining zones.

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

|                                       | 2011   | 2012   | 2013   | 2014   | 2015   |
|---------------------------------------|--------|--------|--------|--------|--------|
| Metal production (in thousand tonnes) | 5,344  | 4,850  | 5,300  | 5,827  | 6,155  |
| Consumption (in thousand tonnes)      | 5,200  | 5,350  | 5,950  | 6,421  | 6,486  |
| Average price (CNY/tonne)             | 16,922 | 15,249 | 15,178 | 16,181 | 15,169 |

Source: China Non-ferrous Metal Industry Association and ILZSG

### Micaceous Iron Oxide

Micaceous Iron Oxide (MIO) (chemical compound symbol  $Fe_2O_3$ ) is a crystalline form of iron oxide that differs from the more familiar red, yellow, and brown forms of iron oxide pigments. Like other forms of iron oxide, MIO is a very inert material. It is insoluble in water, organic solvents, and alkalis, and is only slightly soluble in strong acids at elevated temperatures. It is un-reactive to most chemicals and is heat stable up to its melting point of over 1,000 degrees centigrade and is non-toxic, non-oxidizing, non-corrosive, and non-flammable. As a result of its properties, the use of coatings containing MIO pigments is becoming increasingly popular in manufacturing and industries, and for use in products such as durable antiseptic coating paint, primer and finish paint on steel structures. We produced no micaceous iron oxide in 2013, 2014 and 2015.

## **Wuhu Feishang**

### **Overview of Wuhu Feishang**

Wuhu Feishang's principal activity is the mining of zinc, iron and other minerals for distribution in the PRC. Wuhu Feishang currently operates a mine located in Fanchang County, Wuhu City, Anhui Province, the PRC, for which it has acquired mining rights: the Yangchong Mine contains iron and zinc minerals. The mine produced approximately 28,100 tonnes of iron and nil tonnes of zinc in 2014, and approximately 18,600 tonnes of iron and nil tonnes of zinc in 2015. Wuhu Feishang's acquisition of the entire business of Anhui Fanchang in May 2003, included without limitation, the mining rights to Yangchong Mine, and Zaoyuan Mine which ceased operation in October 2009 due to depletion of all of the mineral ore, as well as the properties and the processing facilities of the mines. Wuhu City is located in the northwestern Yangtze River Delta and is in the approximate center of East China, approximately 384 kilometers from Shanghai. In August 2007, Wuhu Feishang acquired exploration rights to a third mine – the Sichong Mine – but the exploration rights were not renewed after its expiration in 2013.

Wuhu Feishang's principal activities are conducted in four areas – exploration, mineral extraction, ore processing and sales of processed material. Exploration includes conducting geologic surveys to determine the presence of minable ore, securing mining rights and preparing the minable area for mineral extraction. 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 stage in our operation through which ores are converted into nonferrous metal concentrates (zinc, iron, micaceous iron oxide grey and copper concentrates) as salable products. To produce metal concentrates, we segregate the useful components of ores from useless stones through physical (such as magnetic separation) or chemical methods, or a combination of the two, and then collect the useful metal components through a number of concentration methods.

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

MINING CONSISTS OF:

Drilling    Blasting    Ore Drawing    Fragmentation Hauling    Hoisting Transportation

ORE PROCESSING CONSISTS OF:

Crushing    Grinding    Classifying    Flotation

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

Pooling    Mineral Concentrate Dehydration    Finished Zinc Concentrates Product

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

Magnetic Separation    Finished Iron Concentrates Product

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

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

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

**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](http://www.chinaccm.com)).

**Zinc:** We neither produced nor sold zinc during 2015, 2014 or 2013. Historically, our zinc concentrates product is sold in its entirety to Huludao Zinc Industry Co., Ltd., a Shenzhen-listed company which is located in Huludao City, Liaoning Province, the PRC, and which is primarily engaged in the zinc smelting business. The price of our zinc concentrates is generally set at 50% (to be adjusted by the grading of the product) of the monthly average price of #0 electrolytic zinc announced by Shanghai Nonferrous Metals on its website ([www.smm.com.cn](http://www.smm.com.cn)).

**Micaceous Iron Oxide:** We neither produced nor sold MIO during 2015, 2014 or 2013. Historically, our MIO products are primarily sold to chemical and paint manufacturers in East China, Shanghai and Jiangsu Province, the PRC, for manufacturing various types of paints for ships, ocean-engineering and pleasure boats. The price of our MIO is generally negotiated with reference to the demand and supply in the market and the price of competitors. We discontinued the production of MIO during 2012 due to the unsatisfactory economic return of MIO products.

The average selling prices per metric tonne of our major metal products for each of the three years ended December 31, 2013, 2014 and 2015, are set forth in the following table:



| <b>Major Product</b>                              | <b>2013</b>    | <b>2014</b>    | <b>2015</b>    |
|---|----------------|----------------|----------------|
|   | <i>CNY/ MT</i> | <i>CNY/ MT</i> | <i>CNY/ MT</i> |
| Iron concentrates (Grade 65% ~ 66%)               | 939            | 851            | 466            |
| Zinc (based on zinc concentrates grade 42% ~ 44%) | N/A            | N/A            | 8,009          |
| Micaceous Iron Oxide Grey (Grade 160, 240, 320)   | N/A            | N/A            | N/A            |

The following table summarizes the production quantity and sales quantity of our metal products for each of the years ended December 31, 2011, 2012, 2013, 2014 and 2015 included in continuing operations.

|   | 2011   | 2012   | 2013   | 2014   | 2015   |
|---|--------|--------|--------|--------|--------|
| Production quantity (in tonnes):                  |        |        |        |        |        |
| Iron concentrates (Grade 65% ~ 66%)               | 23,200 | 13,400 | 37,048 | 28,100 | 18,600 |
| Zinc (based on zinc concentrates grade 42% ~ 44%) | 1,160  | 100    |        |        |        |
| Micaceous iron oxide grey (Grade 160, 240, 320)   | 1,249  | 85     |        |        |        |
| Sales quantity (in tonnes):                       |        |        |        |        |        |
| Iron concentrates (Grade 65% ~ 66%)               | 21,163 | 10,114 | 42,123 | 8,056  | 36,195 |
| Zinc (based on zinc concentrates grade 42% ~ 44%) | 1,013  | 258    |        |        | 131    |
| Micaceous iron oxide grey (Grade 160, 240, 320)   | 1,424  | 428    |        |        |        |

### Yangchong Mine

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

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

Since all mineral resources in the PRC are owned by the State, the Company's right to extract minerals at Yangchong Mine is licensed to Wuhu Feishang by the State for a period of years (see "Government Regulation" below). The Company is the only party that is currently licensed to mine the Yangchong Mine. The Company's current license to mine the Yangchong Mine expires on November 24, 2017, and may be renewed upon expiry.

Yangchong Mine is a zinc-iron underground mine. The formations are believed to date from the Silurian to Triassic ages, with deposits in limestone and dioritic 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 paragenetic deposits. The low side of the ore body is uncontinuous magnetite deposits. Ore body II consists of zinc-iron paragenetic deposits and zinc deposits. Ore body III consists of continuous deposits and iron deposits.



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

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

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

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

Wuhu Feishang outsources its mine extraction to unrelated third parties. From January 1, 2015 through December 31, 2015 Wuhu Feishang outsourced mine extraction at Yangchong Mine to Wenzhou Dongda Mining Engineering Co. Ltd. Under the agreement, the subcontractor charged a service fee of CNY72.10 (US\$11.11) per tonne of ore extracted, and CNY6.00 (US\$0.92) per tonne of useless stone removal. For the developing of ramps, the subcontractor charged a service fee of CNY3,150.00 (US\$485.23) per extra meter of inclined shaft and CNY2,310.00 (US\$355.84) per extra meter of flat shaft. Except for the outsourced mining of raw minerals to an unrelated third party (as described above), all ore processing procedures are performed by Wuhu Feishang. Raw minerals extracted from Yangchong Mine are processed into iron and zinc metals in factories located near the mine.

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

We are in the early stages of exploration for additional mineable ore at Yangchong Mine. In March 2016, we engaged Anhui Province Mine Geology Bureau No. 2 Exploration Brigade to survey geology and mineral resources within our licensed zones at Yangchong Mine. Management believes that zinc can currently be mined on a profitable basis and hopes that the survey will confirm that there are additional mineral reserves, including zinc, that can be extracted from Yangchong Mine at costs that justify extraction in light of prevailing market prices for metals. However, the Company cannot accurately predict whether the outcome of the survey will be positive, or whether the outcome of the survey will justify the expenditure of additional resources to pursue mineral extraction.

All equipment, infrastructure and facilities material to Wuhu Feishang's operations are believed to be in good condition. The plant was constructed in 1991 and has been periodically upgraded. The processing plant is capable of producing approximately 600 tonnes of finished products per day. The processing facilities process raw ore from the Yangchong Mine. All processing facilities and equipment of Wuhu Feishang were acquired from Nanchang Non-ferrous Metallurgy Designing Organization, a Class-A corporation in China in designing and producing equipment for the mining industry. All technology and equipment meet the industrial standard as required by the relevant government authorities. Site infrastructure includes roads, water supply system, electric supply system, warehouses, living quarters, dining facilities and an administration building. At December 31, 2014 and 2015, the net book value of mining related property, plant and equipment of Yangchong Mine was approximately nil and nil, respectively.

As of December 31, 2015, the reserve estimates of Yangchong Mine are as follows:

|                | As of December 31, 2015               |                        |
|----------------|---------------------------------------|------------------------|
|                | Probable Reserve<br>(in metal tonnes) | Average quality of ore |
| Yangchong Mine |                                       |                        |
| Iron           | 13,236                                | 44.76%                 |
| Zinc           | 4,505                                 | 5.82%                  |

**Note:**

*The probable reserve as of December 31, 2015 has been adjusted by removing those reserves extracted by the Company's past mining activities. Based on 2015 production levels, the length of the mining activity of our probable reserves for Yangchong mine is approximately one year for iron. The mine dilution loss and the mining recovery factor of Yangchong Mine are approximately 10% and 90%, respectively. The metallurgical recovery factor of zinc and iron are approximately 96% and 87%, respectively.*

**Suppliers**

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, typical credit terms granted by major suppliers range from 30 to 60 days on an open account basis.

For the years ended December 31, 2013, 2014 and 2015, the largest five suppliers accounted for 31%, 52% and 60%, respectively, of Wuhu Feishang's purchases. For the years ended December 31, 2013, 2014 and 2015, the largest supplier accounted for 15%, 16% and 27%, of Wuhu Feishang's purchases, respectively.

### **Customers**

Wuhu Feishang sells all of its iron, and historically zinc, products to companies in the PRC. In 2012, 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. There was no zinc production from 2013 to 2015.

For the three years ended December 31, 2013, 2014 and 2015, Wuhu Feishang's five largest customers accounted for 100%, 100% and 100% of Wuhu Feishang's sales, respectively. During the year ended December 31, 2013, the three largest customers accounted for 36%, 31% and 19%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2014, the three largest customers accounted for 53%, 30% and 17%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2015, the three largest customers accounted for 66%, 22% and 6%, respectively, of Wuhu Feishang's sales.

### **Competition**

Wuhu Feishang faces competition from other smaller mines in the region, including Fenghuang Mine of Tongling Multi-metallic Group Limited with an annual production capacity of 100,000 tonnes of 63% grade iron concentrate. However, management believes that Wuhu Feishang enjoys a competitive advantage based upon its high product quality and purity, and lower cost of production.

### **Research and Sampling Procedures**

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

(a)

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

(b)

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

(c)

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

A brief description of our sampling procedures is as follows:

(a)

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

(b)

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



(c)

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

(d)

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

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

.

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

.

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

.

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

.

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

.

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

.

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

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

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

Wuhu Feishang's mining rights entitle it to undertake mining activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. Wuhu Feishang is required to submit a mining proposal and feasibility studies to the relevant government authority; and is also obligated to pay a resources compensation fee to the State in an amount equal to 2% of annual sales of zinc and iron concentrates. Resources compensation fees of CNY187,300 (US\$28,852), CNY166,000 (US\$25,571) and CNY367,000 (US\$56,533) were paid in 2013, 2014 and 2015, respectively. The natural resources fee for the renewal of the mining rights to Yangchong Mine of CNY3,002,900 (US\$462,575) was paid in December 2005.

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.

### **NON BUSINESS SEGMENT Corporate Activities**

**Feishang Management**

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

**FMH Services**

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

**Sunwide**

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

**Silver Moon**

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

## **DISCONTINUED SEGMENT - Coal-Mining and Related Businesses**

On December 31, 2013, the Board of Directors approved a conditional special interim dividend to the shareholders of CHNR satisfied by way of a distribution in specie of the entire issued share capital of Feishang Anthracite to all shareholders of CHNR in proportion to their respective shareholdings in CHNR on the Distribution Record Date. Pursuant to the Distribution, each shareholder of CHNR became entitled to five shares of Feishang Anthracite for every share of CHNR held on the Distribution Record Date. After the completion of the Distribution, CHNR no longer holds any shares in Feishang Anthracite.

The Spin-Off did not involve any offering of new shares of Feishang Anthracite or a public offering of any other securities and no funds were raised pursuant to the Spin-Off. The Distribution became unconditional upon successful listing by way of introduction on the Main Board of the Hong Kong Stock Exchange of Feishang Anthracite on January 22, 2014.

In preparation for the Distribution, the Board of Directors passed resolutions in writing on December 6, 2013 to approve the following matters:

-

change of the authorized share capital of Feishang Anthracite from US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each;

-

repurchase and cancellation of all issued shares of US\$1.00 each from CHNR for US\$1.00; and

-

issue of a total of 124,554,580 Shares of HK\$0.01 each to CHNR for HK\$98,380,000.

These transactions were completed on December 12, 2013.

Prior to the Spin-Off, Feishang Anthracite and its direct and indirect subsidiaries operated the Company's coal segment, including the exploration, construction, development and operation of coal mines located in Guizhou Province, the PRC.

**C.**

### **Organizational Structure**

China Natural Resources is a holding company owning the following subsidiaries, with the interests indicated (as of April 22, 2016):

CHNR

(BVI)

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|                                       |                                     |                             |                                      |                          |   |                                   |
|---------------------------------------|-------------------------------------|-----------------------------|--------------------------------------|--------------------------|---|-----------------------------------|
| 100%<br>FMH Services<br>(Florida, US) | 100%<br>Feishang<br>Mining<br>(BVI) | 80%<br>Silver Moon<br>(BVI) | 100%<br>China Coal<br>(HK)           | 100%<br>Sunwide<br>(BVI) | 100%<br>Newhold<br>(BVI)                | 100%<br>Pineboom<br>(BVI)         |
|                                       | 100%<br>Wuhu<br>Feishang*<br>(PRC)  |                             | 100%<br>Yangpu<br>Lianzhong<br>(PRC) |                          | 100%<br>Feishang<br>Yongfu<br>(HK)      | 100%<br>Feishang<br>Dayun<br>(HK) |
|                                       |                                     |                             |                                      |                          | 100%<br>Yangpu<br>Shuanghu<br>(PRC)     |                                   |
|                                       |                                     |                             |                                      |                          | 100%<br>Yunnan Mining<br>(PRC)          |                                   |
|                                       |                                     |                             |                                      |                          | 100%<br>Feishang<br>Management<br>(PRC) |                                   |

\* All current operations are conducted by Wuhu Feishang.

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

**D.**

**Property, Plant and Equipment**

The Company's administrative offices and its principal subsidiaries are located in Hong Kong, Wuhu (Anhui Province) and Shenzhen (Guangdong Province) in the PRC. On July 1, 2008, the Company and Anka Consultants Limited (Anka), a private Hong Kong company that is owned by certain directors of the Company, entered into a license agreement in respect of the Company's head office in Hong Kong. The total area of the office was approximately 368 square meters in which the Company shared 238 square meters. The license agreement provided that the Company shared certain costs and expenses in connection with its use of the office, in addition to accounting and secretarial services and day-to-day office administration provided by Anka. On September 1, 2013, the Company and Feishang Anthracite entered into new license agreements with Anka, respectively, pursuant to which, the Company and Feishang Anthracite share the office premises of 238 square metres on an equal basis. The agreements also provide that the Company and Feishang Anthracite shall share certain costs and expenses in connection with their use of the office. In addition, Anka continues to provide accounting and secretarial services and day-to-day office administration to the Company. The initial term of the agreement was from September 1, 2013 to June 30, 2014 and its terms shall remain effective for all subsequent extension of leases. The lease was extended for two years from July 1, 2014 to June 30, 2016. For the years ended December 31, 2013, 2014 and 2015, the Company paid its share of rental expenses and rates to Anka amounting to approximately CNY956,000 (US\$147,265), CNY565,000 (US\$87,034) and CNY560,000 (US\$86,264), respectively.

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

For the years ended December 31, 2013, 2014, and 2015, the Company incurred capital expenditures (excluding fees for renewal of mining rights) of CNY300.59 million (US\$46.30 million), CNY54.53 million (US\$8.40 million) and CNY6.25 million (US\$0.96 million), respectively.

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

**ITEM 4A.**

**UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5.**

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Forward-Looking Statements**

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

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2013, 2014 and 2015 included elsewhere herein. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

A.

## **Operating Results**

### **Continuing operations**

On December 31, 2013, the Board of Directors approved a conditional special interim dividend to the shareholders of CHNR satisfied by way of a distribution in specie of the entire issued share capital of Feishang Anthracite to all shareholders of CHNR in proportion to their respective shareholdings in CHNR on the Distribution Record Date. Pursuant to the Distribution, each shareholder of CHNR became entitled to five shares of Feishang Anthracite for every share of CHNR held on the Distribution Record Date. After the completion of the Distribution, CHNR no longer holds any shares in Feishang Anthracite.

The Spin-Off did not involve any offering of new shares of Feishang Anthracite or a public offering of any other securities and no funds were raised pursuant to the Spin-Off. The Distribution became unconditional upon successful listing by way of introduction on the Main Board of the Hong Kong Stock Exchange of Feishang Anthracite on January 22, 2014.

Before the Spin-Off, we were engaged in the following businesses through our operating subsidiaries:

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

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

We currently hold mining rights that allow us to mine, process and sell non-ferrous metals extracted or produced at Yangchong Mine located in Anhui Province in the PRC. Historically, we have extracted or produced iron, zinc, micaceous oxide and sulphur concentrates at Yangchong Mine. However, we produced no zinc in 2013, 2014 or 2015 due to the inferior quality of zinc at current mining zones; and we produced no micaceous oxide in 2013, 2014 or 2015 because it could not be produced and sold on a profitable basis. Sales of sulphur concentrates are not material to our results of operations. Due to the depressed market price for iron, it is not currently economical to conduct mineral extraction at Yangchong Mine, and extraction was temporarily suspended on December 27, 2015.

We maintain an inventory of iron concentrates and zinc for sale, from time to time, as warranted by market conditions or as otherwise necessary. We are also in the early stages of exploration for additional mineable ore at Yangchong



Mine. In March 2016, we engaged Anhui Province Mine Geology Bureau No. 2 Exploration Brigade to survey geology and mineral resources within our licensed zones at Yangchong Mine. Management believes that zinc can currently be mined on a profitable basis and hopes that the survey will confirm that there are additional mineral reserves, including zinc, that can be extracted from Yangchong Mine at costs that justify extraction in light of prevailing market prices for metals. However, the Company cannot accurately predict whether the outcome of the survey will be positive, or whether the outcome of the survey will justify the expenditure of additional resources to pursue mineral extraction.

The following discussion reflects only the continuing operations of the Company following the Spin-Off:

### **Revenues and Gross Profit**

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

#### 2015 vs 2014

The sales from our metal segment's operation increased by CNY10.04 million (US\$1.55 million), or 120.91%, to CNY18.34 million (US\$2.83 million) for the year ended December 31, 2015 from CNY8.30 million (US\$1.28 million) for the year ended December 31, 2014. The increase was mainly contributed by an increase in the sales volume of zinc concentrates produced in prior years and iron concentrates produced in 2014 and 2015, partially offset by the drop of the average selling price per tonne of iron concentrates.

Sales were mainly derived from sales of zinc concentrates, iron concentrates and sulfur concentrates. Sales of zinc concentrates increased by CNY1.05 million (US\$0.16 million), from nil in 2014 to CNY1.05 million (US\$0.16 million) in 2015. Sales of iron concentrates also increased by CNY10.01 million (US\$1.54 million), or 146.04%, from CNY6.86 million (US\$1.06 million) in 2014 to CNY16.87 million (US\$2.60 million) in 2015. The increase in iron concentrates sales was mainly contributed by an increase in the iron sales volume in 2015 from 8,056 tonnes in 2014 to 36,195 tonnes in 2015. Iron concentrates production decreased by 9,500 tonnes, or about 33.81% in response to the falling sales price. The average selling price of iron was CNY466 (US\$72) per tonne in 2015, representing a drop of CNY385 (US\$59), or 45.24%, from CNY851 (US\$131) in 2014. Sales of sulfur concentrates decreased by CNY1.02 million (US\$0.16 million), or 70.83%, from CNY1.44 million (US\$0.22 million) in 2014 to CNY0.42 million (US\$0.06 million) in 2015. We sold 1,530 tonnes of sulfur concentrates in 2015, representing a decrease of 3,620 tonnes, or 70.29% from 5,150 tonnes in 2014. The average selling price of sulfur concentrates decreased by CNY7 (US\$1) per tonne, or 2.49%, from CNY281 (US\$43) in 2014 to CNY274 (US\$42) in 2015.

Gross loss for the year ended December 31, 2015 was CNY13.59 million (US\$2.09 million) with a gross loss margin of 20.99%, as compared to a gross profit of CNY1.74 million (US\$0.27 million) with a gross profit margin of 20.95% for the year ended December 31, 2014. The approximately CNY15.33 million (US\$2.36 million), or 881.64%, drop in gross profit, was mainly due to the decline in selling prices of iron concentrates compared to the prior years.

The gross profit on sales of zinc for the year ended December 31, 2015 was CNY0.08 million (US\$0.01 million), compared to zero for the same period in 2014.

The gross loss or gross loss margin on sales of iron for the year ended December 31, 2015 was CNY13.58 million (US\$2.09 million), or approximately 80.55%, as compared to a gross profit of CNY1.81 million (US\$0.28 million), or a gross profit margin of 26.32% for the same period in 2014. The drop in gross profit was primarily caused by the decline in the selling price of iron concentrates.

The gross loss was CNY0.09 million (US\$0.01 million) on sales of sulfur concentrates for the year ended December 31, 2015, compared to CNY0.07 million (US\$0.01 million) for the same period in 2014. The increase in gross loss was primarily caused by the drop in both volume sold and selling price of sulfur concentrates.

#### 2014 vs 2013

The sales from our metal segment's operation decreased by CNY33.06 million (US\$5.09 million), or 79.93%, to CNY8.30 million (US\$1.28 million) for the year ended December 31, 2014 from CNY41.36 million (US\$6.37 million) for the year ended December 31, 2013. The drop was mainly caused by a decrease in the production volume and the average selling price per tonne of iron concentrates.

Sales were mainly derived from sales of iron concentrates and sulfur concentrates. Sales of iron concentrates also dropped by CNY32.71 million (US\$5.04 million), or 82.67%, from CNY39.57 million (US\$6.10 million) in 2013 to CNY6.86 million (US\$1.06 million) in 2014. The decrease in iron concentrates sales was mainly caused by a decline in both the iron sales volume and the sales price of iron in 2014. The sales volume of iron decreased by 34,067 tonnes from 42,123 tonnes in 2013 to 8,056 tonnes in 2014. Iron concentrates production decreased by 8,948 tonnes, or about 24.15% in response to the falling sales price. The average selling price of iron was CNY851 (US\$131) per tonne in 2014, representing a drop of CNY88 (US\$14), or 9.37%, from CNY939 (US\$145) in 2013. Sales of sulfur concentrates decreased by CNY0.35 million (US\$0.05 million), or 19.55%, from CNY1.79 million (US\$0.28 million) in 2013 to CNY1.44 million (US\$0.22 million) in 2014. We sold 5,150 tonnes of sulfur concentrates in 2014, representing a decrease of 659 tonnes, or 11.34% from 5,809 tonnes in 2013. The average selling price of sulfur

concentrates decreased by CNY27 (US\$5) per tonne, or 8.77%, from CNY308 (US\$47) in 2013 to CNY281 (US\$43) in 2014.

Gross profit for the year ended December 31, 2014 decreased to CNY1.74 million (US\$0.27 million) with a gross profit margin of 20.95%, compared to CNY16.26 million (US\$2.50 million) with a gross profit margin of 39.31% for the year ended December 31, 2013. The approximately CNY14.52 million (US\$2.24 million), or 89.30%, drop in gross profit, was mainly due to the decline in selling prices and production volume of iron concentrates compared to the prior year.

The gross profit or gross profit margin on sales of iron for the year ended December 31, 2014 was CNY1.81 million (US\$0.28 million), or approximately 26.32%, compared to CNY16.11 million (US\$2.48 million), or 40.70% for the same period in 2013. The drop in gross profit was primarily caused by the decline in both the volume sold and selling price of iron concentrates.

The gross loss was CNY0.07 million (US\$0.01 million) on sales of sulfur concentrates for the year ended December 31, 2014, as compared to a gross profit of CNY0.12 million (US\$0.02 million) for the same period in 2013. The decrease in gross profit was primarily caused by the drop in both volume sold and selling price of sulfur concentrates.

## **Administrative Expenses**

### 2015 vs 2014

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

Administrative expenses in 2015 increased by CNY6.67 million (US\$1.03 million), or 54.54% to CNY18.89 million (US\$2.91 million) from CNY12.23 million (US\$1.88 million) in 2014. The increase in administrative expenses was primarily caused by the termination benefit arising from the streamlined exercise and the temporary suspension of extraction activities in late December 2015.

### 2014 vs 2013

Administrative expenses in 2014 decreased by CNY5.68 million (US\$0.87 million), or 31.71% to CNY12.23 million (US\$1.88 million) from CNY17.91 million (US\$2.76 million) in 2013. The decrease in administrative expenses was primarily caused by the reduction in legal and professional fees as there were no further Spin-Off expenses incurred in 2014.

## **Impairment Loss on Property, Plant and Equipment**

An impairment loss on property, plant and equipment of CNY7.54 million (US\$1.16 million) was made for 2015, compared to CNY8.07 million (US\$1.24 million) was made for 2014 in connection with the price decline of iron concentrates in the period. The recoverable value of Yangchong Mine was determined based on the mine's value-in-use (VIU) using pre-tax cash flow projections, adopting certain assumptions based on the mine's past performance and our expectations on market development, applying a pre-tax discount rate of 16.00%.

There was no impairment loss in 2013.

## **Write-down/(Reversal of write-down) of Inventories to Net Realizable Value, net**

The reversal of write-down of inventories to net realizable value of CNY5.47 million (US\$0.84 million) was recorded in 2015 along with the sales of finish goods which has been provided write-down of CNY11.12 million (US\$1.71 million) previously. CNY5.65 million (US\$0.87 million) written-down of inventories was provided in 2015, as compared to CNY9.30 million (US\$1.43 million) provided in 2014, the decrease was mainly caused by the decrease of inventory balances as of December 31, 2015 as compared to December 31, 2014.

There was no write-down of inventories to net realizable value in 2013.

## **Other Operating Income (Expenses), net**

2015 vs 2014

Other operating income in 2015 mainly represented the government grants for enterprise development of a monitoring system at Yangchong Mine.

2014 vs 2013

Other operating income in 2014 mainly represented consulting income. There was no mine recovery fee in 2014.

**Non-operating Income (Expenses), net**

2015 vs 2014

There was no material fluctuation in the non-operating income (expenses), net of CNY0.11 million (US\$0.02 million) in 2015 as compared to CNY0.22 million (US\$0.03 million) in 2014.

2014 vs 2013

There was no material fluctuation in the non-operating income (expenses), net of CNY0.22 million (US\$0.03 million) in 2014 as compared to CNY0.17 million (US\$0.03 million) in 2013.

## **Income Tax Expenses**

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

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

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

### 2015 vs 2014

Income tax expenses decreased from CNY6.84 million (US\$1.05 million) in 2014 to CNY1.50 million (US\$0.23 million) in 2015. The decrease was mainly contributed by (i) the income tax expenses amounting to CNY3.53 million (US\$0.54 million) attributable to the profit distribution by Wuhu Mining in 2014; and (ii) the deferred tax expenses amounting to CNY1.53 million (US\$0.24 million) arising from the valuation allowance of deferred tax assets of Wuhu Mining in 2014, no deferred tax expenses were recognized in 2015.

### 2014 vs 2013

Income tax expenses increased from CNY2.14 million (US\$0.33 million) in 2013 to CNY6.84 million (US\$1.05 million) in 2014. The increase was mainly contributed by (i) the income tax expenses amounting to CNY3.53 million (US\$0.54 million) attributable to the profit distribution by Wuhu Mining in 2014; and (ii) the deferred tax expenses amounting to CNY1.53 million (US\$0.24 million) arising from the valuation allowance of deferred tax assets of Wuhu Mining.

## **Profit/(Loss) from the Continuing Operations**

### 2015 vs 2014

Loss from continuing operations increased from CNY33.22 million (US\$5.12 million) in 2014 to CNY35.51 million (US\$5.47 million) in 2015. The increased loss was mainly due to (i) a CNY15.33 million (US\$2.36 million) decrease in gross profit compared to the year ended December 31, 2014; and (ii) the termination benefit from the streamline operation amounting to CNY5.51 million (US\$0.85 million) in 2015, partially offset by (i) the decrease of income tax expenses amounting to CNY5.34 million (US\$0.82 million) attributable to the profit distribution by Wuhu Mining in 2014; and (ii) a CNY14.77 million (US\$2.28 million) decrease in write-down of inventories to net realizable value compared to the year ended December 31, 2014.

### 2014 vs 2013

Loss from continuing operations increased from CNY1.29 million (US\$0.20 million) in 2013 to CNY33.22 million (US\$5.12 million) in 2014. The increased loss was mainly due to (i) a CNY14.52 million (US\$2.24 million) decrease in gross profit compared to the year ended December 31, 2013; and (ii) the impairment loss on property, plant and equipment amounting to CNY8.07 million (US\$1.24 million) and the write down of inventory amounting to CNY9.30 million (US\$1.43 million) in 2014.

## **Discontinued Operations**

Discontinued operations represented the Company's coal mining and related business operated and owned by Feishang Anthracite, in which the Company's shares were distributed to the Company's shareholders on January 22, 2014.

Net loss from discontinued operations dropped substantially from 2013 to 2014 because the discontinued operations in 2014 represented only one month's operation of Feishang Anthracite.

### **Critical Accounting Policies**

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

Revenue recognition

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

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

Property, plant and equipment

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

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

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

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

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

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

When an item of property, plant and equipment is classified as held for distribution or when it is part of a disposal group classified as held for distribution, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained below.



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

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

|  |               |
|--|---------------|
| Non-mining related buildings               | 15 - 35 years |
| Non-mining related machinery and equipment | 3 - 15 years  |
| Motor vehicles                             | 4 - 8 years   |

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

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

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

Exploration and evaluation costs

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

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

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

Income taxes

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

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

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

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

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

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in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not

reverse in the foreseeable future.

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

.

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

.

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

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

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

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

#### Asset retirement obligations

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

#### Non-current assets and disposal groups held for distribution

Non-current assets and disposal groups are classified as held for distribution when the Group is committed to distribute the asset or disposal group to its owners. For this to be the case, the asset or disposal group must be available for immediate distribution in its present condition and its distribution must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for distribution are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for distribution are not depreciated or amortized.

#### Impairments of long-lived assets

Long-lived assets to be held and used, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

#### **Changes in Accounting Policy and Disclosures**

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to IAS 19  
*Annual Improvements*

*Defined Benefit Plans: Employee Contributions*  
Amendments to a number of IFRSs

*2010-2012 Cycle*  
*Annual Improvements*

Amendments to a number of IFRSs

*2011-2013 Cycle*

The nature and the impact of each amendment is described below:

(a)

Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b)

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

*IFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*: Clarifies the treatment of the gross carrying amount and accumulated depreciation or amortization of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

*IAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c)

The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

*IFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

*IFRS 13 Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS

13.

IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group has no investment properties.

### Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the current year's financial statements:

|   |   |
|---|---|
| IFRS 9                                    | <i>Financial Instruments</i> <sup>3</sup>   |
| Amendments to IFRS 10 and IAS 28          | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>6</sup> |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | <i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>                             |
| Amendments to IFRS 11                     | <i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>                          |
| IFRS 14                                   | <i>Regulatory Deferral Accounts</i> <sup>5</sup>  |
| IFRS 15                                   | <i>Revenue from Contracts with Customers</i> <sup>3</sup>   |
| IFRS 16                                   | <i>Leases</i> <sup>4</sup>  |
| Amendments to IAS 1                       | <i>Disclosure Initiative</i> <sup>1</sup>   |
| Amendments to IAS 7                       | <i>Disclosure Initiative</i> <sup>2</sup>   |
| Amendments to IAS 12                      | <i>Deferred Tax: Recovery of Underlying Assets</i> <sup>2</sup>   |
| Amendments to IAS 16 and IAS 38           | <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> <sup>1</sup>                  |
| Amendments to IAS 16 and IAS 41           | <i>Agriculture: Bearer Plants</i> <sup>1</sup>  |

Amendments to IAS 27  
*Annual Improvements*

*Equity Method in Separate Financial Statements*<sup>1</sup>  
Amendments to a number of IFRSs<sup>1</sup>

*2012-2014 Cycle*

1

Effective for annual periods beginning on or after January 1, 2016

2

Effective for annual periods beginning on or after January 1, 2017

3

Effective for annual periods beginning on or after January 1, 2018

4

Effective for annual periods beginning on or after January 1, 2019

5

Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

6

In December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting

Further information about those changes that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets and is currently assessing the impact.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and



its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on January 1, 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i)  
the materiality requirements in IAS 1;
- (ii)  
that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii)  
that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv)  
that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from January 1, 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 7 require that an entity disclose, as necessary, the following changes in liabilities arising from financing activities: (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes. The IASB defines liabilities arising from financing activities as liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The amendments indicate that the new disclosure requirements also apply to changes in financial assets that meet this definition. The amendments state that one way to meet the new disclosure requirements is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The Group expects to adopt the amendment on January 1, 2017 and is currently assessing the impact upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The IASB issued IFRS 16 *Leases* on January 13, 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. Lessees recognize a liability to pay rentals with a corresponding asset, and recognize interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees' leases of low-value assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs. The Group expects to adopt IFRS 16 on January 1, 2019 and is currently assessing the impact of IFRS 16 upon adoption.

## **B.**

### **Liquidity and Capital Resources**

The Company's primary liquidity needs are to fund operating expenses, capital expenditures and acquisitions. To date, the Company has financed its working capital requirements and capital expenditures through internally generated cash and non-interest bearing loans from the Shareholder and its affiliates. Due to the temporary suspension of mineral extraction at Yangchong Mine, the Company's sole non-ferrous mine, it can be expected that the availability of internally generated funds to sustain operations will decrease until the resumption of mining or the infusion of other revenue-generating assets. In order to curtail costs and to the extent deemed necessary, we have laid-off personnel and

entered into related severance agreements with the affected employees. However, during the temporary suspension the Company will continue to incur operating expenses, albeit to a lesser extent than prior to the suspension, for various functions including maintenance of normal backup systems, mine maintenance, exploration activities, mine safety maintenance and inventory sales. Feishang Group, an affiliate of the Shareholder, has confirmed that the balance due to Feishang Group as at December 31, 2015 is not required to be settled in the ensuing 12 months.

See Item 5.F. for a summary of our contractual obligations for future cash payments at December 31, 2015.

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

As of December 31, 2015, the breakdown of cash (in thousands) held in different currencies are as follows:

| <b>Currency and Amount</b> | <b>CNY Equivalent</b> | <b>US\$ Equivalent</b> |
|----------------------------|-----------------------|------------------------|
| CNY19,186                  | 19,186                | 2,956                  |
| HK\$14,213                 | 11,905                | 1,834                  |
| US\$269                    | 1,749                 | 269                    |
| <b>Total</b>               | <b>32,840</b>         | <b>5,059</b>           |

The Company expects to maintain a balanced portfolio of foreign currencies in order to meet its cash obligations in different currencies for its expenses, capital expenditures and acquisitions. Management does not anticipate the payment of dividends or any similar profit distribution from the Company's PRC subsidiaries in the foreseeable future.

The following table sets forth the Company's cash flow for each of the three years ended December 31, 2013, 2014 and 2015 including cash flows from discontinued operations:

|   | <b>Years Ended December 31,</b> |                               |                               |
|---|---------------------------------|-------------------------------|-------------------------------|
|   | <b>2013</b><br><b>CNY'000</b>   | <b>2014</b><br><b>CNY'000</b> | <b>2015</b><br><b>CNY'000</b> |
| Cash and cash equivalent at beginning of year       | 210,944                         | 223,474                       | 48,263                        |
| Net cash used in operating activities               | (149,555)                       | (60,214)                      | (11,385)                      |
| Net cash used in investing activities               | (296,701)                       | (39,753)                      | (5,021)                       |
| Net cash provided by/(used in) financing activities | 462,197                         | (75,784)                      | (1,415)                       |
| Net (decrease) increase in cash                     | 15,941                          | (175,751)                     | (17,821)                      |
| Effect of exchange rate changes on cash             | (3,411)                         | 540                           | 2,398                         |
| Cash and cash equivalent at end of year             | *223,474                        | 48,263                        | 32,840                        |

\*

*Include cash and cash equivalent attributable to a discontinued operation amounting to CNY146,883 (US\$22,626).*

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

|                           | <b>Years Ended December 31,</b> |             |             |
|---------------------------|---------------------------------|-------------|-------------|
|                           | <b>2013</b>                     | <b>2014</b> | <b>2015</b> |
| Current ratio             | 1.17x                           | 1.65x       | 0.63x       |
| Working capital (CNY'000) | 429,067                         | 24,697      | (21,890)    |
| Gearing ratio             |                                 |             |             |

#### 2015 vs 2014

Net cash used by operating activities was CNY11.39 million (US\$1.75 million) in 2015 and CNY60.21 million (US\$9.27 million) in 2014. They were mainly caused by the operating losses for the corresponding years.

Net cash used in investing activities was CNY5.02 million (US\$0.77 million) in 2015, as compared with CNY39.75 million (US\$6.12 million) in 2014. The net cash used in investing activities was primarily comprised of the payment for the acquisition of property and equipment.

Net cash used in financing activities was CNY1.42 million (US\$0.22 million) in 2015, as compared with CNY75.78 million (US\$11.67 million) net cash provided in 2014. The net cash used in financing activities was primarily comprised of the net repayment to the related parties.

#### 2014 vs 2013

Net cash used by operating activities was CNY60.21 million (US\$9.27 million) in 2014 and CNY149.56 million (US\$23.04 million) in 2013. They were mainly caused by the operating losses for the corresponding years. The net cash used in 2013 included CNY150.10 million (US\$23.12 million) by the discontinued Coal segment spun off on January 22, 2014.

Net cash used in investing activities was CNY39.75 million (US\$6.12 million) in 2014, as compared with CNY296.70 million (US\$45.70 million) in 2013. The net cash used in investing activities was primarily comprised of the payment for the acquisition of property and equipment, including CNY293.39 million (US\$45.19 million) for the year of 2013 by the discontinued Coal segment spun off on January 22, 2014.

Net cash used in financing activities was CNY75.78 million (US\$11.67 million) in 2014, as compared with CNY462.20 million (US\$71.20 million) net cash provided in 2013. The net cash used in financing activities in 2014 was primarily comprised of the net cash paid during the distribution of CHNR's 100% equity interest of Feishang Anthracite amounting to CNY96.81 million (US\$14.91 million), partly offset by the net proceeds from interest-bearing loans amounting to CNY35.00 million (US\$5.39 million). The net cash provided in financing activities in 2013 was primarily comprised of the net cash provided by the discontinued Coal segment spun off on January 22, 2014.

After the Spin-Off in January 2014, the Company does not hold any interest-bearing loans and mining rights payables. In addition we do not expect material capital expenditures for the existing non-ferrous mines. As such, the absence of cash flows from discontinued operations is considered positive to the Company's future liquidity and capital resources.

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

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

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

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

.  
Our difficulty in accessing US capital markets to fund PRC operations; and

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

See Item 5.F. for a tabular payment schedule of capital commitments of the Company.

Except as disclosed above, there have been no significant changes in the Company's financial condition and liquidity during the years ended December 31, 2013, 2014 and 2015. The Company believes that its internally generated funds will be sufficient to satisfy its anticipated working capital needs for at least the next 12 months. However, we continue to evaluate expansion and growth prospects as they are presented to us from time to time and will continue to do so in the ordinary course. We anticipate that there will be significant capital expenditures ahead in the event of additional acquisitions.

**C.**

**Research and development, patents and licenses, etc.**

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

**D.**

**Trend information**

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

Management is cautiously optimistic about the PRC economy, although it is difficult to predict the demand for and the future price trend of iron and other ore, and recent trend information suggests a less than robust less optimism for the price of metals in the near term. These uncertainties may continue to have an impact on the current and future operating results and the financial condition of the Company.

**E.**

**Off balance sheet arrangements**

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

.

Obligations under certain guarantee contracts;

.

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

.

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





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

As of December 31, 2015, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## F.

### Tabular disclosure of contractual obligations

| Contractual Obligations as at December 31, 2015 | Payments due by period |                 |                      |                      | Later years<br>CNY 000 |
|---|------------------------|-----------------|----------------------|----------------------|------------------------|
|   | Total<br>CNY 000       | 2016<br>CNY 000 | 2017-2018<br>CNY 000 | 2019-2020<br>CNY 000 |                        |
| Operating lease obligations                     | 362                    | 362             |                      |                      |                        |
| Assets retirement obligations                   | 4,639                  |                 |                      |                      | 4,639                  |
| Total   | 5,001                  | 362             |                      |                      | 4,639                  |

## G.

### Safe Harbor

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

## ITEM 6.

### DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A.

#### Directors and Senior Management

#### Executive Officers and Directors

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

| <b>Name</b>              | <b>Age</b> | <b>Position</b>  |
|--------------------------|------------|--|
| Li Feilie                | 50         | Chairman of the Board of Directors and Chief Executive Officer |
| Tam Cheuk Ho             | 53         | Director   |
| Wong Wah On Edward       | 52         | Director   |
| Lam Kwan Sing            | 46         | Non-employee Director  |
| Ng Kin Sing              | 53         | Non-employee Director  |
| Yip Wing Hang            | 49         | Non-employee Director  |
| Yue Ming Wai Bonaventure | 48         | Chief Financial Officer and Corporate Secretary                |

Mr. Li Feilie was appointed as a director, Chief Executive Officer and Chairman of the Board in February 2006 following consummation of the acquisition of Feishang Mining. He has served as a director of Feishang Anthracite since January 2010, its Chairman since December 2013, and its Chief Executive Officer from December 2013 to March 2016. Mr. Li has served as a director of Feishang Mining since September 2004. He served as director of Wuhu Feishang from December 2001 to July 2011. Mr. Li has been the chairman of Feishang Enterprise, WFID and Wuhu Port Co., Ltd., companies beneficially owned by him, since June 2000, from December 2001 to July 2011 and since October 2002, respectively. He also served as director of Pingxiang Iron & Steel Co., Limited from July 2003 to December 2012. From March 2002 to April 2004, Mr. Li served as the chairman of Fujian Dongbai (Group) Co. Ltd. Mr. Li graduated from Peking University with a Bachelor's degree and a Master's degree in Economics.

Mr. Tam Cheuk Ho was appointed as a director in April 2015. Mr. Tam has served as the director of Feishang Anthracite since February 2013. He served as a director of the Company from December 1993 to December 1994 and from December 1997 to January 2014. He was also the chief financial officer and executive vice president of the Company, from December 2004 to January 2008, and from January 2008 to January 2014, respectively. He served as the chief financial officer and a director of China Resources from December 1994 to December 2004. From July 1984 through December 1991, he worked at Ernst & Young, Hong Kong where his most recent position was audit manager, and from February 1992 through September 1992, as financial controller of China Nuclear Industry 23 International Corporation Limited, a listed company in Hong Kong, where he was responsible for accounting and financial functions. From October 1992 through December 1994, Mr. Tam was finance director of Hong Wah (Holdings) Limited. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a certified public accountant (practising) in Hong Kong. He holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong.

Mr. Wong Wah On Edward was appointed as a director in April 2015. Mr. Wong has served as the director of Feishang Anthracite since February 2013. He served as a director of the Company from January 1999 to January 2014, as its financial controller from December 2004 to January 2008, as its secretary from February 1999 to January 2014, and as its chief financial officer from January 2008 to January 2014. He served as secretary, financial controller and a director of China Resources from December 1997 to December 2004. Mr. Wong is also an independent non-executive director of Quali-Smart Holdings Limited, a company listed in Hong Kong since September 2015. From July 1988 through October 1992, he worked at Ernst & Young, Hong Kong where his most recent position was audit supervisor. From October 1992 through December 1994, Mr. Wong was the deputy finance director of Hong Wah (Holdings) Limited. He received a professional diploma in Company Secretaryship and Administration from the Hong Kong Polytechnic University. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of the Hong Kong Institute of Chartered Secretaries. He is also a certified public accountant (practising) in Hong Kong.

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

Mr. Ng Kin Sing has been a non-employee director and a member of CHNR's audit committee and nominating and governance committee since December 2004, and a member of its compensation committee since November 2007. He served as a director and a member of the audit committee of China Resources from February 1999 until completion of the Redomicile Merger. From March 2012 to present, Mr. Ng has been the director of Sky Innovation Limited, a private investment company. From April 1998 to February 2012, Mr. Ng was the managing director of Action Plan

Limited, a private securities investment company. From November 1995 until March 1998, Mr. Ng was sales and dealing director for NatWest Markets (Asia) Limited; and from May 1985 until October 1996, he was the dealing director of BZW Asia Limited, an international securities brokerage house. Mr. Ng holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong.

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

Mr. Yue Ming Wai Bonaventure was appointed as the Chief Financial Officer and Corporate Secretary in April 2015. Mr. Yue has been the chief financial officer and the company secretary of Feishang Anthracite since January 2014. He served as the financial controller of the Company from April 2008 to January 2014. From July 1990 to December 1992, Mr. Yue worked in the audit department of Ernst & Young, Hong Kong. From December 1992 to August 1993, he worked as an accountant in Sun Hung Kai & Co. Limited, a company listed in Hong Kong. From January 1995 to August 1996, he was the assistant financial controller and the company secretary of Nam Hing Holdings Limited, a company listed in Hong Kong. From August 1996 to April 1998, Mr. Yue served as an accounting manager of Leading Spirit (Holdings) Company Limited, a company then listed in Hong Kong. From November 1998 through April 2003, Mr. Yue was an associate director of a private registered investment advisory company. From April 2003 through October 2007, he served as the chief financial officer and the company secretary of a public manufacturing company. He has also served as a director of a private company engaging in the provision of corporate services since March 2003. From September 2007 to April 2008, Mr. Yue was the financial controller of Enerchina Holdings Limited, a listed company in Hong Kong. He has also been appointed as the company secretary of Feishang Non-metal Materials Technology Limited, a related company listed on the Growth Enterprise Market of Hong Kong since July 2015, and an independent non-executive director of A.Plus Group Holdings Limited, a company listed on the Growth Enterprise Market of Hong Kong since March 2016. Mr. Yue graduated from Hong Kong Baptist University with a Bachelor of Business Administration degree and was awarded a Master of Science degree in accounting and finance from the University of Manchester. He is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Certified Public Accountants, and the Institute of Chartered Accountants in England & Wales. Mr. Yue is also a member of Chartered Accountants Australia & New Zealand, and a member accredited in business valuation of the American Institute of Certified Public Accountants.

### Key Employees

The following table identifies the senior management of the metal segment, and his age and position with the Company:

| Name        | Age | Position                                      |
|-------------|-----|---|
| Xu Chengyin | 54  | Director and General Manager of Wuhu Feishang |

Mr. Xu obtained graduate certificates in heavy metal smelting from Changsha Metallurgical Industry School in July 1981, industrial enterprise management from Wuhu Branch of the Economic Management Correspondence United Institute in December 1988 and economic management from Correspondence Institute of the Party School of the Central Committee of the Communist Party of China in December 1999. Mr. Xu was awarded the qualifications of smelting engineer by Wuhu City Title Reform Leading Committee in September 1993, senior economist by Wuhu City Personnel Bureau in January 2009 and senior professional manager by Research Center for Professional Managers in March 2010. Prior to joining Wuhu Feishang, Mr. Xu was the Deputy General Manager of Anhui Xinke New Materials Co., Ltd., which is a China A share listed company. Mr. Xu has more than twenty years experience in the metal smelting industry. Mr. Xu Chengyin has been the Director and General Manager of Wuhu Feishang since November 2011. He has been the chairman, executive director and chief executive officer of Feishang Non-metal

Materials Technology Limited, a related company listed on the Growth Enterprise Market of Hong Kong since July 2015.

### **Family Relationships**

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

**B.****Compensation****Executive Compensation**

The following table sets forth the amount of compensation that was paid, earned and/or accrued and awards made under the Company's equity compensation plan during the fiscal year ended December 31, 2015, to each of the individuals identified in Item 6(A) above.

| Name                          | Compensation<br>(US\$) | Number of<br>options         | Exercise price<br>(US\$/ share) | Expiration<br>date |
|-------------------------------|------------------------|------------------------------|---------------------------------|--------------------|
|                               |                        | to purchase<br>Common Shares |                                 |                    |
| <u>Directors and Officers</u> |                        |                              |                                 |                    |
| Li Feilie                     |                        | 1                            |                                 |                    |
| Tam Cheuk Ho                  |                        | 1                            |                                 |                    |
| Wong Wah On Edward            |                        | 1                            |                                 |                    |
| Yue Ming Wai Bonaventure      |                        | 1                            |                                 |                    |
| Lam Kwan Sing                 | 7,692                  |                              |                                 |                    |
| Ng Kin Sing                   | 7,692                  |                              |                                 |                    |
| Yip Wing Hang                 | 7,692                  |                              |                                 |                    |
| <u>Senior Management</u>      |                        |                              |                                 |                    |
| Xu Chengyin*                  | 16,664                 |                              |                                 |                    |

\* On January 8, 2016, Mr. Xu Chengyin resigned as general manager of Wuhu Feishang and Mr. Li Suming, the director and deputy general manager of Wuhu Feishang, was appointed as the general manager of Wuhu Feishang.

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

On October 1, 2008, we entered into a Service Agreement with Li Feilie, our Chairman and Chief Executive Officer with an initial term of three years and shall continue thereafter unless and until terminated by a party on not less than three months' notice, with an annual fee of US\$1.00, plus such equity awards as may from time to time be determined by our Compensation Committee.

On April 2, 2015, we entered into Service Agreements with each of Yue Ming Wai Bonaventure, our Chief Financial Officer, and Tam Cheuk Ho and Wong Wah On Edward, our directors, with an initial term of one year and, thereafter, shall continue unless and until terminated by a party on not less than one month's notice. Each of the agreements also provides for the payment to each individual of an annual fee of US\$1.00, plus such equity awards as may from time to

time be determined by our Compensation Committee.

There are no current contracts, agreements or understandings to increase the annual cash compensation payable to any of our executive directors. For each of the three years ended December 31, 2015, no increases in cash compensation were determined by the Compensation Committee under the Service Agreements, and we paid or accrued \$nil, \$nil and \$nil, respectively, for cash compensation to our executive officers for their services as such.

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



*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table sets forth information relating to our outstanding stock option plans as of December 31, 2015:

| <b>Plan Category</b>                                       | <b>Number of Securities to be</b>                                       | <b>Weighted-average exercise price of outstanding options, warrant and rights</b> | <b>Number of securities remaining available for future</b>                                     |
|--|---|---|--|
|  | <b>issued upon exercise of outstanding options, warrants and rights</b> |   | <b>issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
|  | <b>(a)</b>  |   |  |
| Equity compensation plans approved by security holders     |   |   |  |
| 2003 Equity Compensation Plan                              |   | N/A   |  |
| 2014 Equity Compensation Plan                              |   | N/A   | 4,982,183  |
| Equity compensation plans not approved by security holders |   | N/A   |  |
| Total  |   | N/A   | 4,982,183  |

**Stock Option Plans**

The 2014 Equity Compensation Plan (the 2014 Plan ) was authorized by our Board of Directors on June 20, 2014 and was ratified and approved by members on July 21, 2014.

The purposes of the 2014 Plan are to:

.

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

.

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

.

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

The 2014 Plan is administered by the Board of Directors or a committee designated by the Board (the Plan Committee ). The 2014 Plan allows the Plan Committee to grant various incentive equity awards not limited to stock options. The Company has reserved a number of common shares equal to 20% of the issued and outstanding common

shares of the Company, from time-to-time, for issuance pursuant to options granted ( Plan Options ) or for restricted stock awarded ( Stock Grants ) under the 2014 Plan. Stock Appreciation Rights may be granted as a means of allowing participants to pay the exercise price of Plan Options. Stock Grants may be made upon such terms and conditions as the Committee determines. Stock Grants may include deferred stock awards under which receipt of Stock Grants is deferred, with vesting to occur upon such terms and conditions as the Committee determines.

The Committee will determine, from time to time, those of our officers, directors, employees and consultants to whom Stock Grants and Plan Options will be granted, the terms and provisions of the respective Stock Grants and Plan Options, the dates such Plan Options will become exercisable, the number of shares subject to each Plan Option, the purchase price of such shares and the form of payment of such purchase price. Plan Options and Stock Grants will be awarded based upon the fair market value of our common shares at the time of the award. All questions relating to the administration of the 2014 Plan, and the interpretation of the provisions thereof are to be resolved at the sole discretion of the Committee.

4,982,183 common shares have been reserved for issuance under the 2014 Plan. No awards have yet been made under the 2014 Plan. The 2014 Plan terminates on June 19, 2024.

The 2003 Equity Compensation Plan (the 2003 Plan ) terminated on December 13, 2013. There are no outstanding (unexercised) options under the 2003 Plan. During the years ended December 31, 2011, 2012 and 2013, the Committee did not grant any options to employees and officers to purchase the Company's common shares under the 2003 Plan.

C.

#### **Board Practices**

As provided by our Amended and Restated each director is to hold office for a three-year term expiring immediately following the annual meeting of shareholders held three years following the annual meeting at which he or she was elected.

In April 2015, Ms. Ma Sin Ling and Ms. Woo Ming Yee resigned as Class III directors and Messrs. Tam Cheuk Ho and Wong Wah On Edward were appointed as Class III directors to fill the vacancies created by the resignations of Ms. Ma and Ms. Woo. The resignations of Ms. Ma and Ms. Woo did not result from any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

At the annual meeting of shareholders in 2015, Messrs. Lam Kwan Sing and Yip Wing Hang were elected to serve as Class II directors until immediately following the annual meeting to be held in 2018 and until their successors have been duly elected and qualified. Messrs. Li Feilie and Ng Kin Sing serve as Class I directors until immediately following the annual meeting to be held in 2017 and until their successors have been duly elected and qualified. Messrs. Tam Cheuk Ho and Wong Wah On Edward serve as Class III directors until immediately following the annual meeting to be held in 2016 and until their successors have been duly elected and qualified.

Messrs. Lam Kwan Sing, Yip Wing Hang and Ng Kin Sing is each an independent director as such term is used in applicable rules and regulations of the Securities and Exchange Commission and in NASDAQ Marketplace Rule 5605(a)(2). We are not required to maintain a Board of Directors consisting of a majority of independent directors based upon an exemption from NASDAQ requirements applicable to foreign private issuers whose home jurisdiction does not require the board of directors to consist of a majority of independent directors.

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

Commencing July 1, 2006, we pay our independent directors a monthly directors' fee equal to HK\$5,000 (US\$641). We do not otherwise pay fees to directors for their attendance at meetings of the Board of Directors or of committees; however, we may adopt a policy of making such payments in the future. We will reimburse out-of-pocket expenses incurred by directors in attending board and committee meetings. During the fiscal year ended December 31, 2015, no long-term incentive plans or pension plans were in effect with respect to any of the Company's executive officers or directors.

#### **Audit Committee**

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

.  
appointing and supervising our independent registered public accounting firm;

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

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

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

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

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

#### **Nominating and Corporate Governance Committee; Shareholder Nominees for Director**

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

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

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

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

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

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

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

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

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

### **Compensation Committee**

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

The Compensation Committee is responsible for:

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

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

·

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

·

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

·

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

·

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

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

### **NASDAQ Requirements**

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

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

.

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

.

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

.

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

.

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

.

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

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

#### **D.**

#### **Employees**

As of December 31, 2015 (a) mining operations employed 117 persons on a full time basis, and (b) the corporate segment employed seven persons on a full time basis. The Company believes that its relations with employees are generally good.

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The following table sets out the number of employees (excluding the discontinued coal mine segment) at the end of each of the past two financial years, including their principal category of activity and geographic location.

|           |   | <b>Years Ended December 31,</b> |             |
|-----------|---|---------------------------------|-------------|
|           |   | <b>2014</b>                     | <b>2015</b> |
| Hong Kong | Accounting, administration and management | 3                               | 3           |
|           |   | 3                               | 3           |
| The PRC   | Accounting, administration and management | 38                              | 18          |
|           | Sales and quality inspection              | 5                               | 5           |
|           | Purchasing and supplies                   | 12                              | 8           |
|           | Production                                | 217                             | 76          |
|           | Cashier                                   | 1                               | 1           |
|           | Others                                    | 27                              | 13          |
|           |   | 300                             | 121         |
| Total     |   | 303                             | 124         |



**E.****Share Ownership**

The following table sets forth, as of April 22, 2016, the share ownership of the Company's common shares by each of our directors, executive officers and key employees.

As of April 22, 2016, there were 24,910,916 common shares issued and outstanding. Unless otherwise indicated, each person has sole investment and voting power with respect to all shares shown as beneficially owned. The term "beneficial owner" of securities refers to any person who, even if not the record owner of the securities, has or shares the underlying benefits of ownership. These benefits include the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person also is considered to be the "beneficial owner" of securities that the person has the right to acquire within 60 days by option or other agreement. Beneficial owners include persons who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a "controlling interest", which means the direct or indirect power to direct the management and policies of the entity. The Company's directors and executive officers do not have different voting rights than other shareholders of the Company.

| <b>Name of Beneficial Owner</b>               | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> |
|---|--|-------------------------|
| Li Feilie                                     | 14,780,593(1)                                    | 59.33%                  |
| Tam Cheuk Ho                                  | 281,926  | 1.13%                   |
| Wong Wah On Edward                            | 400,000  | 1.61%                   |
| Lam Kwan Sing                                 |  |                         |
| Ng Kin Sing                                   |  |                         |
| Yip Wing Hang                                 |  |                         |
| Xu Chengyin                                   |  |                         |
| Yue Ming Wai Bonaventure                      |  |                         |
| Officers and directors as a group (8 persons) | 15,462,519                                       | 62.07%                  |

(1)

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

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

**Major Shareholders**

The following table sets forth, as of April 22, 2016, to the knowledge of management, the share ownership of each person who is the beneficial owner of more than 5% of our outstanding common shares.

As of April 22, 2016, there were 24,910,916 common shares issued and outstanding. Unless otherwise indicated, each person has sole investment and voting power with respect to all shares shown as beneficially owned. The term beneficial owner of securities refers to any person who, even if not the record owner of the securities, has or shares the underlying benefits of ownership. These benefits include the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person also is considered to be the beneficial owner of securities that the person has the right to acquire within 60 days by option or other agreement. Beneficial owners include persons who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a controlling interest, which means the direct or indirect power to direct the management and policies of the entity. The Company's major shareholders do not have different voting rights than other shareholders of the Company.

| <b>Name of Beneficial Owner</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> |
|---------------------------------|--|-------------------------|
| Li Feilie                       | 14,780,593(1)                                    | 59.33%                  |

(1)

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

### Significant Changes in Ownership

The Company was advised that in December 2014, Rosetta Stone Capital Limited, whose 2,250,000 shares then represented approximately 9.03% of the Company's outstanding shares, disposed of its shares to two unrelated third parties. There have been no other significant changes in the percentage ownership held by any major shareholder during the past three years.

### Geographic Breakdown of Shareholders

Based upon a review of our shareholder records as of December 31, 2015, on that date our common shares were held of record by approximately 173 persons, 149 of whom, who held approximately 28.9% of our outstanding common shares on that date, were located in the United States (host country). Shares registered in the name(s) of intermediaries were assumed to be held by residents of the same country in which the intermediary was located.

### Control

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

### B.

### Related Party Transactions

#### Commercial Transactions with Related Companies

Commercial transactions with related companies are summarized as follows:

|   | <b>Years Ended December 31,</b> |                |                |
|---|---------------------------------|----------------|----------------|
|   | <b>2013</b>                     | <b>2014</b>    | <b>2015</b>    |
|   | <b>CNY 000</b>                  | <b>CNY 000</b> | <b>CNY 000</b> |
| CHNR's payment of its share of office rental, rates and others to Anka Consultants Limited (Anka) (1) | 1,502                           | 920            | 918            |

(1)

On July 1, 2008, the Company and Anka, a private Hong Kong company that is owned by certain directors of the Company, entered into a license agreement in respect of the Company's head office in Hong Kong. The total area of the office was approximately 368 square meters in which the Company shared 238 square meters. The license agreement also provided that the Company shared certain costs and expenses in connection with its use of the office, in addition to accounting and secretarial services and day-to-day office administration provided by Anka. On September 1, 2013, the Company and Feishang Anthracite entered into new license agreements with Anka, respectively. Pursuant to the new agreements, the Company and Feishang Anthracite share the office premises consisting of 238 square metres on an equal basis. The agreements also provide that the Company and Feishang Anthracite shall share certain costs and expenses in connection with their use of the office. In addition, Anka

continues to provide accounting and secretarial services and day-to-day office administration to the Company. The initial term of the agreements was from September 1, 2013 to June 30, 2014 and shall be effective for all subsequent extension of leases. The lease was extended for 2 years from July 1, 2014 to June 30, 2016.

**Balances with Related Parties**

|                                    | <b>As of December 31,</b> |                |                |
|------------------------------------|---------------------------|----------------|----------------|
|                                    | <b>2013</b>               | <b>2014</b>    | <b>2015</b>    |
|                                    | <b>CNY 000</b>            | <b>CNY 000</b> | <b>CNY 000</b> |
| <u>Payables to related parties</u> |                           |                |                |
| Feishang Enterprise (1)            | 6,453                     |                | 3,932          |
| Feishang Group (2)                 | 197,062                   | 15,374         | 11,752         |

(1)

Payable to Feishang Enterprise by Feishang Management for the net amount of a loan from Feishang Enterprise. The balance is unsecured, interest-free. The balance is not repayable within one year as of December 31, 2014. The balance is repayable when funds are available as of December 31, 2015.

(2)

Payable to Feishang Group for the acquisition of Feishang Anthracite. The balance is unsecured, interest-free and not repayable with in one year as of December 31, 2014. The balance is repayable when funds are available as of December 31, 2015.

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

C.

### **Interests of Experts and Counsel**

No disclosure is required in response to this Item.

## **ITEM 8.**

### **FINANCIAL INFORMATION**

A.

#### **Consolidated Statements and Other Financial Information**

The Company's Consolidated Financial Statements for the fiscal years ended December 31, 2013, 2014 and 2015 are included herewith as Appendix A and are incorporated herein by reference.

We have no direct business operations, other than through the ownership of our subsidiaries. Prior to December 31, 2013, we had not paid any dividends on our common shares. On December 31, 2013, the Board of Directors approved a conditional special interim dividend to the shareholders of CHNR satisfied by way of a distribution in specie of the entire issued share capital of Feishang Anthracite to all shareholders of CHNR in proportion to their respective shareholdings in CHNR on the Distribution Record Date. Pursuant to the Distribution, each shareholder of CHNR became entitled to five shares of Feishang Anthracite for every share of CHNR held on the Distribution Record Date. After the completion of the Distribution, CHNR no longer holds any shares in Feishang Anthracite.

See Item 4.A for the details of the Distribution and Spin-Off.

Should we, as a holding company, decide in the future to pay any additional dividends, they will be paid at the discretion of the Company's Board of Directors and will be dependent upon distributions, if any, made by its subsidiaries, and on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. In addition, our operating subsidiaries are subject to restrictions on their ability to make distributions to us, including as a result of restrictions imposed under PRC law.

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

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

B.

#### **Significant Changes**

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

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

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

| <b>Period</b>      | <b>High</b> | <b>Low</b> |
|--------------------|-------------|------------|
| Fiscal Year ended: |             |            |
| December 31, 2015  | \$ 2.77     | \$ 1.26    |
| December 31, 2014  | \$ 10.80    | \$ 1.89    |
| December 31, 2013  | \$ 6.18     | \$ 3.15    |
| December 31, 2012  | \$ 9.06     | \$ 3.61    |
| December 31, 2011  | \$ 17.05    | \$ 6.80    |

The following table sets forth the high and low last trade prices of our common shares as reported by The NASDAQ Stock Market for each fiscal quarter of 2014 and 2015. The prices are inter-dealer prices, without retail markup, markdown or commission.

| <b>Period</b>                    |    | <b>High</b> |    | <b>Low</b> |
|----------------------------------|----|-------------|----|------------|
| 2015 Fiscal Year, quarter ended: |    |             |    |            |
| March 31, 2015                   | \$ | 2.77        | \$ | 1.55       |
| June 30, 2015                    | \$ | 2.61        | \$ | 1.60       |
| September 30, 2015               | \$ | 2.26        | \$ | 1.26       |
| December 31, 2015                | \$ | 2.34        | \$ | 1.27       |
| 2014 Fiscal Year, quarter ended: |    |             |    |            |
| March 31, 2014                   | \$ | 10.80       | \$ | 4.20       |
| June 30, 2014                    | \$ | 4.30        | \$ | 3.21       |
| September 30, 2014               | \$ | 4.55        | \$ | 3.24       |
| December 31, 2014                | \$ | 3.65        | \$ | 1.89       |

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

| <b>Period</b>     |    | <b>High</b> |    | <b>Low</b> |
|-------------------|----|-------------|----|------------|
| Month Ended:      |    |             |    |            |
| March 31, 2016    | \$ | 2.58        | \$ | 1.03       |
| February 29, 2016 | \$ | 0.99        | \$ | 0.75       |
| January 31, 2016  | \$ | 1.41        | \$ | 0.88       |
| December 31, 2015 | \$ | 1.85        | \$ | 1.37       |
| November 30, 2015 | \$ | 2.13        | \$ | 1.56       |
| October 31, 2015  | \$ | 2.34        | \$ | 1.27       |

## **B.**

### **Plan of Distribution**

No disclosure is required in response to this Item.

## **C.**

### **Markets**

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

**D.**

**Selling Shareholders**

No disclosure is required in response to this Item.

**E.**

**Dilution**

No disclosure is required in response to this Item.

**F.**

**Expenses of the Issue**

No disclosure is required in response to this Item.

**ITEM 10.**

**ADDITIONAL INFORMATION**

**A.**

**Share Capital**

No disclosure is required in response to this Item.



**B.**

**Amended and Restated Memorandum and Articles of Association**

**Charter**

Our charter documents consist of our Amended and Restated Memorandum of Association ( *Memorandum of Association* ) and our Amended and Restated Articles of Association ( *Articles of Association* ).

The Memorandum of Association loosely resembles the Articles or Certificate of Incorporation of a United States corporation, and the Articles of Association loosely resembles the bylaws of a United States corporation. A brief description of our Memorandum of Association and Articles of Association follows, including a summary of material differences between the corporate laws of the United States and those of the British Virgin Islands. This description and summary does not purport to be complete and does not address all differences between United States and British Virgin Islands corporate laws. Copies of our Memorandum of Association and Articles of Association have been filed as exhibits to this Annual Report and readers are urged to review these exhibits in their entirety for a complete understanding of the provisions of our charter documents.

**Memorandum of Association**

**Corporate Powers**

We have been registered in the British Virgin Islands since December 14, 1993, with company number 102930. Clause 46 of our Memorandum of Association states that the objects for which we are established are unrestricted and we shall have full power and authority to carry out any object which is not prohibited by any laws in force in the British Virgin Islands.

**Authorized Shares**

We are authorized to issue a maximum of 210,000,000 shares of no par value, of which, 200 million shall be common shares and 10 million shall be preferred shares. The directors of the Company or our shareholders may increase or decrease the maximum number of authorized shares by amending the Memorandum of Association as provided by law.

Each common share is entitled to one vote on each matter submitted to a vote of shareholders. Common shares may be redeemed by the Company for fair value. Common shares shall be entitled to receive such dividends and distributions as may be authorized by the directors. Subject to the rights of holders of other classes of shares, the directors may declare and pay dividends on the common shares. Holders of common shares shall be entitled to share in the assets of the Company available for distribution upon liquidation. Preferred shares shall carry such designations, powers, preferences and rights, qualifications, limitations and restrictions as may be determined by the directors at the time of issuance.

In accordance with our Memorandum of Association, our Board of Directors has designated a series of preferred shares, consisting of 320,000 shares and designated Series B preferred shares. Series B preferred shares are entitled to one vote for each share, shall be entitled to vote on each matter that is submitted for a vote of common shareholders and shall be aggregated with outstanding common shares for all voting purposes. Series B preferred shares have no preemptive or other subscription rights and are not subject to future calls or assessments. There are no redemption or

sinking fund provisions applicable to the Series B preferred shares and holders thereof have no rights whatsoever to dividends or to distributions upon our liquidation. No Series B preferred shares are outstanding.

**Amendments to Memorandum and Articles of Association**

Subject to the laws of the British Virgin Islands and certain limited exceptions contained in the Memorandum of Association, the Memorandum of Association and the Articles of Association may each be amended by a majority vote of members or by the directors.

**Articles of Association**

**Issuance of Shares**

The unissued shares of the Company shall be issued at the discretion of the directors, who may determine whether to issue shares, grant options over or otherwise dispose of them, at such times and for such consideration (which may not be less than par value (if any) of the shares) as the directors determine. Consideration may take any form acceptable to the directors, including money, promissory note, service rendered or services to be rendered; provided that in the case of consideration other than money, the directors must adopt a resolution stating (a) the amount to be credited for issuance of the shares, (b) a reasonable determination of the present cash value of the non-monetary consideration and (c) that, in their opinion, the present cash value of the non-monetary consideration is not less the amount to be credited for the share issuance.

### **Redemption of Shares**

The Company may purchase, redeem or acquire its own shares for such consideration as may be determined by the directors, and such shares may, at the direction of the directors, be cancelled or held as treasury shares; provided, however, that the Company may not purchase, redeem or acquire its shares unless, immediately following the purchase, redemption or acquisition (a) the value of the Company's assets exceeds its liabilities and (b) the Company is able to pay its debts as they become due.

### **Meetings of Shareholders**

The directors may convene meetings of our shareholders at such times and in such manner and places as the directors consider necessary or desirable. The directors shall convene such a meeting upon the written request of shareholders holding 30 percent or more of our outstanding voting shares. At least seven days' notice of the meeting shall be given to the shareholders whose names appear on the share register. A majority of our outstanding shares entitled to vote must be present at a meeting of shareholders, in person or by proxy, in order to constitute a quorum and the affirmative vote of a majority of those present and entitled to vote shall be required in order to approve action by shareholders. However, in the event a meeting of shareholders is adjourned due to the absence of a quorum, the minimum number of shares that must be present in order to constitute a quorum shall be reduced to one-third. Our Articles of Association provides that any action that may be taken at a meeting of shareholders may be taken without a meeting if the action is approved by a written consent of shareholders.

### **Directors**

Our Articles of Association provides that our Board of Directors shall consist of not less than three nor more than 25 directors; and directors, solely for purposes of determining the term for which they will serve, are classified as Class I, Class II and Class III directors, with approximately one-third of the total number of directors being allocated to each Class. Each director is to hold office for a three-year term expiring immediately following the annual meeting of shareholders held three years following the annual meeting at which he or she was elected. Directors may be removed by the shareholders, with or without cause, and by the directors, only with cause.

With the prior or subsequent approval by a resolution of shareholders, the directors may, by a resolution of directors, fix the emoluments of directors with respect to services to be rendered in any capacity to us. At the annual meeting of shareholders held in 2008, the shareholders adopted resolutions providing that (a) all emoluments to directors previously fixed by the Board of Directors are approved and ratified and (b) the Board of Directors is empowered and authorized to fix all future emoluments to directors, for their services in all capacities to the Company, without further approval or ratification by shareholders.

The directors may, by a resolution of directors, exercise all the powers of the Company to borrow money. There is no age limit requirement for retirement or non-retirement of directors. A director shall not require a share qualification. Directors may be natural persons who have attained the age of 18 years and are not undischarged bankrupts; or companies, in which event the company may designate a person as its representative as director.

A director may, from time to time, appoint (and revoke the appointment of) another director or another person who is not a director, but who is not disqualified from serving as a director, to be his or her alternate to exercise his or her powers and discharge his or her responsibilities. In addition, in the event of resignation, a director may appoint his or her successor.

Directors are not disqualified from entering into contracts with the Company, and no such contract shall be void or require the interested director to account for any profit under any such contract, provided that the fact of the director's interest in the transaction is disclosed to the board. A director who is interested in a contract with the Company may, nevertheless, attend meetings of the board at which the interested transaction is discussed and/or approved, be counted towards a quorum at any such meeting and vote in favor of such transaction.

At least one-half the number of directors must be present for a duly constituted meeting. Action of directors shall require the affirmative vote of a majority of the directors present in person or by alternate and entitled to vote on the resolution. Directors may act by written consent in lieu of meeting provided that such consent is received from all of the directors. Subject to certain limitations set forth in the Articles of Association, directors may appoint committees and agents. Directors do not have the authority to appoint new auditors such appointment must be made by the shareholders.

### **Indemnification**

The Company shall indemnify every officer and director of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses incurred as a result of any act or failure to act in carrying out their functions, except those incurred by reason of their own fraud or wilful default. No indemnified person shall be liable to the Company for any loss or damage except due to the fraud or wilful default of the indemnified person. Fraud or wilful default may only be found to exist by a court of competent jurisdiction. The Company must advance reasonable attorneys fees and other expenses to an indemnified person provided that the indemnified person executes an agreement to reimburse the Company if a court of competent jurisdiction determines that indemnification was not available under the circumstances.

### **Dividends and Distribution**

The directors may authorize the payment of dividends or other distributions to shareholders, if, the directors are satisfied, on a reasonable grounds that, immediately following the dividend or other distribution (a) the value of the Company's assets exceeds its liabilities and (b) the Company is able to pay its debts as they become due. Distributions, including dividends, may be declared and paid in cash, or in specie, in shares or other assets.

### **Restrictions on Rights to Own Securities**

There are no limitations on the rights to own our securities.

### **Change in Control Provisions**

There are no provisions of our Memorandum of Association or Articles of Association that would have an effect of delaying, deferring or preventing a change in our control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us.

### **Disclosure of Share Ownership**

There are no provisions of our Memorandum of Association or Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

### **Changes in Capital**

Requirements to effect changes in capital are not more stringent than is required by law.

### **Arbitration**

Our Articles of Association provides that any differences between us and our shareholders or their legal representatives relating to the intent, construction, incidences or consequences of our Articles of Association or the British Virgin Islands Business Companies Act, including any breach or alleged breach of our Articles of Association or the Business Companies Act, or relating to our affairs shall be resolved by arbitration before two arbitrators (unless the parties agree to arbitrate before one arbitrator), who shall jointly appoint an umpire.

### **Discussion of Law**

Under the laws of most jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith and actions by controlling shareholders which are obviously unreasonable may be declared null and void. British Virgin Islands law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders under most jurisdictions in the United States.

While British Virgin Islands law does permit a shareholder of a British Virgin Islands company to sue its directors derivatively, that is, in the name of, and for the benefit of, our Company and to sue a company and its directors for his benefit and for the benefit of others similarly situated, the circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect of any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States.

Our directors have the power to take certain actions without shareholder approval, including an amendment of our Memorandum of Association or Articles of Association (unless such amendment varies the rights attached to shares) or an increase or decrease of the maximum number of shares that we are authorized to issue, which would require shareholder approval under the laws of most jurisdictions in the United States. In addition, the directors of a British Virgin Islands company, subject in certain cases to court approval but without shareholder approval, may, among other things, implement a reorganization, certain mergers or consolidations with a subsidiary, the sale, transfer, exchange or disposition of any assets, property, part of the business, or securities of the company, or any combination (provided the assets do not represent more than 50% of the total assets of the company and the sale is not outside of the usual or ordinary course of the company's business), if they determine it is in the best interests of the company. Our ability to amend our Memorandum of Association and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in our control without any further action by the shareholders, including a tender offer to purchase our common shares at a premium over then current market prices.

The Business Companies Act of the British Virgin Islands permits the creation in our Memorandum and Articles of Association of staggered terms of directors, cumulative voting, shareholder approval of corporate matters by written consent, and the issuance of preferred shares. Currently, our Memorandum and Articles of Association provide for (a) shareholder approval of corporate matters by majority written consent, (b) staggered terms of directors and (c) the issuance of preferred shares.

As in most United States jurisdictions, the Board of Directors of a British Virgin Islands company is charged with the management of the affairs of the company. In most jurisdictions in the United States, directors owe a fiduciary duty to the corporation and its shareholders, including a duty of care, under which directors must properly apprise themselves of all reasonably available information, and a duty of loyalty, under which they must protect the interests of the corporation and refrain from conduct that injures the corporation or its shareholders or that deprives the corporation or its shareholders of any profit or advantage. Many US jurisdictions have enacted various statutory provisions which permit the monetary liability of directors to be eliminated or limited.

Under British Virgin Islands law, liability of a corporate director to the corporation is primarily limited to cases of willful malfeasance in the performance of his duties or to cases where the director has not acted honestly and in good faith and with a view to the best interests of the company. However, under our Memorandum of Association, we are authorized to indemnify any director or officer who is made or threatened to be made a party to a legal or administrative proceeding by virtue of being one of our directors or officers, provided such person acted honestly and in good faith and with a view to our best interests and, in the case of a criminal proceeding, such person had no reasonable cause to believe that his conduct was unlawful. Our Memorandum of Association also enable us to indemnify any director or officer who was successful in such a proceeding against expenses and judgments, fines and amounts paid in settlement and reasonably incurred in connection with the proceeding.

Unlike most corporate laws in the United States, directors of a British Virgin Islands company may be companies. Moreover, any director may appoint an alternate to attend meetings and vote in the place and stead of the director appointing the alternate. It is unclear of the effect of such an appointment on the fiduciary obligations of the director making the appointment.

The foregoing discussion of British Virgin Islands law does not purport to present a complete description of the differences between British Virgin Islands law and the corporate laws of the several United States.

C.

**Material Contracts**

Other than contracts entered into the ordinary course of business, during the two preceding fiscal years the Company has entered into the following material contracts (which are included as exhibits to this Annual Report):

.

Sales and Purchase Master Contract dated January 1, 2014 by and between Anhui Tianchen Renewable Resource Co., Ltd. and Wuhu Feishang.

.

Sales and Purchase Master Contract dated January 1, 2015 by and between Fanchang County Jinfeng Mining Ltd. and Wuhu Feishang.



**D.**

**Exchange Controls**

There are no material British Virgin Islands laws, decrees, regulations or other legislation that impose foreign exchange controls on us or that affect our payment of dividends, interest or other payments to non-resident holders of our shares. British Virgin Islands law and our Memorandum of Association and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold or vote our common shares. However, we operate through subsidiaries located in the PRC and the payment of dividends by PRC companies is subject to numerous restrictions imposed under PRC law, including restrictions on the conversion of local currency into United States dollars and other currencies and the expatriation of local currency out of the PRC.

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996) as amended. Conversion of Renminbi is strictly regulated by the PRC Government. Under PRC foreign exchange rules and regulations, payment of routine transactions under current accounts, including trade and service transactions and payment of dividends, may be made in foreign currencies without prior approval from the SAFE but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, such as direct investment, loans or investments in securities outside the PRC and capital contribution. These transactions must be approved by the SAFE.

Pursuant to the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for trade and service-related exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by the SAFE, to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC authorities may limit or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future.

The principal regulations governing distribution of dividends by foreign-invested companies include:

.

The Sino-foreign Equity Joint Venture Law (1979), as amended;

.

The Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (1983) as amended;

.

The Foreign Investment Enterprise Law (1986) as amended; and

.

The Regulations of Implementation of the Foreign Investment Enterprise Law (1990) as amended.

Under these regulations, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly

foreign-owned enterprises in the PRC are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless such reserve funds have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends.

In addition, our wholly owned subsidiaries are required to allocate portions of their after-tax profits to their enterprise expansion funds and staff welfare and bonus funds at the discretion of their boards of directors. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the forms of loans, advances or cash dividends.

**E.**

### **Taxation**

The following is a summary of anticipated material U.S. federal income and British Virgin Islands tax consequences of an investment in our common shares. The summary has been prepared based upon management's understanding of applicable tax consequences, but has not been reviewed by counsel or other experts in U.S. or British Virgin Islands taxation. The summary does not address all possible tax consequences relating to an investment in our common shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which, such as dealers in securities, insurance companies and tax-exempt entities, may be subject to special rules. In particular, the discussion does not address the tax consequences under state, local and other non-U.S. and non-British Virgin Islands tax laws. Accordingly, each prospective investor should consult its own tax advisor regarding the particular tax consequences to it of an investment in the common shares. The discussion below is based upon laws and relevant interpretations in effect as of the date of this Annual Report, all of which are subject to change.

CHNR effected the Spin-Off by way of a distribution in specie of the entire issued share capital of Feishang Anthracite to the holders of the common shares of CHNR (the Distribution ). It is not clear whether the Distribution should be treated as a tax-free spin-off under Section 355 of the Code or as a taxable distribution of property. If we are required to report the Distribution to the IRS, we intend to take the view that the Distribution will be treated as a taxable distribution. Under this treatment, for U.S. Federal income tax purposes, the Distribution should be a taxable event for holders of CHNR common shares on the Distribution Record Date. Accordingly, subject to the passive foreign investment company rules discussed below, a U.S. Holder:

should generally be treated as having received (at the time of receipt of the Feishang Anthracite ordinary shares) a taxable distribution in an amount equal to the fair market value of the Feishang Anthracite ordinary shares received in the Distribution,

should have a tax basis in its Feishang Anthracite ordinary shares equal to their fair market value on the date of the Distribution, and

should have a holding period in its Feishang Anthracite ordinary shares that will commence on the day after the date of the Distribution.

The amount distributed by CHNR to a U.S. Holder should be taxed as a dividend to the extent of such holder's proportionate share of CHNR's current and accumulated earnings and profits (if any), and should otherwise be (i) a tax-free return of capital to the extent of such holder's adjusted tax basis in his or her CHNR common shares and (ii) thereafter as a capital gain. CHNR does not maintain calculations of its earnings and profits in accordance with U.S. Federal income tax principles; accordingly holders should assume that the entire amount of the Distribution should be taxable as a dividend. CHNR intends to treat the distribution of Feishang Anthracite ordinary shares as a taxable dividend for U.S. Federal income tax purposes, and the remainder of the disclosure assumes such treatment.

The dividend amount generally will be treated as foreign source ordinary dividend income, and generally will be eligible for reduced rates of taxation applicable to qualified dividend income applicable to certain non-corporate U.S. Holders, but will not be eligible for the dividends received deduction allowed to corporations. The dividend will be includable in net investment income for purposes of the Medicare contribution tax applicable to certain non-corporate U.S. Holders.

### **United States Federal Income Taxation**

The following discussion addresses only the material U.S. federal income tax consequences to a U.S. person, defined as a U.S. citizen or resident, a U.S. corporation, or an estate or trust subject to U.S. federal income tax on all of its income regardless of source, making an investment in the common shares. For taxable years beginning after December 31, 1996, a trust will be a U.S. person only if:

a court within the United States is able to exercise primary supervision over its administration; and

one or more United States persons have the authority to control all of its substantial decisions.

In addition, the following discussion does not address the tax consequences to a person who holds or will hold, directly or indirectly, 10% or more of our common shares, which we refer to as a 10% Shareholder. Non-U.S. persons and 10% Shareholders are advised to consult their own tax advisors regarding the tax considerations incident to an investment in our common shares.

A U.S. investor receiving a distribution of our common shares will be required to include such distribution in gross income as a taxable dividend, to the extent of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. Any distributions in excess of our earnings and profits will first be treated, for U.S. federal income tax purposes, as a nontaxable return of capital, to the extent of the U.S. investor's adjusted tax basis in our common shares, and then as gain from the sale or exchange of a capital asset, provided that our common shares constitutes a capital asset in the hands of the U.S. investor. U.S. corporate shareholders will not be entitled to any deduction for distributions received as dividends on our common shares.

Gain or loss on the sale or exchange of our common shares will be treated as capital gain or loss if our common shares is held as a capital asset by the U.S. investor. Such capital gain or loss will be long-term capital gain or loss if the U.S. investor has held our common shares for more than one year at the time of the sale or exchange.

A holder of common shares may be subject to backup withholding at the rate of 31% with respect to dividends paid on our common shares if the dividends are paid by a paying agent, broker or other intermediary in the United States or by a U.S. broker or certain United States-related brokers to the holder outside the United States. In addition, the proceeds of the sale, exchange or redemption of common shares may be subject to backup withholding, if such proceeds are paid by a paying agent, broker or other intermediary in the United States.

Backup withholding may be avoided by the holder of common shares if such holder:

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is a corporation or comes within other exempt categories; or

.

provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding and otherwise complies with the backup withholding rules.

In addition, holders of common shares who are not U.S. persons are generally exempt from backup withholding, although they may be required to comply with certification and identification procedures in order to prove their exemption.

Any amounts withheld under the backup withholding rules from a payment to a holder will be refunded or credited against the holder's U.S. federal income tax liability, if any, provided that amount withheld is claimed as federal taxes withheld on the holder's U.S. federal income tax return relating to the year in which the backup withholding occurred. A holder who is not otherwise required to file a U.S. income tax return must generally file a claim for refund or, in the case of non-U.S. holders, an income tax return in order to claim refunds of withheld amounts.

### **British Virgin Islands Taxation**

Under the Business Companies Act of the British Virgin Islands as currently in effect, companies incorporated or registered under the Business Companies Act are exempt from income and corporate tax. In addition, the British Virgin Islands currently does not levy capital gains tax on companies incorporated or registered under the Business Companies Act.

A holder of our common shares who is not a resident of British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common shares. In addition, the common shares are not subject to transfer taxes, stamp duties or similar charges for so long as we do not hold an interest in real estate in the British Virgin Islands.

There are no estate, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated or registered under the Business Companies Act.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands that is applicable to any payments made by or to a company incorporated or registered under the Business Companies Act of the British Virgin Islands.

**F.**

**Dividends and Paying Agents**

No disclosure is required in response to this Item.

**G.**

**Statement by Experts**

No disclosure is required in response to this Item.

**H.**

**Documents on Display**

The documents concerning the Company that are referred to in this Annual Report may be inspected at the Company's principal executive offices at Room 2205, 22/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. Certain documents described in response to Item 19 of this Annual Report are filed with this Annual Report and others are incorporated by reference to documents previously filed by the Company with the United States Securities and Exchange Commission. The documents that are filed herewith or incorporated by reference can be viewed on the SEC's web site at [www.sec.gov](http://www.sec.gov).

**I.**

**Subsidiary Information**

See Exhibit 8 for further information about our subsidiaries.

**ITEM 11.****QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Foreign currency exchange rate risk**

All of the Company's sales and purchases are made domestically and are denominated in Renminbi. The administrative expenses of the Company's head office in Hong Kong are denominated either in United States dollars or Hong Kong dollars. As the reporting currency of the Company's consolidated financial statements is Renminbi, the Company has material market risk with respect to currency fluctuation between Hong Kong dollars and United States dollars to Renminbi and translation difference may arise on consolidation. The Company may also suffer an exchange loss when it converts Renminbi to other currencies, such as Hong Kong dollars or United States dollars. If market conditions allow, the Company endeavors to match the currency used in operating/ investing activities with that used in financing activities. We have not engaged any foreign currency contract to hedge our potential foreign currency exchange exposure, if any.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are not exposed to interest rate risk as we do not have any outstanding interest-bearing financial instruments.

**Commodity price risk**

The Company is exposed to fluctuation in the prices of iron and, historically, other metals. These commodity prices can fluctuate widely and are affected by factors beyond our control which affect our earnings and cash flows. We have not engaged in any formal hedging transactions to manage possible price fluctuations.

The following table sets forth the sensitivity analysis of the commodity price change to the Company's sales revenue and gross profit:

|              | 2015  | Iron Price |        | Zinc Price |        |
|--------------|---|------------|--------|------------|--------|
|              | Actual                                      | 10%        | -10%   | 10%        | -10%   |
|              | <i>(CNY in millions, except percentage)</i> |            |        |            |        |
| Total Sale   | 18.34                                       | 1.69       | (1.69) | 0.11       | (0.11) |
| % Change     |   | 9.21       | (9.21) | 0.60       | (0.60) |
| Gross Profit | (13.59)                                     | 1.69       | (1.69) | 0.11       | (0.11) |
| % Change     |   | (12.41)    | 12.41  | (0.77)     | 0.77   |

**ITEM 12.****DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

No disclosure is required in response to this Item.



## PART II

### ITEM 13.

#### DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There are no defaults, dividend arrearages and delinquencies or other information required to be disclosed in response to this Item.

### ITEM 14.

#### MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There have been no modifications to the rights of security holders and there is no other information to disclose in response to this Item.

### ITEM 15.

#### CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). As of December 31, 2015, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon that evaluation and subsequent evaluations conducted in connection with the audit of the Company's consolidated financial statements for the year ended December 31, 2015, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and regulations.

##### Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines

internal control over financial reporting as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and includes those policies and procedures that:

.

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

.

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

.

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, we used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission ( COSO ) (2013 framework) (the COSO criteria). Based on our evaluation and the COSO criteria, we determined that, as of December 31, 2015, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Since the Company is not an accelerated filer, the auditor's attestation report pursuant to SOX Section 404(b) is not required in this Annual Report.

#### **Changes in Internal Control over Financial Reporting**

There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year 2015 and that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

#### **ITEM 16.**

[Reserved]

#### **ITEM 16A.**

#### **AUDIT COMMITTEE FINANCIAL EXPERT**

In general, an audit committee financial expert within the meaning of Item 407(d)(5) of Regulation S-K, is an individual member of the Audit Committee who:

.

understands generally accepted accounting principles and financial statements,

.

is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves,

.

has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to the our financial statements,

understands internal controls over financial reporting, and

understands audit committee functions.

An audit committee financial expert may acquire the foregoing attributes through:

education and experience as a principal financial officer, principal accounting officer, controller, public accountant, auditor or person serving similar functions;

experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person serving similar functions; experience overseeing or assessing the performance of companies or public accounts with respect to the preparation, auditing or evaluation of financial statements; or

other relevant experience.

Our Board of Directors has determined that Mr. Yip Wing Hang and Mr. Lam Kwan Sing are each an audit committee financial expert within the meaning of Item 407(d)(5) of Regulation S-K. Each of our audit committee financial experts is independent as that term is used in NASDAQ Marketplace Rule 5605(a)(2).

**Item 16B.**

**CODE OF ETHICS**

A Code of Ethics is a written standard designed to deter wrongdoing and to promote:

.  
honest and ethical conduct,

.  
full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements,

.  
compliance with applicable laws, rules and regulations,

.  
the prompt reporting violation of the code, and

.  
accountability for adherence to the Code of Ethics.

We have adopted a Code of Ethics that is applicable to all of our employees, and also contains provisions that apply only to our Chief Executive Officer, principal financial and accounting officers and persons performing similar functions. A copy of our Code of Ethics is incorporated by reference as an exhibit to this Annual Report.

**ITEM 16C.**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table shows the fees that we paid for audit and other services provided by Ernst & Young, our former independent registered public accounting firm, for fiscal 2014, and the fees that we paid for audit services provided by Ernst & Young Hua Ming LLP for fiscal year 2015.

|                    | <b>Fiscal 2014</b> | <b>Fiscal 2015</b> |
|--------------------|--------------------|--------------------|
| Audit Fees         | US\$128,918        | US\$123,234        |
| Audit-Related Fees | US\$4,000          |                    |
| Tax Fees           |                    |                    |
| All Other Fees     |                    |                    |
| Total              | US\$132,918        | US\$123,234        |

**Audit Fees** This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with engagements for those fiscal years.

**Audit-Related Fees** This category consists of assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under **Audit Fees**. The amount in 2014 represented the auditor's remuneration for the services provided in review of the Company's Form F-3.

**Tax Fees** This category consists of professional services rendered by the Company's independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

**All Other Fees** This category consists of fees for other miscellaneous items.

The Audit Committee has adopted a procedure for pre-approval of all fees charged by the Company's independent registered public accounting firm. Under the procedure, the Audit Committee approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the entire Committee, or, in the period between meetings, by a designated member of the Audit Committee. Any such approval by the designated member is disclosed to the entire Audit Committee at the next meeting. The audit fees paid to Ernst & Young Hua Ming LLP with respect to fiscal year 2015 were approved by the Audit Committee.

#### **ITEM 16D.**

#### **EXEMPTION FROM THE LISTING STANDARDS FOR THE AUDIT COMMITTEE**

There have been no exemptions from listing standards required to be disclosed in response to this Item.

#### **ITEM 16E.**

#### **PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

There have been no purchases of equity securities required to be disclosed in response to this Item.

#### **ITEM 16F.**

#### **CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Information in response to this Item has been previously reported.

**ITEM 16G.**

**CORPORATE GOVERNANCE**

Our common shares are currently listed on the NASDAQ Capital Market and, for so long as our securities continue to be listed, we will remain subject to the rules and regulations established by the NASDAQ Stock Market that apply to listed companies. NASDAQ rules include various corporate governance requirements applicable to listed securities. While all NASDAQ-listed companies are subject to certain of these corporate governance requirements, foreign private issuers such as our company are exempt from other corporate governance requirements if the laws of their home jurisdiction do not otherwise require compliance. Since our home jurisdiction does not mandate compliance with some of these NASDAQ rules, we have opted out of compliance with them. A more detailed description of the NASDAQ requirements that we are not subject to is contained elsewhere in this Annual Report under Item 6.C Board Practices; NASDAQ Requirements.

**ITEM 16H.**

**MINE SAFETY DISCLOSURE**

All of the Company's mining rights cover mines located in the People's Republic of China and, accordingly, no disclosure is required in response to this Item.

**PART III**

**ITEM 17.**

**FINANCIAL STATEMENTS**

No disclosure is required in response to this Item.

**ITEM 18.**

**FINANCIAL STATEMENTS**

The following financial statements are filed as a part of this Form 20-F in Appendix A hereto:

Reports of Independent Registered Public Accounting Firm, together with consolidated financial statements for the Company and subsidiaries, including:

a.

Consolidated statements of financial position as of December 31, 2014 and 2015

b.

Consolidated statements of profit or loss for the years ended December 31, 2013, 2014 and 2015

c.

Consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015

d.

Consolidated statements of changes in equity for the years ended December 31, 2013, 2014 and 2015

e.

Consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015

f.

Notes to consolidated financial statements.

**ITEM 19.**

**EXHIBITS**

The following Exhibits are filed as part of this Form 20-F:



| Exhibit No. | Exhibit Description   |
|-------------|---|
| 1.1         | Amended and Restated Memorandum and Articles of Association of the Registrant <i>(included as Exhibit 99.1 to Form 6K filed January 29, 2014, and incorporated herein by reference)</i> .   |
| 1.2         | Board of Directors Resolutions Designating Series B Preferred Stock and Establishing Rights, Preferences and Limitations <i>(included as Exhibit 1.3 to Annual Report on Form 20-F for the fiscal year ended December 31, 2004, and incorporated herein by reference)</i> .   |
| 4.1         | Acquisition Agreement dated January 24, 2006 by and between China Natural Resources, Inc., Feishang Mining Holdings Limited and Feishang Group Limited <i>(included as Exhibit 10.1 to the Current Report on Form 6-K furnished January 25, 2006, and incorporated herein by reference)</i> .   |
| 4.2         | Agreement for the Sale and Purchase of the Entire Issued Share Capital in Pineboom Investments Limited dated July 11, 2008 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(included as Exhibit 10.1 to the Current Report on Form 6-K furnished July 15, 2008, and incorporated herein by reference)</i> .    |
| 4.3         | Agreement for the Sale and Purchase of the Entire Issued Share Capital in Newhold Investments Limited dated August 11, 2008 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(included as Exhibit 10.1 to the Current Report on Form 6-K furnished August 13, 2008, and incorporated herein by reference)</i> . |
| 4.4         | Service Agreement dated as of October 1, 2008 by and between the Company and Li Feilie <i>(included as Exhibit 99.2 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference)</i> .  |
| 4.5         | Service Agreement dated as of October 1, 2008 by and between the Company and Tam Cheuk Ho <i>(included as Exhibit 99.3 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference)</i> .   |
| 4.6         | Service Agreement dated as of October 1, 2008 by and between the Company and Wong Wah On Edward <i>(included as Exhibit 99.4 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference)</i> .   |
| 4.7         | Letter Agreement dated January 12, 2009 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(included as Exhibit 10.2 to the Current Report on Form 6-K furnished January 20, 2009, and incorporated herein by reference)</i> .  |



| Exhibit No. | Exhibit Description  |
|-------------|--|
| 4.8         | Letter Agreement dated July 10, 2009 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(included as Exhibit 10.2 to the Current Report on Form 6-K furnished July 16, 2009, and incorporated herein by reference).</i>  |
| 4.9         | Agreement for the Sale and Purchase of the Entire Issued Share Capital in Wealthy Year Limited dated April 30, 2010 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(included as Exhibit 4.1 to the Current Report on Form 6-K furnished May 11, 2010, and incorporated herein by reference).</i> |
| 4.10        | Sales and Purchase Master Contract dated June 1, 2011 by and between Huludao Zinc Industry Co., Ltd. And Wuhu Feishang Mining Development Co., Ltd <i>(included as Exhibit 4.24 to the Annual Report on Form 20-F filed June 30, 2011, and incorporated herein by reference).</i>  |
| 4.11        | Service Agreement dated as of January 22, 2014 by and between the Company and Woo Ming Yee <i>(included as Exhibit 99.3 to the Current Report on Form 6-K furnished January 29, 2014, and incorporated herein by reference).</i>   |
| 4.12        | Service Agreement dated as of January 22, 2014 by and between the Company and Ma Sin Ling <i>(included as Exhibit 99.2 to the Current Report on Form 6-K furnished January 29, 2014, and incorporated herein by reference).</i>  |
| 4.13        | Sales and Purchase Master Contract dated January 1, 2014 by and between Anhui Tianchen Renewable Resource Co., Ltd. And Wuhu Feishang Mining Development Co., Ltd. <i>(included as Exhibit 4.14 to the Annual Report on Form 20-F furnished April 27, 2015, and incorporated herein by reference).</i>                       |
| 4.14        | 2014 Equity Compensation Plan <i>(included as Annex A of Exhibit 99.1 to the Current Report on Form 6-K furnished August 13, 2014, and incorporated herein by reference).</i>  |
| 4.15        | Service Agreement dated as of April 2, 2015 by and between the Company and Tam Cheuk Ho <i>(included as Exhibit 99.1 to the Current Report on Form 6-K furnished April 6, 2015, and incorporated herein by reference).</i>   |
| 4.16        | Service Agreement dated as of April 2, 2015 by and between the Company and Wong Wah On Edward <i>(included as Exhibit 99.2 to the Current Report on Form 6-K furnished April 6, 2015, and incorporated herein by reference).</i>   |
| 4.17        | Sales and Purchase Master Contract dated January 1, 2015 by and between Fanchang County Jinfeng Mining Ltd. And Wuhu Feishang Mining Development Co., Ltd. <i>(filed herewith).</i>  |
| 6           | Computation of Earnings Per Share for Fiscal Year ended December 31, 2015 <i>(contained in Financial Statements filed herewith).</i>   |
| 7           | Computation of Ratios for Fiscal Years ended December 31, 2013, 2014 and 2015 <i>(filed herewith).</i>   |
| 8           | Subsidiaries of the Registrant <i>(filed herewith).</i>  |
| 11          | Code of Ethics <i>(included as Exhibit 14 to Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, and incorporated herein by reference).</i>  |
| 12.1        | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith).</i>   |
| 12.2        | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith).</i>   |
| 13.1        | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith).</i>   |
| 13.2        | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith).</i>   |
| 15.1        | Consent of Ernst & Young Hua Ming LLP to incorporation of audit report dated April 28, 2016 into registration statement on Form F-3 (SEC File No. 333-197278) <i>(filed herewith)</i>  |
| 15.2        | Consent of Ernst & Young to incorporation of audit report dated April 27, 2015 into registration statement on Form F-3 (SEC File No. 333-197278) <i>(filed herewith)</i>   |





***APPENDIX A***

**CONSOLIDATED FINANCIAL STATEMENTS**

Report of Independent Registered Public Accounting Firms, together with consolidated financial statements for the Company and subsidiaries, including:

a.

Consolidated statements of financial position as of December 31, 2014 and 2015

b.

Consolidated statements of profit or loss for the years ended December 31, 2013, 2014 and 2015

c.

Consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015

d.

Consolidated statements of changes in equity for the years ended December 31, 2013, 2014 and 2015

e.

Consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015

f.

Notes to consolidated financial statements.



**CHINA NATURAL RESOURCES, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

|   | <b>Pages</b> |
|---|--------------|
| Report of independent registered public accounting firm | F-2 F-3      |
| Consolidated statements of financial position           | F-4 F-5      |
| Consolidated statements of profit or loss               | F-6 F-7      |
| Consolidated statements of comprehensive income         | F-8          |
| Consolidated statements of changes in equity            | F-9          |
| Consolidated statements of cash flows                   | F-10 F-11    |
| Notes to consolidated financial statements              | F-12 F-56    |



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

China Natural Resources, Inc.

We have audited the accompanying consolidated statement of financial position of China Natural Resources, Inc. (the Company ) as of December 31, 2015, and the related consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young Hua Ming LLP

Beijing, People's Republic of China

April 28, 2016

F-2

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

China Natural Resources, Inc.

We have audited the accompanying consolidated statement of financial position of China Natural Resources, Inc. (the Company ) as of December 31, 2014, and the related consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young

Hong Kong

April 27, 2015

F-3

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## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2015

(Amounts in thousands)

|                               | Notes | 2014<br>CNY | December 31,<br>2015<br>CNY | 2015<br>US\$ |
|-------------------------------|-------|-------------|-----------------------------|--------------|
| ASSETS                        |       |             |                             |              |
| NON-CURRENT ASSETS            |       |             |                             |              |
| Property, plant and equipment | 4     | 13,632      | 10,296                      | 1,586        |
| Rehabilitation fund           | 5     | 3,850       | 3,957                       | 610          |
| Prepayments                   |       | 30          |                             |              |
| TOTAL NON-CURRENT ASSETS      |       | 17,512      | 14,253                      | 2,196        |
| CURRENT ASSETS                |       |             |                             |              |
| Inventories                   | 6     | 13,511      | 3,923                       | 604          |
| Prepayments                   |       | 136         | 136                         | 21           |
| Other receivables             |       | 614         | 488                         | 75           |
| Cash and cash equivalents     |       | 48,263      | 32,840                      | 5,059        |
| TOTAL CURRENT ASSETS          |       | 62,524      | 37,387                      | 5,759        |
| TOTAL ASSETS                  |       | 80,036      | 51,640                      | 7,955        |

The accompanying notes are an integral part of these consolidated financial statements.



## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2014 AND 2015

(Amounts in thousands)

|  | Notes | 2014<br>CNY   | December 31,<br>2015<br>CNY | 2015<br>US\$   |
|--|-------|---------------|-----------------------------|----------------|
| <b>LIABILITIES AND EQUITY</b>                |       |               |                             |                |
| <b>CURRENT LIABILITIES</b>                   |       |               |                             |                |
| Trade payables                               | 7     | 1,462         | 921                         | 142            |
| Other payables and accrued liabilities       | 8     | 16,151        | 20,097                      | 3,096          |
| Taxes payable                                |       | 20,214        | 22,288                      | 3,433          |
| Due to a related company                     | 20    |               | 3,932                       | 606            |
| Due to the Shareholder                       | 20    |               | 11,752                      | 1,810          |
| Deferred income                              | 9     |               | 287                         | 44             |
| <b>TOTAL CURRENT LIABILITIES</b>             |       | <b>37,827</b> | <b>59,277</b>               | <b>9,131</b>   |
| <b>NON-CURRENT LIABILITIES</b>               |       |               |                             |                |
| Due to the Shareholder                       | 20    | 15,374        |                             |                |
| Asset retirement obligations                 | 10    | 4,221         | 4,639                       | 715            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>         |       | <b>19,595</b> | <b>4,639</b>                | <b>715</b>     |
| <b>TOTAL LIABILITIES</b>                     |       | <b>57,422</b> | <b>63,916</b>               | <b>9,846</b>   |
| <b>EQUITY / (DEFICIENCY IN ASSETS)</b>       |       |               |                             |                |
| Issued capital                               | 21    | 312,081       | 312,081                     | 48,074         |
| Other capital reserves                       | 21    | 636,960       | 636,960                     | 98,119         |
| Reserves                                     |       | 58,171        | 63,607                      | 9,798          |
| Accumulated losses                           |       | (980,085)     | (1,021,028)                 | (157,282)      |
| Other comprehensive loss                     |       | (4,513)       | (3,896)                     | (600)          |
| <b>TOTAL EQUITY / (DEFICIENCY IN ASSETS)</b> |       | <b>22,614</b> | <b>(12,276)</b>             | <b>(1,891)</b> |

|   |        |        |       |
|---|--------|--------|-------|
| TOTAL LIABILITIES AND<br>EQUITY / (DEFICIENCY IN<br>ASSETS) | 80,036 | 51,640 | 7,955 |
|---|--------|--------|-------|

The accompanying notes are an integral part of these consolidated financial statements.

F-5

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## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

|   |       | Year Ended December 31, |                 |                 |                |
|---|-------|-------------------------|-----------------|-----------------|----------------|
|   | Notes | 2013<br>CNY             | 2014<br>CNY     | 2015<br>CNY     | 2015<br>US\$   |
| <b>CONTINUING OPERATIONS</b>  |       |                         |                 |                 |                |
| Revenues  | 11    | 41,360                  | 8,303           | 18,342          | 2,825          |
| Cost of sales   | 12    | (25,101)                | (6,563)         | (31,936)        | (4,919)        |
| Gross profit / (loss)   |       | 16,259                  | 1,740           | (13,594)        | (2,094)        |
| Selling and distribution expenses   |       | (124)                   | (80)            | (31)            | (5)            |
| Administrative expenses   |       | (17,906)                | (12,226)        | (18,894)        | (2,910)        |
| Impairment loss on property, plant and equipment                                | 15    |                         | (8,065)         | (7,542)         | (1,162)        |
| Write-down/(Reversal of write-down) of inventories to net realizable value, net | 15    |                         | (9,299)         | 5,474           | 843            |
| Other operating (expenses) / income, net  |       | (1,104)                 | 554             | 412             | 63             |
| <b>OPERATING LOSS</b>   |       | <b>(2,875)</b>          | <b>(27,376)</b> | <b>(34,175)</b> | <b>(5,265)</b> |
| Finance costs   | 13    | (360)                   | (392)           | (424)           | (65)           |
| Foreign exchange difference, net  |       | 2,445                   |                 | (354)           | (55)           |
| Interest income   |       | 1,814                   | 1,602           | 1,056           | 163            |
| Non-operating expenses, net   | 14    | (167)                   | (218)           | (106)           | (17)           |
| <b>PROFIT / (LOSS) BEFORE INCOME TAX FROM CONTINUING</b>                        | 15    | <b>857</b>              | <b>(26,384)</b> | <b>(34,003)</b> | <b>(5,239)</b> |

## OPERATIONS

|  |    |           |          |          |         |
|--|----|-----------|----------|----------|---------|
| INCOME TAX EXPENSE   | 17 | (2,142)   | (6,839)  | (1,504)  | (232)   |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS               |    | (1,285)   | (33,223) | (35,507) | (5,471) |
| <b>DISCONTINUED OPERATIONS</b>                             |    |           |          |          |         |
| Loss for the year from discontinued operations, net of tax | 3  | (334,537) | (10,708) |          |         |
| LOSS FOR THE YEAR  |    | (335,822) | (43,931) | (35,507) | (5,471) |
| ATTRIBUTABLE TO:   |    |           |          |          |         |
| Owners of the Company                                      |    |           |          |          |         |
| From continuing operations                                 |    | (1,285)   | (33,223) | (35,507) | (5,471) |
| From discontinued operations                               |    | (334,119) | (9,925)  |          |         |
|  |    | (335,404) | (43,148) | (35,507) | (5,471) |
| Non-controlling interests                                  |    |           |          |          |         |
| From continuing operations                                 |    |           |          |          |         |
| From discontinued operations                               |    | (418)     | (783)    |          |         |
|  |    | (418)     | (783)    |          |         |
|  |    | (335,822) | (43,931) | (35,507) | (5,471) |

The accompanying notes are an integral part of these consolidated financial statements.



## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

|   |             | Year Ended December 31, |             |              |        |
|---|-------------|-------------------------|-------------|--------------|--------|
| Notes   | 2013<br>CNY | 2014<br>CNY             | 2015<br>CNY | 2015<br>US\$ |        |
| LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY: |             |                         |             |              |        |
| Basic   |             |                         |             |              |        |
| - For loss from continuing operations                 | 18          | (0.05)                  | (1.33)      | (1.43)       | (0.22) |
| - For loss from discontinued operations               | 18          | (13.41)                 | (0.40)      |              |        |
| - Net loss per share                                  |             | (13.46)                 | (1.73)      | (1.43)       | (0.22) |
| Diluted   |             |                         |             |              |        |
| - For loss from continuing operations                 | 18          | (0.05)                  | (1.33)      | (1.43)       | (0.22) |
| - For loss from discontinued operations               | 18          | (13.41)                 | (0.40)      |              |        |
| - Net loss per share                                  |             | (13.46)                 | (1.73)      | (1.43)       | (0.22) |

The accompanying notes are an integral part of these consolidated financial statements.

F-7

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## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands)

|   | 2013<br>CNY | Year Ended December 31,<br>2014<br>CNY | 2015<br>CNY | 2015<br>US\$ |
|---|-------------|--|-------------|--------------|
| LOSS FOR THE YEAR   | (335,822)   | (43,931)                               | (35,507)    | (5,471)      |
| Other comprehensive income:   |             |  |             |              |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods:          |             |  |             |              |
| Foreign currency translation adjustments  | 3,445       | (3,388)                                | 617         | 95           |
| Available-for-sale investments:   |             |  |             |              |
| Changes in fair value   |             |  | 631         | 97           |
| Reclassification adjustments for gains included in the consolidated statement of profit or loss |             |  |             |              |
| -gain on disposal   |             |  | (631)       | (97)         |
| Total other comprehensive income / (loss) for the year, net of tax                              | 3,445       | (3,388)                                | 617         | 95           |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX   | (332,377)   | (47,319)                               | (34,890)    | (5,376)      |
| Attributable to:  |             |  |             |              |
| Owners of the Company   |             |  |             |              |
| From continuing operations  | 1,253       | (36,626)                               | (34,890)    | (5,376)      |
| From discontinued operations  | (333,212)   | (9,910)                                |             |              |

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|                              |           |          |          |         |
|------------------------------|-----------|----------|----------|---------|
|                              | (331,959) | (46,536) | (34,890) | (5,376) |
| Non-controlling interests    |           |          |          |         |
| From continuing operations   |           |          |          |         |
| From discontinued operations | (418)     | (783)    |          |         |
|                              | (418)     | (783)    |          |         |
|                              | (332,377) | (47,319) | (34,890) | (5,376) |

The accompanying notes are an integral part of these consolidated financial statements.

## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands)

|  | Attributable to owners of the Company |                                     |                 |                              |  |              |                                     |              |
|--|---------------------------------------|-------------------------------------|-----------------|------------------------------|--|--------------|-------------------------------------|--------------|
|  | Issued<br>capital<br>(Note 21)<br>CNY | Other<br>capital<br>reserves<br>CNY | Reserves<br>CNY | Accumulated<br>losses<br>CNY | Other<br>Compre-hensive<br>(loss) /<br>income<br>CNY | Total<br>CNY | Non-controlling<br>interests<br>CNY | Total<br>CNY |
| At January 1,<br>2013  | 312,081                               | 536,872                             | 49,793          | (443,001)                    | (2,811)  | 452,934      | 93,941                              | 546,875      |
| Loss for the year  |                                       |                                     |                 | (335,404)                    |  | (335,404)    | (418)                               | (335,822)    |
| Foreign currency<br>translation<br>adjustments   |                                       |                                     |                 |                              | 3,445  | 3,445        |                                     | 3,445        |
| Total<br>comprehensive<br>(loss) / income  |                                       |                                     |                 | (335,404)                    | 3,445  | (331,959)    | (418)                               | (332,377)    |
| Deemed<br>contribution from<br>the Shareholder<br>of the Company<br>(Note 21(b))                 |                                       | 41,020                              |                 |                              |  | 41,020       |                                     | 41,020       |
| Appropriation<br>and utilization of<br>safety fund and<br>production<br>maintenance<br>fund, net |                                       |                                     | 3,266           | (3,266)                      |  |              |                                     |              |
| At December 31,<br>2013  | 312,081                               | 577,892                             | 53,059          | (781,671)                    | 634  | 161,995      | 93,523                              | 255,518      |
| Loss for the year  |                                       |                                     |                 | (43,148)                     |  | (43,148)     | (783)                               | (43,931)     |
| Foreign currency<br>translation<br>adjustments   |                                       |                                     |                 |                              | (3,388)  | (3,388)      |                                     | (3,388)      |
| Total<br>comprehensive<br>loss   |                                       |                                     |                 | (43,148)                     | (3,388)  | (46,536)     | (783)                               | (47,319)     |
|  |                                       | 59,068                              |                 |                              |  | 59,068       |                                     | 59,068       |



|   |         |         |         |             |         |           |          |           |
|---|---------|---------|---------|-------------|---------|-----------|----------|-----------|
| Deemed contribution from the Shareholder of the Company (Note 21(b)) Spin-Off of Feishang Anthracite Resources Limited (Note 3) |         |         | (7,244) | (142,910)   | (1,759) | (151,913) | (92,740) | (244,653) |
| Appropriation of general reserve (Note 21(c))   |         |         | 3,925   | (3,925)     |         |           |          |           |
| Appropriation of enterprise expansion fund (Note 21(c))   |         |         | 3,925   | (3,925)     |         |           |          |           |
| Appropriation and utilization of safety fund and production maintenance fund, net   |         |         | 4,506   | (4,506)     |         |           |          |           |
| At December 31, 2014  | 312,081 | 636,960 | 58,171  | (980,085)   | (4,513) | 22,614    |          | 22,614    |
| Loss for the year   |         |         |         | (35,507)    |         | (35,507)  |          | (35,507)  |
| Change in fair value of available-for-sale investments, net of tax  |         |         |         |             | 631     | 631       |          | 631       |
| Reclassification adjustments for gains on disposal included in the consolidated statement of profit or loss                     |         |         |         |             | (631)   | (631)     |          | (631)     |
| Foreign currency translation adjustments  |         |         |         |             | 617     | 617       |          | 617       |
| Total comprehensive (loss) / income   |         |         |         | (35,507)    | 617     | (34,890)  |          | (34,890)  |
| Appropriation and utilization of safety fund and production maintenance fund, net   |         |         | 5,436   | (5,436)     |         |           |          |           |
|   | 312,081 | 636,960 | 63,607  | (1,021,028) | (3,896) | (12,276)  |          | (12,276)  |

At December 31,  
2015

At December 31,  
2015 (US\$)

|        |        |       |           |       |         |         |
|--------|--------|-------|-----------|-------|---------|---------|
| 48,074 | 98,119 | 9,798 | (157,282) | (600) | (1,891) | (1,891) |
|--------|--------|-------|-----------|-------|---------|---------|

The accompanying notes are an integral part of these consolidated financial statements.

F-9

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**CHINA NATURAL RESOURCES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**  
**(Amounts in thousands)**

|   | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|---|-------------|--------------------------------|-------------|-------------|
|   | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|   |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| <b>OPERATING ACTIVITIES</b>   |             |                                |             |             |
| Loss for the year   |             |                                |             |             |
| From continuing operations  | (1,285)     | (33,223)                       | (35,507)    | (5,471)     |
| From discontinued operations  | (334,537)   | (10,708)                       |             |             |
| Adjustments for:  |             |                                |             |             |
| Depreciation and amortization   | 27,502      | 9,115                          | 1,830       | 282         |
| Provision for impairment of property, plant and equipment                       | 184,417     | 8,065                          | 7,542       | 1,162       |
| Provision for impairment of receivables   | 140         |                                |             |             |
| Loss / (Gain) on disposal of property, plant and equipment                      |             | 35                             | (2)         |             |
| Write-down/(Reversal of write-down) of inventories to net realizable value, net |             | 9,299                          | (5,474)     | (843)       |
| Accretion expenses  | 1,070       | 447                            | 418         | 64          |
| Deferred income tax (benefit) / expense   | (55,134)    | 2,098                          |             |             |
| Decrease in deferred income   |             |                                | (263)       | (41)        |
| Investment income realized from the available-for-sale investments              |             |                                | (631)       | (97)        |
| Changes in working capital:   |             |                                |             |             |
| Rehabilitation fund   | (7,546)     | 3,368                          | (107)       | (16)        |
| Trade and bills receivables   | (24,424)    | 17,889                         |             |             |
| Inventories   | (687)       | (20,564)                       | 15,062      | 2,320       |

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|   |           |           |           |          |
|---|-----------|-----------|-----------|----------|
| Prepayments   | 94        | (136)     | 59        | 9        |
| Other receivables   | (22)      | (2,683)   | 126       | 19       |
| Trade payables  | 2,005     | (13,683)  | (434)     | (67)     |
| Other payables and accrued liabilities  | 45,036    | (27,755)  | 3,922     | 605      |
| Interest payable  | 3,763     | 2,526     |           |          |
| Taxes payable   | 10,053    | (4,304)   | 2,074     | 320      |
| Net cash flows used in operating activities                                     | (149,555) | (60,214)  | (11,385)  | (1,754)  |
| INVESTING ACTIVITIES  |           |           |           |          |
| Prepayment for purchase of a land use right                                     | (12,243)  |           |           |          |
| Purchases of property, plant and equipment                                      | (288,350) | (54,239)  | (6,247)   | (962)    |
| Net proceeds from disposal of property, plant and equipment                     |           | 38        | 45        | 7        |
| Advances to a related party   |           | (159,553) |           |          |
| Repayments from related companies   |           | 170,243   |           |          |
| Purchase of available-for-sale investments                                      |           |           | (124,009) | (19,103) |
| Proceed from disposal of the available-for-sale investments                     |           |           | 124,640   | 19,200   |
| Increase in a pledged deposit   | (16,000)  |           |           |          |
| Net cash proceeds for term deposits with an original maturity over three months | 19,892    | 3,758     |           |          |
| Receipt of government grants  |           |           | 550       | 85       |
| Net cash flows used in investing activities                                     | (296,701) | (39,753)  | (5,021)   | (773)    |

The accompanying notes are an integral part of these consolidated financial statements.



## CHINA NATURAL RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands)

|  | 2013<br>CNY | Year Ended December 31,<br>2014 |          | 2015<br>CNY | 2015<br>US\$ |
|--|-------------|---------------------------------|----------|-------------|--------------|
| FINANCING ACTIVITIES   |             |                                 |          |             |              |
| Proceeds from interest-bearing loans   | 1,379,600   | 90,000                          |          |             |              |
| Net cash paid for the distribution of CHNR's 100% equity interest in Feishang Anthracite |             | (96,811)                        |          |             |              |
| Repayments of interest-bearing loans   | (489,350)   | (55,000)                        |          |             |              |
| Increase in restricted bank deposits   | (1,782)     | (1,278)                         |          |             |              |
| Repayments to the shareholder  | (26,571)    | (6,242)                         | (33,209) |             | (5,116)      |
| Repayments to related companies  | (673,874)   | (6,453)                         | (47,193) |             | (7,270)      |
| Advances from the shareholder  | 4,758       |                                 | 31,786   |             | 4,896        |
| Advances from related companies  | 269,416     |                                 | 47,201   |             | 7,271        |
| Net cash flows from / (used in) financing activities                                     | 462,197     | (75,784)                        | (1,415)  |             | (219)        |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS                                   | 15,941      | (175,751)                       | (17,821) |             | (2,746)      |
| NET FOREIGN EXCHANGE DIFFERENCE  | (3,411)     | 540                             | 2,398    |             | 370          |

|  |         |         |        |       |
|--|---------|---------|--------|-------|
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                       | 210,944 | 223,474 | 48,263 | 7,435 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                             | 223,474 | 48,263  | 32,840 | 5,059 |
| Supplementary disclosures of cash flow information:                  |         |         |        |       |
| Cash receipt of government grants                                    | 350     | 79      | 660    | 102   |
| Cash paid for income taxes   | 9,017   | 5,737   |        |       |
| Cash receipt of interest   | 2,916   | 1,688   | 425    | 66    |
| Major non-cash transactions  |         |         |        |       |
| Deemed contribution from the Shareholder of the Company (Note 21(b)) | 41,020  | 59,068  |        |       |
| Net off of balances between a related party and the Shareholder      |         | 120,310 |        |       |
|  | 41,020  | 179,378 |        |       |

|  | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|--|-------------|--------------------------------|-------------|-------------|
|  | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|  |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>             |             |                                |             |             |
| Cash and bank balances   | 76,591      | 48,263                         | 32,840      | 5,059       |
| Cash and short term deposits attributable to discontinued operations | 146,883     |                                |             |             |
| Cash and cash equivalents as stated in the statement of cash flows   | 223,474     | 48,263                         | 32,840      | 5,059       |

The accompanying notes are an integral part of these consolidated financial statements.

F-11

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**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**1.**

**ORGANIZATION AND PRINCIPAL ACTIVITIES**

China Natural Resources, Inc. ( CHNR or the Company ) is a British Virgin Islands ( BVI ) holding company incorporated in 1993. The address of the principal executive office is Room 2205, 22/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. The Company does not conduct any substantive operations on its own and conducts its primary business operations through its subsidiaries (collectively the Group ). A list of the Company's subsidiaries is included in Note 20.

CHNR's principal shareholder is Feishang Group Limited ( Feishang Group or the Shareholder ), a British Virgin Islands corporation. In the opinion of the directors of the Company, the ultimate parent of CHNR is Laitan Investment Limited, a British Virgin Islands corporation. Mr. Li Feilie, director and beneficial owner of the Shareholder, is the Chairman and Chief Executive Officer ( CEO ) of CHNR.

The consolidated financial statements of the Group for the year ended December 31, 2015 were authorized for issuance in accordance with a resolution of the directors on April 28, 2016.

As at December 31, 2014 and 2015, the Company and its subsidiaries had net current assets of CNY24,697 and net current liabilities of CNY21,890 (US\$3,372), respectively, and total assets less current liabilities of CNY42,209 and CNY7,637 (US\$1,176), respectively.

On January 22, 2014, CHNR completed the spin-off of the coal business held by Feishang Anthracite Resources Limited ( Feishang Anthracite , formerly known as Wealthy Year Limited ) by distribution of CHNR 's 100% equity interest in Feishang Anthracite, pro rata to all its shareholders (the Distribution or Spin-Off ), and completed the listing of the shares of Feishang Anthracite by introduction on the Main Board of The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange ).

## 2.1

### **BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ) as issued by the International Accounting Standards Board ( IASB ).

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Chinese Yuan ( CNY ) and all values are rounded to the nearest thousand, except when otherwise indicated.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2015.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar right of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a)

the contractual arrangement with the other vote holders of the investee;

(b)

rights arising from other contractual arrangements; and

(c)

the Group's voting rights and potential voting rights.

F-12

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**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.1**

**BASIS OF PREPARATION (CONTINUED)**

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. All significant intercompany accounts and transactions have been eliminated in full.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

*Going concern*

As of December 31, 2015, the Group had net current liabilities of CNY21.9 million (US\$3.37 million) and shareholders' deficit of CNY12.3 million (US\$1.89 million). In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the directors of the Company have undertaken certain measures to improve the cash flows of the Group, which include but are not limited to the following: (i) the Group has obtained confirmations of continuous financial support from Feishang Group and Feishang Enterprise Group Limited ( Feishang Enterprise ), an entity controlled by Mr. Li Feilie who is also an officer, director and the principal beneficial shareholder of the Company; (ii) the Group expects to resume production at current zones of the Yangchong Mine when market conditions improve; and (iii) the Group is pursuing potential new business development opportunities.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.2**

**CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to IAS 19  
*Annual Improvements*

*Defined Benefit Plans: Employee Contributions*

*2010-2012 Cycle*  
*Annual Improvements*

Amendments to a number of IFRSs

*2011-2013 Cycle*

Amendments to a number of IFRSs

The nature and the impact of each amendment is described below:

(a)

Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b)

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

.  
IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

.  
IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of the gross carrying amount and accumulated depreciation or amortization of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

.  
IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.2**

**CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)**

(c)

The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

.  
IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

.  
IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

.  
IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group has no investment properties.



2.3

**ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the current year's financial statements:

|   |   |
|---|---|
| IFRS 9                                    | <i>Financial Instruments</i> <sup>3</sup>   |
| Amendments to IFRS 10 and IAS 28          | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>6</sup> |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | <i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>                             |
| Amendments to IFRS 11                     | <i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>                          |
| IFRS 14                                   | <i>Regulatory Deferral Accounts</i> <sup>5</sup>  |
| IFRS 15                                   | <i>Revenue from Contracts with Customers</i> <sup>3</sup>   |
| IFRS 16                                   | <i>Leases</i> <sup>4</sup>  |
| Amendments to IAS 1                       | <i>Disclosure Initiative</i> <sup>1</sup>   |
| Amendments to IAS 7                       | <i>Disclosure Initiative</i> <sup>2</sup>   |
| Amendments to IAS 12                      | <i>Deferred Tax: Recovery of Underlying Assets</i> <sup>2</sup>   |
| Amendments to IAS 16 and IAS 38           | <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> <sup>1</sup>                  |
| Amendments to IAS 16 and IAS 41           | <i>Agriculture: Bearer Plants</i> <sup>1</sup>  |
| Amendments to IAS 27                      | <i>Equity Method in Separate Financial Statements</i> <sup>1</sup>  |
| <i>Annual Improvements</i>                | <i>Amendments to a number of IFRSs</i> <sup>1</sup>   |

*2012-2014 Cycle*

1

Effective for annual periods beginning on or after January 1, 2016

2

Effective for annual periods beginning on or after January 1, 2017

3

Effective for annual periods beginning on or after January 1, 2018

4

Effective for annual periods beginning on or after January 1, 2019

5

Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

6

In December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting

F-15

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**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.3**

**ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS  
(CONTINUED)**

Further information about those changes that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. The Group expects that the adoption of IFRS 9 will affect the classification and measurement of the Group's financial assets and is currently assessing the impact.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on January 1, 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i)  
the materiality requirements in IAS 1;
- (ii)  
that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii)  
that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv)  
that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from January 1, 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.3**

**ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS  
(CONTINUED)**

The amendments to IAS 7 require that an entity disclose, as necessary, the following changes in liabilities arising from financing activities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (d) changes in fair values; and (iv) other changes. The IASB defines liabilities arising from financing activities as liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The amendments indicate that the new disclosure requirements also apply to changes in financial assets that meet this definition. The amendments state that one way to meet the new disclosure requirements is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The Group expects to adopt the amendment on January 1, 2017 and is currently assessing the impact upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The IASB issued IFRS 16 *Leases* on January 13, 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. Lessees recognize a liability to pay rentals with a corresponding asset, and recognize interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees leases of low-value assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting,

using IAS 17's dual classification approach. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs. The Group expects to adopt IFRS 16 on January 1, 2019 and is currently assessing the impact of IFRS 16 upon adoption.

F-17

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**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a)

*Business combinations and goodwill*

The acquisition of subsidiaries and businesses under common control, where applicable, has been accounted for using merger accounting. The financial statements of the combining entities or businesses under common control are prepared for the same reporting period as the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling shareholder. The net assets of the combining entities or businesses are combined using the existing book values from the controlling shareholder's perspective. No amount is recognized in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owner of

the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognized in the statement of profit or loss as a gain on bargain purchase.



**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(b)

*Related parties*

A party is considered to be related to the Group if:

(1)

the party is a person or a close member of that person's family and that person

(i)

has control or joint control over the Group;

(ii)

has significant influence over the Group; or

(iii)

is a member of the key management personnel of the Group or of a parent of the Group;

or

(2)

the party is an entity where any of the following conditions applies:

(i)

the entity and the Group are members of the same group;

(ii)

one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii)

the entity and the Group are joint ventures of the same third party;

(iv)

one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v)

the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi)

the entity is controlled or jointly controlled by a person identified in (1);

(vii)

a person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity) ; and

(viii)

the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

(c)

*Property, plant and equipment and depreciation*

Property, plant and equipment comprise buildings, mining structures, mining rights, machinery and equipment, motor vehicles, exploration rights and construction in progress.

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

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

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

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

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

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c)

*Property, plant and equipment (continued)*

When an item of property, plant and equipment is classified as held for distribution or when it is part of a disposal group classified as held for distribution, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in Note 2.4(w).

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

Depreciation for the following items is calculated on the straight-line basis over each asset's estimated useful life down to the estimated residual value of each asset.

Estimated useful lives are as follows:

|  |               |
|--|---------------|
| Non-mining related buildings               | 15 - 35 years |
| Non-mining related machinery and equipment | 3 - 15 years  |
| Motor vehicles                             | 4 - 8 years   |

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

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

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

(d)

*Fair value measurement*

Fair value is the price that would be received to dispose of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to dispose of the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d)

*Fair value measurement* (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As of December 31, 2014 and 2015, there was no asset or liability measured at fair value.

(e)

*Exploration and evaluation costs*

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

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

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

(f)

*Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, etc.), the asset's recoverable amount is estimated.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. The calculation of fair value less costs of disposal is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset or other appropriate valuation techniques. The value in use calculation is based on a discounted cash flow model, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those categories consistent with the function of the impaired asset.





**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(f)

*Impairment of non-financial assets (continued)*

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years.

(g)

*Financial assets*

As of December 31, 2014 and 2015, the Group's financial assets within the scope of IAS 39 were all classified as loans and receivables. All financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are included in trade and bills receivables, prepayments, other receivables, term deposits with an original maturity over three months, cash and cash equivalents, rehabilitation fund and due from a related company in the consolidated statements of financial position. These assets are subsequently carried at amortized cost using the effective interest rate method (EIR) less any provision for impairment. Gains and losses are recognized in interest income or finance costs in the consolidated statement of profit or loss when the loans and receivables are derecognized as well as through the amortization process.

Subsequent measurement of available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income in accordance with the policies set out for Revenue recognition below.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g)

*Financial assets (continued)*

*Subsequent measurement of available-for-sale financial investments*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Fair value of loans and receivables

As of December 31, 2014 and 2015, the carrying amounts of rehabilitation fund were not materially different from their fair values. The carrying values of other financial assets approximated to their fair values due to the short-term maturities of these instruments.

Impairment of loans and receivables

The Group assesses at the end of each reporting date whether there is objective evidence that the loans and receivables are impaired. The Group first assesses whether impairment exists individually for loans and receivables that are individually significant, or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loans and receivables, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g)

*Financial assets (continued)*

*Impairment of loans and receivables*

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases and the decrease because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice.

*Impairment of available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. Significant is evaluated against the original cost of the investment and prolonged against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g)

*Financial assets* (continued)

*Derecognition of loans and receivables*

For financial assets classified as loans and receivables, the financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

(i)

the rights to receive cash flows from the asset have expired; or

(ii)

the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case,

the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(h)

*Financial liabilities at amortized cost*

Financial liabilities including trade payables, amounts due to a related company and the Shareholder, and other payables and certain accrued liabilities, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest rate. The related interest expense is recognized within *finance costs* in the consolidated statement of profit or loss.

Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in *finance costs* in the statement of profit or loss.



**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(h)

*Financial liabilities at amortized cost* (continued)

*Fair value*

As of December 31, 2014 and 2015, the carrying values of these financial liabilities approximate their fair values due to the short-term maturities of these instruments.

The Group had no financial liabilities measured at fair value on a recurring or a non-recurring basis as of December 31, 2014 and 2015.

*Derecognition of financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(i)

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognized less, when appropriate, cumulative amortization.

(j)

*Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted-average method. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Major types of inventories include:

.

Materials and supplies which consist of extracted raw ore, auxiliary materials, spare parts and other consumables; and

.

Finished goods.



**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(k)

*Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(l)

*Employee benefits*

*Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the PRC government. The relevant government agencies undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Further information is set out in Note 16.

Housing funds

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(m)

*Asset retirement obligations*

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

(n)

*Borrowing costs*

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.



**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(o)

*Revenue recognition*

The Group sells its products pursuant to sales contracts entered into with its customers. Revenue for all products is recognized when the significant risks and rewards of ownership have been passed to the customer, provided that the Group does not maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and when collectability is reasonably assured. The passing of the significant risks and rewards of ownership to the customer is based on the terms of the sales contract, generally upon delivery and acceptance of the product by the customer.

In accordance with the relevant tax laws in the PRC, value-added tax ( VAT ) is levied on the invoiced value of sales and is payable by the purchaser. The Group is required to remit the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases. The difference between the amounts collected and paid is presented as VAT recoverable or payable in the consolidated statement of financial position. VAT on sales from continuing operations amounted to CNY7,031, CNY1,412 and CNY3,118 (US\$480) for the years ended December 31, 2013, 2014 and 2015, respectively. The Group recognizes revenues net of VAT.

(p)

*Government grants*

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

(q)

*Income taxes*

Income tax comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, taking into consideration interpretations and practices prevailing in the countries where the Group operates and generates taxable income.

Income tax relating to items recognized outside the consolidated statements of profit or loss is recognized outside the consolidated statement of profit or loss, either as other comprehensive income or loss or directly in equity.

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



**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(q)

*Income taxes* (continued)

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

.

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

.

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

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

.

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

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

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

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

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

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(r)

*Share-based payment transactions*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ( equity-settled transactions ).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

(s)

*Foreign currencies*

The functional currency of substantially all the operations of the Group is the CNY, the national currency of the PRC. Transactions denominated in currencies other than the CNY recorded by the entities of the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies have been translated into CNY at the functional currency rates of exchange prevailing at the end of the reporting period. The resulting exchange gains or losses are credited or charged to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

The financial statements of certain overseas subsidiary operations with a functional currency other than the CNY have been translated into CNY. The assets and liabilities of these entities have been translated using the exchange rates prevailing at the reporting date and their statements of profit or loss have been translated using the weighted average exchange rate for the year. Resulting translation adjustments are reported as a separate component of other comprehensive income.

On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of profit or loss.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.4**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(t)

*Convenience translation*

The financial statements are stated in CNY. The translation of amounts from CNY into US\$ is included solely for the convenience of the readers and has been made at the rate of exchange quoted by Bloomberg Finance L.P. ( Bloomberg ) on December 31, 2015 of US\$1.00 = CNY6.4917. No representation is made that the CNY amounts could have been, or could be, converted into US\$ at that rate on December 31, 2015 or at any other date.

(u)

*Provisions*

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

(v)

*Leases*

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the lower of its fair value or the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

(w)

*Non-current assets and disposal groups held for distribution*

Non-current assets and disposal groups are classified as held for distribution when the Group is committed to distribute the asset or disposal group to its owners. For this to be the case, the asset or disposal group must be available for immediate distribution in its present condition and its distribution must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for distribution are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for distribution are not depreciated or amortized.

(x)

*Dividend*

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.5**

**SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group has based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i)

**Impairment of property, plant and equipment**

Long-lived assets to be held and used, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Other than those disclosed in note 4, there were no impairments recognized for the year.

(ii)



Reserve estimates

*Non-ferrous metal reserves*

Estimates of proved and probable non-ferrous metal reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on the price of metal and ore and interpretations of geologic data obtained from drill holes and other exploration techniques. The Group uses feasibility studies to derive estimates of capital and operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the predicted configuration of the ore body, expected recovery rates of metals from the ore, the costs of comparable facilities, the costs of operating and processing equipment and other factors.

(iii)

Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will be reflected in the income tax and deferred tax provisions in the period in which the determination is made.

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**2.5**

**SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

(iv)

Provision for asset retirement obligations

The provision for asset retirement obligations is determined by management based on the past experience and best estimation of future expenditures, taking into account existing relevant PRC regulations. However, insofar as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

**3.**

**DISCONTINUED OPERATIONS**

On December 31, 2013, the Company announced that its board of directors had approved the Spin-Off and listing by way of introduction on the Hong Kong Stock Exchange of its wholly-owned subsidiary, Feishang Anthracite, which operated the Company's coal mining and related businesses. The Spin-Off was effected by way of a distribution in specie by the Company of all of Feishang Anthracite's issued and outstanding ordinary shares at par value of HK\$0.01 per share ("Ordinary Shares"), to the holders of the Company's common shares ("Common Shares") on a pro rata basis. On January 22, 2014, the Company completed the Spin-Off and listing by way of introduction on the Hong Kong Stock Exchange of Feishang Anthracite. After the Spin-Off, the Company will not operate any coal mining business and will continue operating its non-ferrous metals mining and related businesses.

The results of Feishang Anthracite for the years/period are presented below:

**For the  
period from  
January 1, 2014  
to January 22,**

|  | <b>2013<br/>CNY</b> | <b>2014<br/>CNY</b> |
|--|---------------------|---------------------|
| Revenue  | 178,501             | 21,157              |
| Cost of sales  | (108,242)           | (10,399)            |
| Gross profit   | 70,259              | 10,758              |
| Selling and distribution expenses                                      | (6,110)             | (506)               |
| Administrative expense   | (142,064)           | (8,633)             |
| Impairment loss on property, plant and equipment                       | (184,417)           |                     |
| Other operating expenses   | (6,003)             |                     |
| <b>OPERATING (LOSS) / INCOME</b>                                       | <b>(268,335)</b>    | <b>1,619</b>        |
| Finance costs  | (115,253)           | (11,571)            |
| Interest income  | 1,102               | 86                  |
| Non-operating (expense) / income, net                                  | 132                 | (100)               |
| <b>LOSS BEFORE INCOME TAX</b>  | <b>(382,354)</b>    | <b>(9,966)</b>      |
| Income tax benefit / (expense)   | 47,817              | (742)               |
| <b>LOSS FOR THE YEAR / PERIOD FROM THE DISCONTINUED<br/>OPERATIONS</b> | <b>(334,537)</b>    | <b>(10,708)</b>     |
| Attributable to:   |                     |                     |
| Owners of the company  | (334,119)           | (9,925)             |
| Non-controlling interests  | (418)               | (783)               |
|  | <b>(334,537)</b>    | <b>(10,708)</b>     |

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

## 3.

## DISCONTINUED OPERATIONS (CONTINUED)

The major classes of assets and liabilities of Feishang Anthracite as at December 31, 2013 and January 22, 2014 are as follows:

|  | December 31,<br>2013<br>CNY | January 22,<br>2014<br>CNY |
|--|-----------------------------|----------------------------|
| ASSETS   |                             |                            |
| NON-CURRENT ASSETS                               |                             |                            |
| Property, plant and equipment                    | 2,461,963                   | 2,460,311                  |
| Rehabilitation fund                              | 37,350                      | 33,380                     |
| Prepayments, deposits and other receivables      | 100,658                     | 112,422                    |
| Deferred tax assets                              | 9,830                       | 41,516                     |
|  | 2,609,801                   | 2,647,629                  |
| CURRENT ASSETS                                   |                             |                            |
| Inventories                                      | 14,363                      | 16,844                     |
| Trade and bills receivables                      | 68,059                      | 55,670                     |
| Corporate income tax refundable                  | 12,007                      | 12,417                     |
| Prepayments, deposits and other receivables      | 30,584                      | 41,308                     |
| Pledged and restricted bank deposits             | 24,864                      | 26,142                     |
| Cash and cash equivalents                        | 146,883                     | 96,811                     |
|  | 296,760                     | 249,192                    |
| Total assets classified as held for distribution | 2,906,561                   | 2,896,821                  |
| LIABILITIES                                      |                             |                            |
| CURRENT LIABILITIES                              |                             |                            |
| Trade payables                                   | 143,246                     | 104,957                    |
| Other payables and accrued liabilities           | 117,315                     | 80,472                     |
| Interest-bearing bank and other borrowings       | 1,018,550                   | 1,018,550                  |
| Interest payable                                 | 15,102                      | 24,283                     |
| Income tax payable                               | 879                         | 10,610                     |
| Mining rights payable                            | 38,876                      | 28,169                     |

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|   |           |           |
|---|-----------|-----------|
|   | 1,333,968 | 1,267,041 |
| NON-CURRENT LIABILITIES   |           |           |
| Interest-bearing bank and other borrowings  | 889,504   | 924,799   |
| Interest payable  | 16,729    | 17,028    |
| Deferred tax liabilities  | 216,320   | 248,569   |
| Mining rights payables  | 55,442    | 55,442    |
| Asset retirement obligation   | 8,222     | 8,289     |
| TOTAL NON-CURRENT LIABILITIES   | 1,186,217 | 1,254,127 |
| Total liabilities directly associated with the assets classified as held for distribution | 2,520,185 | 2,521,168 |
| NET ASSETS  | 386,376   | 375,653   |

F-34

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

3.

## DISCONTINUED OPERATIONS (CONTINUED)

The net cash flows incurred by Feishang Anthracite are as follows:

|  | 2013<br>CNY | For the<br>period from<br>January 1,<br>2014 to<br>January 22,<br>2014<br>CNY |
|--|-------------|---|
| Operating activities                                   | (150,099)   | (29,603)  |
| Investing activities                                   | (293,389)   | (54,472)  |
| Financing activities                                   | 428,996     | 34,018  |
| Net increase / (decrease) in cash and cash equivalents | (14,492)    | (50,057)  |
| Loss per share (CNY per share):                        |             |   |
| Basic, from the discontinued operations                | (13.41)     | (0.40)  |
| Diluted, from the discontinued operations              | (13.41)     | (0.40)  |

The calculations of basic and diluted earnings per share from discontinued operations are based on:

|  | 2013<br>CNY | For the<br>period from<br>January 1,<br>2014 to<br>January 22,<br>2014<br>CNY |
|--|-------------|---|
| Loss for the year attributable to owners of the Company from discontinued operations | (334,119)   | (9,925)   |

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|   |            |            |
|---|------------|------------|
| Weighted average number of ordinary shares in issue during the year / period used in the basic earnings per share calculation (Note 18) | 24,910,916 | 24,910,916 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation (Note 18)                                 | 24,910,916 | 24,910,916 |

F-35

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## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

## 4.

## PROPERTY, PLANT AND EQUIPMENT

|  | Buildings<br>CNY | Mining<br>structures and<br>mining rights<br>CNY | Machinery<br>and<br>equipment<br>CNY | Motor<br>vehicles<br>CNY | Construction<br>in progress<br>CNY | Total<br>CNY |
|--|------------------|--|--------------------------------------|--------------------------|------------------------------------|--------------|
| <b>Cost</b>                            |                  |  |                                      |                          |                                    |              |
| <b>At January 1,<br/>2014</b>          | 23,730           | 25,465   | 6,265                                | 2,589                    |                                    | 58,049       |
| Additions                              | 92               | 901  | 190                                  |                          | 2,113                              | 3,296        |
| Transfer                               | 930              | 545  | 638                                  |                          | (2,113)                            |              |
| Disposals                              | (10)             | (161)  | (331)                                |                          |                                    | (502)        |
| Exchange<br>adjustment                 | 18               |  |                                      |                          |                                    | 18           |
| Reclassification                       | (1,820)          | 966  | 878                                  | (24)                     |                                    |              |
| <b>At December<br/>31, 2014</b>        | 22,940           | 27,716   | 7,640                                | 2,565                    |                                    | 60,861       |
| Additions                              |                  | 122  | 2                                    | 148                      | 5,807                              | 6,079        |
| Transfer                               |                  | 5,807  |                                      |                          | (5,807)                            |              |
| Disposals                              |                  | (37)   | (33)                                 | (487)                    |                                    | (557)        |
| Exchange<br>adjustment                 | 56               |  | 1                                    |                          |                                    | 57           |
| <b>At December<br/>31, 2015</b>        | 22,996           | 33,608   | 7,610                                | 2,226                    |                                    | 66,440       |
| <b>At December<br/>31, 2015 (US\$)</b> | 3,542            | 5,177  | 1,172                                | 343                      |                                    | 10,234       |

## Accumulated depreciation and amortization and impairment losses

|                           |          |          |         |         |  |          |
|---------------------------|----------|----------|---------|---------|--|----------|
| <b>At January 1, 2014</b> | (10,644) | (18,565) | (5,404) | (1,948) |  | (36,561) |
| Depreciation charge       | (1,212)  | (1,196)  | (407)   | (199)   |  | (3,014)  |



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|                                    |          |          |         |         |          |
|------------------------------------|----------|----------|---------|---------|----------|
| Impairment losses                  |          | (8,065)  |         |         | (8,065)  |
| Disposals                          | 5        | 110      | 314     |         | 429      |
| Exchange adjustment                | (18)     |          |         |         | (18)     |
| <b>At December 31, 2014</b>        | (11,869) | (27,716) | (5,497) | (2,147) | (47,229) |
| Depreciation charge                | (1,281)  |          | (377)   | (172)   | (1,830)  |
| Impairment losses (Note 15)        |          | (5,902)  | (1,640) |         | (7,542)  |
| Disposals                          |          | 10       | 31      | 473     | 514      |
| Exchange adjustment                | (56)     |          | (1)     |         | (57)     |
| <b>At December 31, 2015</b>        | (13,206) | (33,608) | (7,484) | (1,846) | (56,144) |
| <b>At December 31, 2015 (US\$)</b> | (2,034)  | (5,177)  | (1,153) | (284)   | (8,648)  |

**Net carrying amount**

|                             |        |  |       |     |        |
|-----------------------------|--------|--|-------|-----|--------|
| At December 31, 2014        | 11,071 |  | 2,143 | 418 | 13,632 |
| At December 31, 2015        | 9,790  |  | 126   | 380 | 10,296 |
| At December 31, 2015 (US\$) | 1,508  |  | 19    | 59  | 1,586  |

As of December 31, 2014 and 2015, accumulated depreciation and amortization included accumulated amortization of mining rights of CNY10,130 and CNY10,130 (US\$1,560), respectively.

**CHINA NATURAL RESOURCES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(Amounts in thousands, except share and per share data)****4.****PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

There were no exploration costs incurred during the years ended December 31, 2014 and 2015.

An impairment loss on property, plant and equipment of CNY7,542 (US\$1,162) of Yangchong Mine was recorded for the year ended December 31, 2015 in connection with the decline of average selling prices of iron concentrates. Yangchong Mine was designated as a single cash generating unit ( CGU ), which was based predominantly on the value-in-use ( VIU ) approach. VIU calculations use pre-tax cash flow projections. Other key assumptions applied in the impairment tests include the production volume, expected iron price, product cost and related expenses. Management determined that these key assumptions were based on past performance and their expectations on market development. Further, at December 31, 2015, the Group adopted a pre-tax rate of 16.00% (2014: 16.00%) that reflects specific risks related to the CGU, as the discount rate.

**5.****REHABILITATION FUND**

The rehabilitation fund represents restricted cash set aside by the Group in banks and cash placed with authorities for the purpose of future environment rehabilitation as well as the settlement of asset retirement obligations.

**6.****INVENTORIES**

Inventories, net of provision for inventories, are summarized as follows:

|                        | <b>2014</b> | <b>December 31,</b> |             |     |
|------------------------|-------------|---------------------|-------------|-----|
|                        | <b>CNY</b>  | <b>2015</b>         | <b>2015</b> |     |
|                        |             | <b>CNY</b>          | <b>US\$</b> |     |
| Materials and supplies | 3,482       | 2,575               |             | 396 |
| Finished goods         | 10,029      | 1,348               |             | 208 |
|                        | 13,511      | 3,923               |             | 604 |

7.

**TRADE PAYABLES**

|                | <b>2014</b> | <b>December 31,</b> | <b>2015</b> |
|----------------|-------------|---------------------|-------------|
|                | <b>CNY</b>  | <b>2015</b>         | <b>2015</b> |
|                |             | <b>CNY</b>          | <b>US\$</b> |
| Trade payables | 1,462       | 921                 | 142         |
|                | 1,462       | 921                 | 142         |

Trade payables are non-interest-bearing and are normally settled within six months.

The aging analysis of trade payables as at December 31, 2014 and 2015 is as follows:

|               | <b>2014</b> | <b>December 31,</b> | <b>2015</b> |
|---------------|-------------|---------------------|-------------|
|               | <b>CNY</b>  | <b>2015</b>         | <b>2015</b> |
|               |             | <b>CNY</b>          | <b>US\$</b> |
| Within 1 year | 1,354       | 527                 | 81          |
| 1 to 2 years  | 37          | 322                 | 50          |
| Over 2 years  | 71          | 72                  | 11          |
|               | 1,462       | 921                 | 142         |

F-37

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

## 8.

## OTHER PAYABLES AND ACCRUED LIABILITIES

|                             | 2014<br>CNY | December 31,<br>2015<br>CNY | 2015<br>US\$ |
|-----------------------------|-------------|-----------------------------|--------------|
| Natural resources fee (a)   | 8,577       | 8,489                       | 1,308        |
| Staff compensation fund (b) | 2,419       | 2,304                       | 355          |
| Social security payable (c) | 1,046       | 1,178                       | 181          |
| Payroll payable             | 1,394       | 5,319                       | 819          |
| Welfare payable             | 529         | 529                         | 81           |
| Advances from customers     | 76          | 47                          | 7            |
| Accrued expenses            | 600         | 999                         | 154          |
| Others                      | 1,510       | 1,232                       | 191          |
|                             | 16,151      | 20,097                      | 3,096        |

(a)

The natural resources fee represents fees payable to the PRC Government and is calculated as a percentage of sales.

(b)

The staff compensation fund represents one-off cash received from the PRC government to compensate employees of Wuhu Feishang Mining Development Co., Limited ( Wuhu Feishang ) through the Group for the loss of their state sponsored pension and post-employment benefits. The fund is to be distributed to employees at the termination of their employment with Wuhu Feishang. Wuhu Feishang is not required to make any additional contributions to the fund.

(c)

The social security represents amount payable to PRC government-managed retirement insurance, medical insurance, maternity insurance, employment injury insurance and unemployment insurance for the benefit of the Group's employees.

9.

**DEFERRED INCOME**

|  | <b>Amount<br/>CNY</b> | <b>Amount<br/>US\$</b> |
|--|-----------------------|------------------------|
| At January 1, 2014, December 31 2014 and January 1, 2015 |                       |                        |
| Recognized during the year                               | 550                   | 85                     |
| Released to the statement of profit or loss              | (263)                 | (41)                   |
| At December 31, 2015                                     | 287                   | 44                     |

Government grants were received in 2015 for certain underground construction projects in Wuhu Feishang. The amount was included in deferred income in the statement of financial positions, which was recognized in the statement of profit or loss along with the depreciation of related assets over their useful lives.

F-38

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

## 10.

## ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations primarily relate to the closure of mines, which includes dismantlement of mining related structure and the reclamation of land upon exhaustion of coal or metal reserves.

The following table describes the changes to the Group's asset retirement obligation liability:

|  | Amount<br>CNY | Amount<br>US\$ |
|--|---------------|----------------|
| At January 1, 2014                       | 3,840         | 592            |
| Accretion expenses (Note 13)             | 381           | 59             |
| At December 31, 2014 and January 1, 2015 | 4,221         | 651            |
| Accretion expenses (Note 13)             | 418           | 64             |
| At December 31, 2015                     | 4,639         | 715            |

The inflation rate, discount rate and market risk premium used for estimating provision for asset retirement obligations at December 31, 2015 and 2014 were 2.53%, 9.91% and 6.09%, respectively. There were no material changes to those rates used in subsequent periods.

## 11.

## REVENUES

Revenues from continuing operations comprise the following:

|        | Year Ended December 31, |             |             |              |
|--------|-------------------------|-------------|-------------|--------------|
|        | 2013<br>CNY             | 2014<br>CNY | 2015<br>CNY | 2015<br>US\$ |
| Zinc   |                         |             | 1,053       | 162          |
| Iron   | 39,568                  | 6,857       | 16,870      | 2,598        |
| Others | 1,792                   | 1,446       | 419         | 65           |
|        | 41,360                  | 8,303       | 18,342      | 2,825        |

## 12.

**COST OF SALES**

Cost of sales from continuing operations comprise the following:

|        | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|--------|-------------|--------------------------------|-------------|-------------|
|        | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|        |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| Zinc   |             |                                | 971         | 150         |
| Iron   | 23,461      | 5,009                          | 30,459      | 4,692       |
| Others | 1,640       | 1,554                          | 506         | 78          |
|        | 25,101      | 6,563                          | 31,936      | 4,920       |

F-39

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## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

13.

## FINANCE COSTS

Finance costs from continuing operations comprise the following:

|                              | <b>2013</b> | <b>Year Ended December 31,</b> |             |  |             |
|------------------------------|-------------|--------------------------------|-------------|--|-------------|
|                              | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> |  | <b>2015</b> |
|                              |             | <b>CNY</b>                     | <b>CNY</b>  |  | <b>US\$</b> |
| Bank charges                 | 14          | 11                             | 6           |  | 1           |
| Accretion expenses (Note 10) | 346         | 381                            | 418         |  | 64          |
|                              | 360         | 392                            | 424         |  | 65          |

14.

## NON-OPERATING EXPENSES, NET

Non-operating expenses from continuing operations comprise the following:

|  | <b>2013</b> | <b>Year Ended December 31,</b> |             |  |             |
|--|-------------|--------------------------------|-------------|--|-------------|
|  | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> |  | <b>2015</b> |
|  |             | <b>CNY</b>                     | <b>CNY</b>  |  | <b>US\$</b> |
| Loss / (Gain) on disposal of property, plant and equipment |             | 35                             | (2)         |  |             |
| Donation   |             | 14                             | 140         |  | 21          |
| Others   | 167         | 169                            | (32)        |  | (4)         |
|  | 167         | 218                            | 106         |  | 17          |



F-40

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## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

15.

## PROFIT / (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS

The Group's profit / loss before tax from continuing operations is arrived at after charging / (crediting):

|  | 2013<br>CNY | Year Ended December 31,<br>2014<br>CNY | 2015<br>CNY | 2015<br>US\$ |
|--|-------------|--|-------------|--------------|
| Crediting:   |             |  |             |              |
| Interest income on bank deposits                                       | 1,814       | 1,602                                  | 425         | 66           |
| Investment income realized from the available-for-sale                 |             |  | 631         | 97           |
| Reversal of write-down of inventories to net realizable value, net (a) |             |  | 5,474       | 843          |
| Gain on disposal of property, plant and equipment                      |             |  | 2           |              |
| Government grants (b)  | 350         | 79                                     | 373         | 57           |
| Charging:  |             |  |             |              |
| Auditors' remuneration:  |             |  |             |              |
| - Audit fee  | 3,300       | 800                                    | 800         | 123          |
| - Audit related fee  |             | 25                                     |             |              |
| Sub-total  | 3,300       | 825                                    | 800         | 123          |
| Cost of inventories sold (c)   | 22,395      | 5,106                                  | 31,467      | 4,847        |
| Sales tax and surcharge  | 540         | 72                                     | 107         | 17           |
| Utilization of safety fund and production maintenance fund             | 2,166       | 1,385                                  | 362         | 56           |
| Cost of sales (Note 12)  | 25,101      | 6,563                                  | 31,936      | 4,920        |
| Employee benefit expenses (Note 16)                                    | 10,004      | 5,101                                  | 15,794      | 2,433        |

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Write-down of inventories to net realizable value                   |       | 9,299 |       |       |
| Depreciation and amortization:                                      |       |       |       |       |
| - Property, plant and equipment                                     | 2,361 | 3,014 | 1,830 | 282   |
| Operating lease rental:   |       |       |       |       |
| - Office properties   | 1,148 | 779   | 805   | 124   |
| Loss on disposal of property, plant and equipment                   |       | 35    |       |       |
| Repairs and maintenance   | 176   | 247   | 306   | 47    |
| Provision for impairment for property, plant and equipment (Note 4) |       | 8,065 | 7,542 | 1,162 |
| Provision for impairment for receivables                            | 140   |       |       |       |
| Losses arising from temporary suspension of production (d)          |       |       | 830   | 128   |

**CHINA NATURAL RESOURCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(Amounts in thousands, except share and per share data)**

**15.**  
**PROFIT / (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS (CONTINUED)**

(a)

Reversal of write-down of inventories to net realizable value arising from an increase in net realizable value due to selling prices in 2015 was higher than the net realizable value as of December 31, 2014.

(b)

Government grants amounting to CNY550 (US\$85) were received in 2015 for certain underground construction projects in Wuhu Feishang. The amount was included in deferred income in the statement of financial position, which will be recognized in the statement of profit or loss along with the depreciation of related assets over their useful lives.

A government grant amounting to CNY110 (US\$17) has been fully recognized in Other operating expenses, net in the consolidated statements of profit or loss since all related expenditure has been incurred and recognized in the consolidated statements of profit or loss. There are no unfulfilled conditions or contingencies relating to the grant.

(c)

Included in the cost of inventories sold were CNY3,302, CNY1,908 and CNY2,751 (US\$424) for the years ended December 31, 2013, 2014 and 2015, respectively, relating to employee benefit expenses, and depreciation and amortization; these amounts are also included in the respective amounts disclosed separately above for each type of expense.

(d)

Due to the depressed market condition of iron concentrates, the exploitation of Yangchong Mine has been temporarily suspended since December 27, 2015 up to the date of this report. The amount represented the overhead costs incurred during the period of temporary suspension of production.

**16.**  
**EMPLOYEE BENEFITS**

The Group's employee benefits from continuing operations comprise the following:

|                                   | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|-----------------------------------|-------------|--------------------------------|-------------|-------------|
|                                   | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|                                   |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| Wages, salaries and allowances    | 7,126       | 6,095                          | 7,687       | 1,184       |
| Termination benefit               |             |                                | 5,508       | 848         |
| Housing funds (a)                 | 115         | 535                            | 446         | 69          |
| Contribution to pension plans (a) | 1,326       | 1,566                          | 1,315       | 203         |
| Welfare and other expenses        | 1,503       | 1,644                          | 1,442       | 222         |
|                                   | 10,070      | 9,840                          | 16,398      | 2,526       |

(a)

As stipulated by the PRC state regulations, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government and government-sponsored housing funds. These subsidiaries are required to contribute a certain percentage of their payroll costs for those qualified urban employees to the central pension scheme as well as the housing funds.

Employee benefits charged to the consolidated statements of profit or loss from continuing operations are analyzed as follows:

|   | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|---|-------------|--------------------------------|-------------|-------------|
|   | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|   |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| Total employee benefits accrued for the year                          | 10,070      | 9,840                          | 16,398      | 2,526       |
| Less:   |             |                                |             |             |
| Amount included in inventories  | 66          | 4,739                          | 604         | 93          |
| Amount charged to consolidated statements of profit or loss (Note 15) | 10,004      | 5,101                          | 15,794      | 2,433       |



## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

17.

## INCOME TAX (BENEFIT) / EXPENSE

The Company is incorporated in the British Virgin Islands ( BVI ) and conducts its primary business operations through its subsidiaries in the PRC. It also has intermediate holding companies in the BVI and Hong Kong. Under the current laws of the BVI, the Company and its subsidiaries incorporated in the BVI are not subject to tax on income or capital gains. The Hong Kong Profits Tax rate is 16.50%. The Company's Hong Kong subsidiaries have both Hong Kong-sourced and non-Hong Kong-sourced incomes. The latter is not subject to Hong Kong Profits Tax and the related expenses are non-tax-deductible. For the Hong Kong-sourced income, no provision for Hong Kong Profits Tax was made as such operations sustained tax losses during the years ended December 31, 2013, 2014 and 2015. Furthermore, there are no withholding taxes in Hong Kong on the remittance of dividends. No United States corporate income taxes are provided for in these consolidated financial statements, as management believes that the Company is not subject to United States income taxes.

*China*

Effective from January 1, 2008, the PRC's statutory corporate income tax ( CIT ) rate is 25%. The Company's PRC subsidiaries are subject to income tax at 25% on their respective taxable incomes as calculated in accordance with the CIT Law and its relevant regulations.

Under the prevailing CIT Law and its relevant regulations, any dividends paid by the Company's PRC subsidiaries from their earnings derived after January 1, 2008 to the Company's Hong Kong subsidiaries are subject to the PRC dividend withholding tax at a tax rate of 5% or 10%, depending on the applicability of the Sino-Hong Kong tax treaty.

Profit / (Loss) before income tax from continuing operations consists of:

|     | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|-----|-------------|--------------------------------|-------------|-------------|
|     | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|     |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| PRC | 4,872       | (23,754)                       | (31,335)    | (4,828)     |
| BVI | (3,969)     | (2,575)                        | (2,625)     | (404)       |
| HK  | (46)        | (55)                           | (43)        | (7)         |
|     | 857         | (26,384)                       | (34,003)    | (5,239)     |

The current and deferred components of income tax expense from continuing operations on the consolidated statements of profit or loss are as follows:

|                             | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|-----------------------------|-------------|--------------------------------|-------------|-------------|
|                             | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|                             |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| Current income tax expense  | 514         | 5,303                          | 1,504       | 232         |
| Deferred income tax expense | 1,628       | 1,536                          |             |             |
|                             | 2,142       | 6,839                          | 1,504       | 232         |

F-43



## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

17.

## INCOME TAX (BENEFIT) / EXPENSE (CONTINUED)

A reconciliation of the income taxes from continuing operations computed at the PRC statutory tax rate of 25% to the actual income tax expense / (benefit) is as follows:

|   | 2013<br>CNY | Year Ended December 31,<br>2014<br>CNY | 2015<br>CNY | 2015<br>US\$ |
|---|-------------|--|-------------|--------------|
| Profit / (loss) for the year  | 857         | (26,384)                               | (34,003)    | (5,239)      |
| PRC statutory tax rate  | 25%         | 25%                                    | 25%         | 25%          |
| Computed income tax expense / (benefit)                                 | 214         | (6,596)                                | (8,501)     | (1,310)      |
| Effect of different tax rates for the Company and overseas subsidiaries | 997         | 650                                    | 661         | 102          |
| Effect of the deemed interest income                                    |             | 1,478                                  | 1,112       | 171          |
| PRC dividend withholding tax  |             | 3,532                                  |             |              |
| Tax losses not recognized   | 931         | 1,521                                  | 4,370       | 674          |
| Deferred tax assets not recognized                                      |             | 5,845                                  | 3,407       | 525          |
| Non-deductible expenses   |             | 115                                    | 63          | 10           |
| Others  |             | 294                                    | 392         | 60           |
| Income tax expense  | 2,142       | 6,839                                  | 1,504       | 232          |

As of December 31, 2015 and 2014, the Group had no recognized deferred tax assets, or deferred tax liabilities.

On September 24, 2014, Wuhu Feishang declared a dividend of CNY39,242 to its parent, relating to the post-2007 profits of Wuhu Feishang. As of December 31, 2015, there were no post-2007 undistributed profits of the PRC subsidiaries of the Company, and therefore, the Group did not recognize deferred tax liabilities for withholding taxes

that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

The total amounts of unused tax losses for which no deferred tax assets were recognized were CNY21,449 and CNY38,318 (US\$5,903) as of December 31, 2014 and 2015, respectively. As of December 31, 2015, unused tax losses of CNY3,690 (US\$568), CNY2,715 (US\$418), CNY4,820 (US\$742), CNY6,056 (US\$933) and CNY21,037 (US\$3,242), if unused, will expire by the end of 2016, 2017, 2018, 2019, and 2020 respectively.

As of December 31, 2015, the Group did not recognize deferred tax assets on temporary differences mainly in respect of provision for write-down of inventories to net realizable amounting to CNY5,650 (US\$870), provision for impairment of property, plant and equipment amounting to CNY7,542 (US\$1,162) and other temporary differences amounting to CNY436 (US\$67) as based on the prevailing facts and circumstances since it was not probable that taxable profits would be available for their future utilization.

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

17.

## INCOME TAX (BENEFIT) / EXPENSE (CONTINUED)

The gross movements on the deferred tax assets account are as follows:

|   | 2014<br>CNY | 2015<br>CNY | 2015<br>US\$ |
|---|-------------|-------------|--------------|
| At beginning of the year                              | 1,536       |             |              |
| Discontinued operations                               |             |             |              |
| Credited to consolidated statements of profit or loss | (1,536)     |             |              |
| At end of the year                                    |             |             |              |

18.

## LOSS PER SHARE

Basic and diluted loss per share for the years ended December 31, 2013, 2014 and 2015 are calculated as follows:

|  | 2013<br>CNY | Year Ended December 31, |             | 2015<br>US\$ |
|--|-------------|-------------------------|-------------|--------------|
|  |             | 2014<br>CNY             | 2015<br>CNY |              |
| Loss for the year attributable to owners of the Company: |             |                         |             |              |
| From continuing operations                               | (1,285)     | (33,223)                | (35,507)    | (5,470)      |
| From discontinued operations                             | (334,119)   | (9,925)                 |             |              |

Weighted average  
number of common  
shares:

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 24,910,916 | 24,910,916 | 24,910,916 | 24,910,916 |
| Diluted | 24,910,916 | 24,910,916 | 24,910,916 | 24,910,916 |

Loss per share  
attributable to owners  
of the Company:

Basic:

|                                 |         |        |        |        |
|---------------------------------|---------|--------|--------|--------|
| From continuing<br>operations   | (0.05)  | (1.33) | (1.43) | (0.22) |
| From discontinued<br>operations | (13.41) | (0.40) |        |        |

Diluted:

|                                 |         |        |        |        |
|---------------------------------|---------|--------|--------|--------|
| From continuing<br>operations   | (0.05)  | (1.33) | (1.43) | (0.22) |
| From discontinued<br>operations | (13.41) | (0.40) |        |        |

The Company did not have any potential diluted shares throughout the year. Accordingly, the diluted loss per share amount was the same as the basic loss per share amount.

## 19.

### DIVIDEND

No dividend has been paid or declared by the Company since its incorporation.

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

20.

## RELATED PARTY BALANCES AND TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

| Name   | Place of incorporation / registration and operations | Nominal value of issued ordinary / registered share capital (CNY) | Percentage of equity attributable to the Company |          | Principal activities   |
|--|--|---|--|----------|--|
|  |  |   | Direct   | Indirect |  |
| China Coal Mining Investment Limited   | Hong Kong  |   | 100  |          | Investment holding   |
| FMH Corporate Services Inc.  | United States  |   | 100  |          | Dormant  |
| Feishang Dayun Coal Mining Limited   | Hong Kong  |   |  | 100      | Investment holding   |
| Feishang Mining Holdings Limited   | British Virgin Islands                               |   | 100  |          | Investment holding   |
| Feishang Yongfu Mining Limited   | Hong Kong  |   |  | 100      | Investment holding   |
| Newhold Investments Limited  | British Virgin Islands                               |   | 100  |          | Investment holding   |
| Pineboom Investments Limited   | British Virgin Islands                               |   | 100  |          | Investment holding   |
| Shenzhen Feishang Management and Consulting Co., Limited ("Feishang Management") | Mainland China                                       | 10,000  |  | 100      | Provision for management and consulting services to other companies in the Group |
| Silver Moon Technologies Limited   | British Virgin Islands                               | 1   | 80   |          | Dormant  |
| Sunwide Capital Limited  | British Virgin Islands                               |   | 100  |          | Dormant  |

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|   |                |         |     |   |
|---|----------------|---------|-----|---|
| Wuhu Feishang Mining Development Co., Limited       | Mainland China | 12,000  | 100 | Exploration and mining of zinc, iron and other non-ferrous metals |
| Yangpu Lianzhong Mining Co., Limited                | Mainland China | 115,008 | 100 | Investment holding  |
| Yangpu Shuanghu Industrial Development Co., Limited | Mainland China | 1,000   | 100 | Investment holding  |
| Yunnan Feishang Mining Co., Limited                 | Mainland China | 50,000  | 100 | Exploration of non-ferrous metals                                 |

In addition to the transactions detailed elsewhere in the financial statements, the Group has the following transactions and balances with related parties:

(a)

*Commercial transactions with a related party*

|  | <b>2013</b> | <b>Year Ended December 31,</b> |             | <b>2015</b> |
|--|-------------|--------------------------------|-------------|-------------|
|  | <b>CNY</b>  | <b>2014</b>                    | <b>2015</b> | <b>2015</b> |
|  |             | <b>CNY</b>                     | <b>CNY</b>  | <b>US\$</b> |
| CHNR's share of office rental to Anka Consultants Limited ("Anka") | 1,285       | 859                            | 918         | 141         |
| Feishang Anthracite's share of office rental to Anka               | 217         | 61                             |             |             |
|  | 1,502       | 920                            | 918         | 141         |

## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

20.

## RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(a)

*Commercial transactions with a related party (continued)*

Prior to September 2013, the Company and Anka, a private Hong Kong company that is owned by certain directors of the Company, entered into an office sharing agreement (the Original Office Sharing Agreement), whereby the Company's head office in Hong Kong was shared on an equal basis between the two parties. The Original Office Sharing Agreement also provided that the Company and Anka should share certain costs and expenses in connection with their use of the office, in addition to some of the accounting and secretarial services and day-to-day office administration provided by Anka. The Original Office Sharing Agreement ended on August 31, 2013.

On September 1, 2013, the Company and Feishang Anthracite entered into new license agreements with Anka, respectively, pursuant to which the Company and Feishang Anthracite share the office premises of 238 square meters on an equal basis. The agreements also provide that the Company and Feishang Anthracite shall share certain costs and expenses in connection with their use of the office. In addition, Anka continues to provide accounting and secretarial services and day-to-day office administration to the Company. The initial term of the agreements was from September 1, 2013 to June 30, 2014 and shall be effective for all subsequent extension of leases. The lease was extended for two years from July 1, 2014 to June 30, 2016.

(b)

*Balances with related parties*

The Group has payables with related parties, which are all unsecured and non-interest-bearing. Balances with related companies are summarized as follows:

|             | <b>December 31,</b> |             |
|-------------|---------------------|-------------|
| <b>2014</b> | <b>2015</b>         | <b>2015</b> |
| CNY         | CNY                 | US\$        |

**Current:**

|   |        |       |
|---|--------|-------|
| Long-term payable to a related company: |        |       |
| Feishang Enterprise (1)                 | 3,932  | 606   |
| Long-term payable to the Shareholder:   |        |       |
| Feishang Group (2)                      | 11,752 | 1,810 |

**Non-current:**

Long-term payable to the Shareholder:  
 Feishang Group (2) 15,374  
 Feishang Enterprise and Feishang Group are controlled by Mr. Li Feilie who is also an officer, director and the principal beneficial shareholder of the Company.

(1)

Payable to Feishang Enterprise by Feishang Management for the net amount of a loan from Feishang Enterprise. The balance is not repayable within one year as of December 31, 2014. The balance is repayable when funds are available as of December 31, 2015.

(2)

Payable to Feishang Group for the acquisition of Feishang Anthracite. The balance is not repayable with in one year as of December 31, 2014. The balance is repayable when funds are available as of December 31, 2015



## CHINA NATURAL RESOURCES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(Amounts in thousands, except share and per share data)

20.

## RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c)

Compensation of key management personnel of the Group

|  | 2013      | Year Ended December 31, |           | 2015  |
|--|-----------|-------------------------|-----------|-------|
|  |           | 2014                    | 2015      | 2015  |
| Prepayment fees on borrowings                                |           | —                       | 2,030     | 2,318 |
| Other expenses   | 10,374    | 8,992                   | 8,597     |       |
| Total non-interest expenses                                  | 66,333    | 59,031                  | 55,579    |       |
| Income before income taxes                                   | 34,915    | 34,310                  | 37,958    |       |
| Income Taxes   | 12,132    | 10,882                  | 11,781    |       |
| Net Income   | \$ 22,783 | \$ 23,428               | \$ 26,177 |       |
| Per Share Data:  |           |                         |           |       |
| Basic earnings per share                                     | \$ 2.98   | \$ 3.06                 | \$ 3.41   |       |
| Diluted earnings per share                                   | \$ 2.97   | \$ 3.05                 | \$ 3.40   |       |
| Weighted average number of common shares outstanding         | 7,634,455 | 7,646,861               | 7,672,126 |       |
| Diluted weighted average number of common shares outstanding | 7,653,270 | 7,661,273               | 7,679,895 |       |

The accompanying notes are an integral part of these consolidated financial statements.

52

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In Thousands)   | Years Ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2013                     | 2012     | 2011     |
| Net Income   | \$22,783                 | \$23,428 | \$26,177 |
| Other comprehensive income (loss):   |                          |          |          |
| Net change in unrealized gains (losses) on available-for-sale securities:  |                          |          |          |
| Net change in unrealized gain (loss) on available-for-sale securities, net of tax of \$10,982, \$(1,851), and \$(3,365)  | (20,397                  | ) 3,439  | 6,248    |
| Net reclassification adjustment for gains included in net income, net of tax of \$275, \$874, and \$727  | (510                     | ) (1,624 | ) (1,349 |
| Net change in unrealized gains (losses) on available-for-sale securities, net of tax   | (20,907                  | ) 1,815  | 4,899    |
| Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax of \$(2,510), \$(32), and \$3,530   | 4,663                    | 59       | (6,555   |
| Postretirement plans:  |                          |          |          |
| Net actuarial gain (loss), net of tax of \$(391), \$563, and \$361   | 726                      | (1,046   | ) (671   |
| Reclassification of amortization of net unrecognized actuarial (gain) loss and of prior service cost included in net periodic cost, net of tax of \$(94), \$(56), and \$(32) | 174                      | 108      | 59       |
| Net gain (loss) on postretirement plans, net of tax  | 900                      | (938     | ) (612   |
| Other comprehensive income (loss)  | (15,344                  | ) 936    | (2,268   |
| Comprehensive Income   | \$7,439                  | \$24,364 | \$23,909 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (In Thousands, Except Number of Shares and Per Share Data)   | Common Stock       |          | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|--------------------|----------|-------------------|---|----------------------------|
|  | Shares Outstanding | Amount   |                   |   |                            |
| Balance at December 31, 2010   | 7,658,496          | \$50,936 | \$150,730         | \$4,329                                       | \$205,995                  |
| Net income for 2011  | —                  | —        | 26,177            | —   | 26,177                     |
| Other comprehensive loss, net of tax   | —                  | —        | —                 | (2,268)                                       | (2,268)                    |
| Stock-based compensation expense   | —                  | 1,025    | —                 | —   | 1,025                      |
| Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit | 19,723             | (134)    | —                 | —   | (134)                      |
| Common stock repurchased   | (13,244)           | (389)    | —                 | —   | (389)                      |
| Cash dividends declared (\$1.50 per share)   | —                  | —        | (11,530)          | —   | (11,530)                   |
| Balance at December 31, 2011   | 7,664,975          | 51,438   | 165,377           | 2,061   | 218,876                    |
| Net income for 2012  | —                  | —        | 23,428            | —   | 23,428                     |
| Other comprehensive income, net of tax   | —                  | —        | —                 | 936   | 936                        |
| Stock-based compensation expense   | —                  | 538      | —                 | —   | 538                        |
| Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit | 23,355             | (212)    | —                 | —   | (212)                      |
| Common stock repurchased   | (65,580)           | (2,097)  | —                 | —   | (2,097)                    |
| Cash dividends declared (\$1.00 per share)   | —                  | —        | (7,654)           | —   | (7,654)                    |
| Balance at December 31, 2012   | 7,622,750          | 49,667   | 181,151           | 2,997   | 233,815                    |
| Net income for 2013  | —                  | —        | 22,783            | —   | 22,783                     |
| Other comprehensive loss, net of tax   | —                  | —        | —                 | (15,344)                                      | (15,344)                   |
| Stock-based compensation expense   | —                  | 596      | —                 | —   | 596                        |
| Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit | 25,308             | 300      | —                 | —   | 300                        |
| Common stock repurchased   | (68,145)           | (2,780)  | —                 | —   | (2,780)                    |
| Cash dividends declared (\$1.08 per share)   | —                  | —        | (8,274)           | —   | (8,274)                    |
| Balance at December 31, 2013   | 7,579,913          | \$47,783 | \$195,660         | \$(12,347)                                    | \$231,096                  |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In Thousands)   | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2013                     | 2012      | 2011      |
| Operating Activities   |                          |           |           |
| Net income   | \$22,783                 | \$23,428  | \$26,177  |
| Adjustments to reconcile net income to net cash provided by operating activities:                                  |                          |           |           |
| Provision for credit losses  | 2,028                    | 3,816     | 4,735     |
| Depreciation and amortization expense  | 3,004                    | 2,500     | 2,605     |
| Investment securities amortization and accretion, net  | 2,166                    | 2,207     | 1,098     |
| Stock-based compensation expense   | 596                      | 538       | 1,025     |
| Amortization of intangible assets  | 1,150                    | 657       | 577       |
| Net gains on sale and other-than-temporary impairment of investment securities                                     | (785)                    | (2,498)   | (2,076)   |
| Net increase in other real estate owned valuation allowance and loss on disposition                                | 130                      | 479       | 188       |
| Originations of mortgage loans held for sale   | (33,254)                 | (10,886)  | (29,126)  |
| Proceeds from the sale of mortgage loans   | 33,982                   | 17,215    | 28,885    |
| Gain on sale of mortgage loans   | (728)                    | (268)     | (292)     |
| Gain on Branch Divestiture   | (2,742)                  | —         | —         |
| Goodwill impairment  | 2,830                    | —         | 50        |
| Gain on sale of branch facility  | —                        | (479)     | —         |
| (Increase) decrease in trading assets  | (188)                    | (56)      | 60        |
| Decrease (increase) in other assets  | 193                      | 1,556     | (1,434)   |
| (Decrease) increase in other liabilities   | (1,433)                  | 4,120     | 951       |
| Net cash provided by operating activities  | 29,732                   | 42,329    | 33,423    |
| Investing Activities   |                          |           |           |
| Net cash settlement in Branch Acquisition and Branch Divestiture   | (39,648)                 | 267,689   | —         |
| Proceeds from sales and maturities of available-for-sale securities  | 147,373                  | 274,621   | 227,003   |
| Proceeds from sale and maturities of securities held to maturity   | —                        | —         | 251       |
| Purchase of available-for-sale securities  | (208,344)                | (462,552) | (219,092) |
| Net (increase) decrease in loans   | (67,826)                 | (50,194)  | 2,992     |
| Purchase of premises and equipment   | (1,490)                  | (3,403)   | (1,516)   |
| Proceeds from sale of FHLB stock   | 1,310                    | 928       | —         |
| Proceeds from sale of other real estate owned  | 946                      | 2,070     | 2,506     |
| Recoveries of previously charged-off loans   | 768                      | 744       | 1,002     |
| Proceeds from sale of building   | —                        | 2,235     | —         |
| Proceeds from bank-owned life insurance  | —                        | —         | 1,656     |
| Net cash (used) provided by investing activities   | (166,911)                | 32,138    | 14,802    |
| Financing Activities   |                          |           |           |
| Net (decrease) increase in deposits  | (29,380)                 | 50,544    | 75,559    |
| Repayments on Federal Home Loan Bank long-term advances  | (289)                    | (80,456)  | (312,355) |
| Proceeds from Federal Home Loan Bank long-term advances  | —                        | —         | 235,000   |
| Net increase (decrease) in other borrowed funds  | 170,194                  | (15,614)  | (26,066)  |
| Common stock repurchase  | (2,460)                  | (2,097)   | (389)     |
| Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit | 300                      | (212)     | (134)     |
| Cash dividends paid on common stock  | (8,121)                  | (7,667)   | (11,524)  |
| Net cash provided (used) by financing activities   | 130,244                  | (55,502)  | (39,909)  |

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|   |          |            |          |
|---|----------|------------|----------|
| Net (decrease) increase in cash and cash equivalents                        | (6,935   | ) 18,965   | 8,316    |
| Cash and cash equivalents at beginning of year                              | 58,290   | 39,325     | 31,009   |
| Cash and cash equivalents at end of year                                    | \$51,355 | \$58,290   | \$39,325 |
| Supplemental information:   |          |            |          |
| Interest paid   | \$13,014 | \$17,456   | \$23,901 |
| Income taxes paid   | 10,640   | 6,363      | 12,097   |
| Transfer of loans and premises and equipment to other real estate owned     | 1,958    | 1,767      | 1,989    |
| Common stock repurchased not yet settled                                    | 320      | —          | —        |
| Branch acquisition – allocation of purchase price to assets and liabilities | —        | See Note 2 | —        |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

## CAMDEN NATIONAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Tables Expressed in Thousands, Except Number of Shares and per Share Data)

## 1. Summary of Significant Accounting Policies

The acronyms and abbreviations identified below are used in the notes to the consolidated financial statements as well as in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations". The following is provided to aid the reader and provide a reference page when reviewing the consolidated financial statements.

|                     |   |                             |   |
|---------------------|---|-----------------------------|---|
| Acadia Trust:       | Acadia Trust, N.A., a wholly-owned subsidiary of Camden National Corporation  | Freddie Mac:                | Federal Home Loan Mortgage Corporation  |
| Act:                | Medicare Prescription Drug, Improvement and Modernization Act   | GAAP:                       | Generally accepted accounting principles in the United States   |
| AFS:                | Available-for-sale  | IRS:                        | Internal Revenue Service  |
| ALCO:               | Asset/Liability Committee   | LIBOR:                      | London Interbank Offered Rate   |
| ALL:                | Allowance for loan losses   | LTIP:                       | Long-Term Performance Share Plan  |
| AOCI:               | Accumulated other comprehensive income (loss)   | MaineHousing:               | Maine State Housing Authority   |
| ASC:                | Accounting Standards Codification   | Management ALCO:            | Management Asset/Liability Committee  |
| ASU:                | Accounting Standards Update   | MSPP:                       | Management Stock Purchase Plan  |
| Bank:               | Camden National Bank, a wholly-owned subsidiary of Camden National Corporation  | MSRs:                       | Mortgage servicing rights   |
| BOLI:               | Bank-owned life insurance   | Non-Agency or Non-Agencies: | Non-agency private issue collateralized mortgage obligation(s)  |
| Board ALCO:         | Board of directors' Asset/Liability Committee   | OCC:                        | Office of the Comptroller of the Currency   |
| Branch Acquisition: | The acquisition of 14 branches from Bank of America, N.A. in 2012, after divesting of one branch as required by the Department of Justice | OCI:                        | Other comprehensive income (loss)   |
| Branch Divestiture: | The divestiture of five Franklin County branches in 2013  | OFAC:                       | Office of Foreign Assets Control  |
| BSA:                | Bank Secrecy Act  | OREO:                       | Other real estate owned   |
| CCTA:               | Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation  | OTTI:                       | Other-than-temporary impairment   |
| CSV:                | Cash surrender value  | SERP:                       | Supplemental executive retirement plans   |
| Company:            | Camden National Corporation   | TDR:                        | Troubled-debt restructuring   |
| DCRP:               | Defined Contribution Retirement Plan  | UBCT:                       | Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation |

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|        |                                       |            |                                      |
|--------|---------------------------------------|------------|--------------------------------------|
| EPS:   | Earnings per share                    | U.S.:      | United States of America             |
| FASB:  | Financial Accounting Standards Board  | 2003 Plan  | 2003 Stock Option and Incentive Plan |
| FDIC:  | Federal Deposit Insurance Corporation | 2012 Plan  | 2012 Equity and Incentive Plan       |
|        |                                       | 2013       | 2013 Common Stock Repurchase         |
| FHLB:  | Federal Home Loan Bank                | Repurchase | Program, approved by the Company's   |
|        |                                       | Plan:      | board of directors                   |
|        |                                       | 2012       | 2012 Common Stock Repurchase         |
| FHLBB: | Federal Home Loan Bank of Boston      | Repurchase | Program, approved by the Company's   |
|        |                                       | Plan:      | board of directors                   |
| FRB:   | Federal Reserve Bank                  |            |                                      |

Table of Contents

Camden National Corporation, a Maine corporation, is the bank holding company for Camden National Bank and Acadia Trust, N.A. The Bank serves individuals, businesses, municipalities and non-profits through a network of 44 banking offices and ATMs in Maine. Acadia Trust provides trust and investment management services to its clients, who are primarily located in the Maine, and to clients of the Bank.

The accounting and reporting policies conform to GAAP and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies.

**Principles of Consolidation.** The accompanying consolidated financial statements include the accounts of the Company, the Bank, and Acadia Trust. All intercompany accounts and transactions have been eliminated in consolidation. Assets held by the non-bank subsidiary in a fiduciary capacity are not assets of the Company and, therefore, are not included in the consolidated statements of condition. The Company also owns 100% of the common stock of CCTA and UBCT. These entities are unconsolidated subsidiaries of the Company.

**Reclassifications.** Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**Use of Estimates in the Preparation of Financial Statements.** The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could vary from these estimates. Several estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses, other real estate owned, postretirement benefits and asset impairment judgments including other-than-temporary declines in the value of investment securities and the recoverability of goodwill, other intangible assets and deferred tax assets.

**Subsequent Events.** The Company has evaluated events and transactions subsequent to December 31, 2013 for potential recognition or disclosure as required by GAAP.

**Significant Concentration of Credit Risk.** The Bank grants loans primarily to customers in Maine. Although the Bank has a diversified loan portfolio, a large portion of the Bank's loans are secured by commercial or residential real estate located in Maine and is subject to volatility within Maine's real estate market. Furthermore, the debtors' ability to honor their contractors is highly dependent upon other economic factors throughout Maine. The Bank does not generally engage in non-recourse lending and typically will require the principals of any commercial borrower to obligate themselves personally on the loan.

**Cash and Cash Equivalents.** For the purposes of reporting cash flows, cash and cash equivalents consist of cash on hand and amounts due from banks. The Bank is required by the FRB to maintain non-interest bearing cash reserves equal to a percentage of deposits. The Company maintains the reserve balances in cash on hand or at the FRB.

**Securities.** The Company's marketable equity and debt securities are classified as AFS securities and carried at fair value. Management determines the classification of investment securities at the time of its purchase (i.e. trading securities, AFS securities or held-to-maturity). As of December 31, 2013 and 2012, the Company held only AFS securities within its investment portfolio.

Unrealized gains and temporary unrealized losses on AFS securities are reported on an after-tax basis in shareholders' equity as AOCI on the consolidated statements of condition. FHLB and FRB stocks are non-marketable equity securities and are reported at cost and evaluated for impairment.



Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and are reported in non-interest income on the consolidated statements of income.

Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security appears to be other-than-temporary. The factors considered by management in its periodic review include, but are not limited to: the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the ratings of the security, whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions, and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value.

Table of Contents

Declines in the fair value of individual equity securities that are deemed to be other-than-temporary are reflected in non-interest income on the consolidated statements of income when identified. For individual debt securities where the Company does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to (i) credit loss is recognized in not-interest income on the consolidated statements of income and (ii) other factors is recognized in OCI. For individual debt securities where the Company intends to sell the security or more-likely-than-not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the date of the consolidated statement of condition.

The Company is a member of the FHLBB. As a requirement of membership, the Company must own a minimum amount of FHLB stock based on the level of its FHLB advances. No market exists for shares of the FHLB and therefore they are carried at par value. FHLB stock may be redeemed at par value five years following termination of FHLB membership, subject to limitations which may be imposed by the FHLB or its regulator, the Federal Housing Finance Agency, to maintain capital adequacy of the FHLB. While the Company currently has no intentions to terminate its FHLB membership, the ability to redeem its investment in FHLB stock would be subject to the conditions imposed by the FHLB.

Loans and Allowance for Loan Losses. The Company reports loans held for sale at fair value and as such the fair value for loans held for sale is determined using quoted secondary market prices or executed sales agreements. At December 31, 2013 and 2012, the Company did not hold any loans held for sale. All other loans in the aggregate are reported at amortized cost adjusted for any charge-offs, the ALL and any deferred fees or costs. From time to time, management identifies and designates certain residential mortgage loans (either newly originated mortgage loans or held in the loan portfolio) for sale, and, accordingly, these loans are transferred to loans held for sale.

The ALL is established through provisions for credit losses charged to income. Losses on loans, including impaired loans, are charged to the ALL when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the ALL when realized.

In determining the appropriate level of ALL, the Company uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio. The methodology includes four elements: (1) identification of loss allocations for certain specific loans, (2) loss allocation factors for certain loan types based on credit grade and loss experience, (3) general loss allocations for other environmental factors, and (4) the unallocated portion of the allowance. The specific component relates to loans that are classified as substandard or doubtful. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The methodology is in accordance with GAAP.

The Company uses a risk rating system to determine the credit quality of loans and applies the related loss allocation factors. In assessing the risk rating of a particular loan, the Company considers, among other factors, the obligor's debt capacity, financial condition, the level of the obligor's earnings, the amount and sources of repayment, the performance with respect to loan terms, the adequacy of collateral, the level and nature of contingent liabilities, management strength, and the industry in which the obligor operates. These factors are based on an evaluation of historical information, as well as subjective assessment and interpretation of current conditions. Emphasizing one factor over another, or considering additional factors that may be relevant in determining the risk rating of a particular loan but which are not currently an explicit part of our methodology, could impact the risk rating assigned to that loan. The Company at least annually reassesses and revises the loss allocation factors used in the assignment of loss exposure to appropriately reflect the analysis of loss experience. Portfolios of more homogenous populations of loans including home equity and consumer loans are analyzed as groups taking into account delinquency rates and other economic

conditions which may affect the ability of borrowers to meet debt service requirements, including interest rates and energy costs. The Company also considers the results of regulatory examinations, historical loss ranges, portfolio composition, and other changes in the portfolio. An additional allocation is determined based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors. An unallocated portion of the total allowance is maintained to allow for shifts in portfolio composition and to account for uncertainty in the economic environment.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the Company's market area, concentration of risk, declines in local property values, and results of regulatory examinations.

## Table of Contents

Loans past due 30 days or more are considered delinquent. In general, consumer loans will be charged off if the loan is delinquent for 90 consecutive days. Commercial and real estate loans may be charged off in part or in full if they appear uncollectible.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest due according to the contractual terms of the loan. Impairment is measured on a loan by loan basis for commercial, commercial real estate, and construction loans by one of three measures: the present value of expected future cash flows discounted at the loan's pre-modified effective interest rate; the loan's observable market price; or the fair value of the collateral if the loan is collateral-dependent. Large groups of homogeneous loans are collectively evaluated for impairment. As such, the Company does not typically identify individual loans within these groupings as impaired loans for impairment evaluation and disclosure.

**Interest and Fees on Loans.** Interest on loans is accrued at the contractual rate and credited to income based upon the principal amount outstanding. Loan origination fees received and certain direct loan origination costs are deferred and recognized in interest income as an adjustment of loan yield over the expected life of the loan (typically, the over the contractual life of the loan). A loan is classified as non-accrual generally when it becomes 90 days past due as to interest or principal payments. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. Interest payments received on non-accrual loans (including impaired loans) are applied as a reduction of principal. A loan remains on non-accrual status until all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Goodwill and Core Deposit Intangible.** Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. Goodwill is not subject to amortization but rather is evaluated at least annually for impairment, or as events and circumstances dictate, at the reporting unit level. The Company's two reporting unit levels are: (i) banking and (ii) financial services. The banking reporting unit is representative of the Company's core banking business line, while the financial services reporting unit is representative of the Company's wealth management, trust and services business line. Any impairment write-down is charged to non-interest expense on the consolidated statements of income. Goodwill impairment is evaluated by the Company utilizing several standard valuation techniques, including discounted cash flow analyses, comparable transaction market multiples, and an estimation of the impact of business conditions and investor activities on the long-term value of the goodwill.

The Company tests goodwill for impairment utilizing the two-step process and fair value guidance outlined in GAAP. Step 1 compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is greater than its carrying value, then the reporting unit is not deemed to be impaired and no further assessment is required. However, if the fair value of the reporting unit is below its carrying value, GAAP requires that step 2 of the goodwill impairment test be performed. Step 2 involves a process similar to business combination accounting in which fair value is assigned to all assets, liabilities and other (non-goodwill) intangibles. The result of step 2 is calculating the implied fair value of goodwill for the reporting unit. If the implied fair value of goodwill for the reporting unit is greater than its carrying value, then the reporting unit's goodwill is not impaired. However, if the reporting unit's implied fair value of goodwill is below its carrying value, an impairment charge is recorded to mark the carrying value of goodwill to fair value.

Core deposit intangible represents the estimated value of acquired customer relationships and is amortized on a straight-line basis over the estimated life of those relationships (5 to 10 years from the acquisition dates). On an ongoing basis, management reviews the valuation and amortization of intangible assets to determine possible impairment.

**BOLI.** BOLI represents the CSV of life insurance policies on the lives of certain active and retired employees where the Company is the beneficiary. The CSV of the policies is recorded as an asset. Increases in the CSV of the policies,

as well as death benefits received, net of any CSV, are recorded in non-interest income on the consolidated statements of income, and are not subject to income taxes.

**Premises and Equipment.** Premises and equipment are stated at cost, less accumulated depreciation and amortization, and fair value adjustments. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the term of the respective lease or the estimated life of the improvement.

**OREO.** OREO properties acquired through foreclosure or deed-in-lieu of foreclosure are recorded initially at estimated fair value less estimated costs to sell. Any write-down of the recorded investment in the related loan is charged to the ALL upon transfer to OREO. Thereafter, any further declines in the property's values are recorded against current earnings. Upon acquisition of a property, a current appraisal or a broker's opinion is used to substantiate fair value of the property.

Table of Contents

**Mortgage Servicing.** Servicing assets are recognized as separate assets when servicing rights are acquired through the sale of residential mortgage loans with servicing retained. Capitalized servicing rights, which are reported in other assets, are initially recorded at fair value and are amortized in proportion to, and over the period of, the estimated future servicing of the underlying mortgages (typically, the contractual life of the mortgage). Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment for an individual stratum is recognized through earnings to the extent that fair value is less than the capitalized amount for the stratum.

**Other Borrowed Funds.** Other borrowed funds consist of commercial and retail repurchase agreements, FHLB overnight and short-term borrowings, federal funds purchased, line of credit advances, notes payable, and treasury, tax and loan deposits. Retail repurchase agreements generally mature within 30 days and are reflected at the amount of cash received in connection with the transaction. Commercial repurchase agreements are callable quarterly, generally 6 to 24 months after issuance, and mature within five years. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Treasury, tax and loan deposits generally do not have fixed maturity dates.

**Income Taxes.** Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax implications attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**EPS.** Basic EPS excludes dilution and is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if certain securities or other contracts to issue common stock (such as stock options) were exercised or converted into additional common shares that would then share in the earnings of the Company. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year, plus an incremental number of common-equivalent shares computed using the treasury stock method.

Unvested share-based payment awards which include the right to receive non-forfeitable dividends are considered to participate with common stock in undistributed earnings for purposes of computing EPS. Restricted share grants and management stock purchase grants are considered participating securities for this purpose. Accordingly, the Company is required to calculate basic and diluted EPS amounts under the two-class method. Calculations of EPS under the two-class method (i) exclude any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities from the numerator and (ii) exclude the dilutive impact of the participating securities from the denominator.

**Postretirement and Supplemental Retirement Plans.** The Company sponsors a postretirement health care plan and life insurance to certain eligible retired employees. The cost of providing postretirement benefits is accrued during the active service period of the employee. A supplemental retirement plan is also maintained for certain officers of the Company. The supplemental retirement plan is accrued on a current basis and recognizes costs over the estimated employee service period.

**Stock-Based Compensation.** The fair value of restricted stock and stock options is determined on the date of grant and amortized to compensation expense, with a corresponding increase in common stock, over the longer of the service period or performance period, but in no event beyond an employee's retirement date. For performance-based restricted stock, the Company estimates the degree to which performance conditions will be met to determine the number of shares that will vest and the related compensation expense. Compensation expense is adjusted in the period such estimates change. Non-forfeitable dividends, if any, paid on shares of restricted stock are recorded to retained earnings for shares that are expected to vest and to compensation expense for shares that are not expected to vest.

**Off-Balance Sheet Credit Related Financial Instruments.** In the ordinary course of business, the Company enters into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded as loans when they are funded.

Table of Contents

**Derivative Financial Instruments Designated as Hedges.** The Company recognizes all derivatives in the consolidated statements of condition at fair value. On the date the Company enters into the derivative contract, the Company designates the derivative as a hedge of either a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), or a held for trading instrument (“trading instrument”). The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in OCI and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is effective. Those derivatives that are classified as trading instruments are recorded at fair value with changes in fair value recorded in earnings. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

**Segment Reporting.** The Company, through its bank and non-bank subsidiaries, provides a broad range of financial services to individuals and companies in Maine. These services include lending, checking, savings and time deposits, cash management, brokerage and trust services. While the Company’s management monitors operations of each subsidiary, substantially all revenues, profits, and assets of the Company are derived by the Bank from banking products and services and, therefore, the Company's management did not provide the segment reporting disclosures within the year ended December 31, 2013 Form 10-K as such was determined to be immaterial.

**Recent Accounting Pronouncements.** In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The clarifications provided in ASU No. 2013-01 did not have a material effect on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This ASU improves the reporting of reclassifications out of AOCI. The amendments in the ASU seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for reporting periods beginning after December 15, 2012, with early adoption permitted. Other than matters of presentation, the adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. This ASU amends Topic 815 to permit the Fed Funds Effective Swap Rate to be used as a United States benchmark interest rate for hedge accounting purposes. The ASU seeks to provide another acceptable United States benchmark



interest rate to provide risk managers with a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate when applying the guidance of Topic 815. The amendments are effectively prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The amendments provided in ASU No. 2013-10 did not have a material effect on the Company's consolidated financial statements.

Table of Contents

In January 2014, the FASB issued ASU No. 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The ASU amends current guidance to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments in this ASU are to be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company does not believe the ASU will have a material effect on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU was issued to clarify that an in substance repossession or foreclosure occurs, and a credit is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the credit obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the ASU amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and the ASU is to be adopted using either a modified retrospective transition method or a prospective transition method. The Company does not believe the ASU will have a material effect on the Company's consolidated financial statements, other than the additional disclosures required.

## 2. Branch Divestiture and Acquisition

On October 4, 2013, the Bank completed its divestiture of its Franklin County branches, including the Farmington, Kingfield, Phillips, Rangeley and Stratton branches. Included in the transaction are branch deposits and borrowings of \$85.9 million, business loans and certain consumer loans of \$46.0 million and real estate and equipment of \$602,000. The sales price represents a 3.5% premium on deposits, par value on the loan portfolio and book value for the real estate. The Company recognized a pre-tax gain on the sale of \$2.7 million. The Company incurred costs of \$374,000 related to the Branch Divestiture.

On October 26, 2012, the Bank acquired 15 full-service branches from Bank of America, National Association, pursuant to the terms and conditions of the Purchase and Assumption Agreement, dated April 23, 2012. The purchase price was \$12.0 million less the premium received upon the sale of one of these branches of \$3.3 million as agreed with the U.S. Department of Justice. While the Branch Acquisition is considered a purchase of a business for accounting purposes, revenues and expenses of the acquired branches and pro forma income statement information are not presented as the effect would not be material.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

| Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value: | Fair Value |
|--|------------|
| Cash and cash equivalents <sup>(1)</sup>   | \$267,689  |
| Loans  | 5,664      |
| Premises and equipment   | 5,177      |
| Core deposit intangible  | 2,856      |
| Other assets   | 45         |

|                            |           |   |
|----------------------------|-----------|---|
| Total assets acquired      | 281,431   |   |
| Deposits                   | (287,559) | ) |
| Other liabilities          | (54)      | ) |
| Total liabilities acquired | (287,613) | ) |
| Goodwill                   | \$(6,182) | ) |

(1) Amount is net of \$8.7 million deposit premium paid.

Table of Contents

In 2013, the Company finalized its accounting for the Branch Acquisition. There were no material changes to the Company's initial estimates of fair value for the identifiable assets and liabilities assumed as previously recorded and disclosed as a result.

The Company estimated the fair value of loans acquired by utilizing a methodology which approximates the projected cash flows for each aggregated loan pool by estimating future credit losses and the rate of prepayments and discounting to present value based on a market rate for similar loans. There was no allowance for loan losses recorded for the acquired loans as the loans were initially recorded at fair value. The Company acquired \$6.0 million in performing commercial loans and recorded a fair value mark of \$317,000.

The \$2.9 million core deposit intangible asset recognized as part of the Branch Acquisition is being amortized over its estimated useful life of five years using a straight-line method. The goodwill, which is not amortized for financial statement purposes, is deductible for tax purposes.

The fair value of savings and transaction deposit accounts acquired was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by projecting the expected cash flows based on the remaining contractual terms of the certificate of deposit. These cash flows were discounted based on a market rate for a certificate of deposit with a corresponding remaining maturity. The Company acquired \$286.7 million of deposits and recorded a fair value mark of \$900,000.

Direct costs related to the Branch Acquisition were expensed as incurred and amounted to \$2.3 million for 2012. These acquisition integration expenses included technology costs related to system conversions, customer communications and professional fees.

The Company completed the Branch Acquisition to provide additional business opportunities in these acquired branch locations by increasing the Bank's presence in these key growth markets. Future revenue opportunities include providing commercial and retail loans within the local communities and expanding our wealth management and investment advisory services.

### 3. Securities

The following tables summarize the amortized costs and estimated fair values of AFS securities, as of the dates indicated:

|   | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|---------------------|----------------------|---------------|
| December 31, 2013:  |                   |                     |                      |               |
| Obligations of states and political subdivisions  | \$30,143          | \$1,075             | \$(11)               | ) \$31,207    |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | 397,409           | 5,528               | (7,034)              | ) 395,903     |
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 385,847           | 912                 | (12,324)             | ) 374,435     |
| Private issue collateralized mortgage obligations   | 7,329             | 10                  | (407)                | ) 6,932       |
| Total available-for-sale securities   | \$820,728         | \$7,525             | \$(19,776)           | ) \$808,477   |
| December 31, 2012:  |                   |                     |                      |               |
| Obligations of states and political subdivisions  | \$31,112          | \$1,928             | \$—                  | ) \$33,040    |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | 345,528           | 12,699              | (79)                 | ) 358,148     |

|   |           |          |        |             |
|---|-----------|----------|--------|-------------|
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 375,627   | 6,181    | (120   | ) 381,688   |
| Private issue collateralized mortgage obligations   | 8,871     | —        | (697   | ) 8,174     |
| Total available-for-sale securities   | \$761,138 | \$20,808 | \$(896 | ) \$781,050 |

At December 31, 2013, net unrealized losses on AFS securities included in AOCI amounted to \$8.0 million, net of a deferred tax benefit of \$4.3 million. At December 31, 2012, net unrealized gains on AFS securities included in AOCI amounted to \$12.9 million, net of a deferred tax liability of \$7.0 million.

Table of Contents

## Impaired Securities

Management periodically reviews the Company's investment portfolio to determine the cause, magnitude and duration of declines in the fair value of each security. Thorough evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the ability of the securities to meet cash flow requirements, levels of credit enhancements, risk of curtailment, recoverability of invested amount over a reasonable period of time and the length of time the security is in a loss position, for example, are applied in determining OTTI. Once a decline in value is determined to be other-than-temporary, the value of the security is permanently reduced and a corresponding charge to earnings is recognized.

The following table presents the estimated fair values and gross unrealized losses of investment securities that were in a continuous loss position at December 31, 2013 and 2012, by length of time that individual securities in each category have been in a continuous loss position:

|   | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2013:  |                     |                   |                   |                   |            |                   |
| Obligations of states and political subdivisions  | \$2,143             | \$(11 )           | \$—               | \$—               | \$2,143    | \$(11 )           |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | 145,424             | (4,189 )          | 43,915            | (2,845 )          | 189,339    | (7,034 )          |
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 239,278             | (7,738 )          | 73,376            | (4,586 )          | 312,654    | (12,324 )         |
| Private issue collateralized mortgage obligations   | 122                 | (4 )              | 4,945             | (403 )            | 5,067      | (407 )            |
| Total   | \$386,967           | \$(11,942 )       | \$122,236         | \$(7,834 )        | \$509,203  | \$(19,776 )       |
| December 31, 2012:  |                     |                   |                   |                   |            |                   |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | \$42,782            | \$(79 )           | \$—               | \$—               | \$42,782   | \$(79 )           |
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 73,098              | (120 )            | —                 | —                 | 73,098     | (120 )            |
| Private issue collateralized mortgage obligations   | —                   | —                 | 8,174             | (697 )            | 8,174      | (697 )            |
| Total   | \$115,880           | \$(199 )          | \$8,174           | \$(697 )          | \$124,054  | \$(896 )          |

At December 31, 2013, the Company held 93 investment securities with a fair value of \$509.2 million with unrealized losses totaling \$19.8 million that are considered temporary. Of these, 27 investment securities with a fair value of \$122.2 million have been an unrealized loss position for 12 months or more. The decline in the fair value of the

securities is reflective of an increase in interest rates during 2013 and is not indicative of an overall credit deterioration or other factors with the Company's investment securities portfolio. Specifically, included in the unrealized losses were Non-Agencies with a fair value of \$5.1 million and unrealized losses of \$407,000. The Company's management believes the unrealized losses for the Non-Agencies are the result of current market illiquidity and the underestimation of value in the market. Management currently has the intent and ability to retain these investment securities with unrealized losses until the decline in value has recovered. Stress tests are performed regularly on the higher risk bonds in the Company's investment portfolio using current statistical data to determine expected cash flows and forecast potential losses. The results of the stress tests throughout 2013 including at December 31, 2013, indicated that no OTTI write-downs were necessary during 2013.

Table of Contents

At December 31, 2012, \$124.1 million of the Company's investment securities had unrealized losses that were primarily considered temporary. A large portion of the unrealized loss was related to the Non-Agencies, which includes \$7.5 million that have been downgraded to non-investment grade. Including the Non-Agencies, there were 11 securities with a fair value of \$8.2 million in the portfolio which had unrealized losses for twelve months or longer. The results of the stress tests during 2012, including at December 31, 2012, indicated potential future credit losses in the most likely scenario on two securities for which the Company recorded \$39,000 in OTTI write-downs during 2012.

## Security Gains and Losses and OTTI of Securities

The following table details the Company's sales of AFS investment securities, the gross realized gains and losses, and OTTI of securities:

|                                   | Years Ended December 31, |           |          |
|-----------------------------------|--------------------------|-----------|----------|
|                                   | 2013                     | 2012      | 2011     |
| Proceeds from sales of securities | \$17,613                 | \$115,493 | \$54,600 |
| Gross realized gains              | 785                      | 2,826     | 2,258    |
| Gross realized losses             | —                        | (289      | ) (73    |
| OTTI                              | —                        | (39       | ) (109   |

During 2013, the Company sold certain investment securities with a total carrying value of \$16.8 million in order to manage its liquidity and interest rate risk. The securities that were sold were primarily selected based on an assessment of their prepayment speed.

During 2012, the Company sold certain investment securities with a total carrying value of \$113.0 million in order to manage its liquidity and interest rate risk. The securities that were sold were primarily selected based on an assessment of their prepayment speed. One Non-Agency investment security, which had previously recorded \$176,000 in OTTI, was sold due to the recent deterioration in its credit quality.

During 2011, the Company sold 16 municipal bonds totaling \$7.3 million that the Company was monitoring that either had below "A" ratings, split ratings, withdrawn ratings, negative outlooks or were revenue bonds. Due to continued pressure on state and local government revenues around the country as municipalities struggle with a weak economy, management decided to sell these securities. The Company also sold one \$10.2 million agency security, 31 pass through securities totaling \$29.3 million, and three Non-Agencies totaling \$7.8 million. The Company had not recorded any OTTI on these securities; however, it did record OTTI of \$109,000 on two Non-Agency investment securities as the stress tests performed indicated potential future credit losses.

## Securities Pledged

At December 31, 2013 and 2012, securities with an amortized cost of \$479.2 million and \$465.0 million, respectively, and estimated fair values of \$474.7 million and \$482.4 million, respectively, were pledged to secure FHLBB advances, public deposits, and securities sold under agreements to repurchase, and for other purposes required or permitted by law.

## Contractual Maturities

The amortized cost and estimated fair values of AFS debt securities by contractual maturity at December 31, 2013 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.



|  | Amortized<br>Cost | Fair<br>Value |
|--|-------------------|---------------|
| Due in one year or less                | \$1,654           | \$1,667       |
| Due after one year through five years  | 29,753            | 30,433        |
| Due after five years through ten years | 155,014           | 155,315       |
| Due after ten years                    | 634,307           | 621,062       |
|  | \$820,728         | \$808,477     |

65

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Table of Contents

## 4. Loans and Allowance for Loan Losses

The composition of the Company's loan portfolio, excluding residential loans held for sale, at December 31, 2013 and 2012 was as follows:

|                                 | December 31, |             |
|---------------------------------|--------------|-------------|
|                                 | 2013         | 2012        |
| Residential real estate loans   | \$570,391    | \$572,768   |
| Commercial real estate loans    | 541,099      | 506,231     |
| Commercial loans                | 179,203      | 190,454     |
| Home equity loans               | 272,630      | 278,375     |
| Consumer loans                  | 17,651       | 16,633      |
| Deferred loan fees net of costs | (572         | ) (595      |
| Total loans                     | \$1,580,402  | \$1,563,866 |

The Company's lending activities are primarily conducted in Maine. The Company originates single family and multi-family residential loans, commercial real estate loans, business loans, municipal loans and a variety of consumer loans. In addition, the Company makes loans for the construction of residential homes, multi-family properties and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy. For the years ended December 31, 2013, 2012, and 2011, the Company sold \$33.3 million, \$16.9 million, and \$28.6 million of fixed rate residential mortgage loans on the secondary market, which resulted in a net gain on sale of loans of \$728,000, \$268,000, and \$292,000, respectively.

In 2012, the Company acquired \$6.0 million in performing commercial loans in connection with the Branch Acquisition. The loans were recorded at fair value, which was determined by estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. As a result of this analysis, the Company recorded a fair value mark of \$317,000, which will amortize over the estimated life of the loan. Additionally, the acquired loans did not have any related ALL as they were recorded at fair value; however, an ALL will be established should the credit quality of these loans deteriorate subsequent to the acquisition. As the acquired loans and fair value mark are immaterial to the Company's financial position, additional disclosures related to the acquired loans are not required.

The Company, in the normal course of business, has made loans to its subsidiaries, and certain officers, directors, and their associated companies, under terms that are consistent with the Company's lending policies and regulatory requirements. Loans, including any unused lines of credit, to related parties were as follows:

|                                   | December 31, |          |
|-----------------------------------|--------------|----------|
|                                   | 2013         | 2012     |
| Balance at beginning of year      | \$14,590     | \$15,361 |
| Loans made/advanced and additions | 4,317        | 350      |
| Repayments and reductions         | (1,479       | ) (1,121 |
| Balance at end of year            | \$17,428     | \$14,590 |

The ALL is management's best estimate of the inherent risk of loss in the Company's loan portfolio as of the consolidated statement of condition date. Management makes various assumptions and judgments about the collectability of the loan portfolio and provides an allowance for potential losses based on a number of factors including historical losses. If those assumptions are incorrect, the ALL may not be sufficient to cover losses and may

cause an increase in the allowance in the future. Among the factors that could affect the Company's ability to collect loans and require an increase to the allowance in the future are: (i) general real estate and economic conditions; (ii) regional credit concentration; (iii) industry concentration, for example in the hospitality, tourism and recreation industries; and (iv) a requirement by federal and state regulators to increase the provision for loan losses or recognize additional charge-offs.

Table of Contents

Prior to 2013, the Company performed its annual assessment of the loss allocation factors for its various loan portfolios and pools during the first calendar quarter of the year. In 2013, the Company performed this assessment in the first quarter and, again, in the fourth quarter. The Company believes performing this assessment in advance of its calendar year end and financial reporting is a best practice and, going forward, will continue to perform annually in the fourth quarter of the calendar year. In conjunction with the fourth quarter assessment of the loss allocation factors, the Company eliminated a pool of smaller-balanced non-performing residential loans and released the related allowance. The net effect to the ALL was a \$945,000 release of the allocated allowance. This pool was created prior to 2013 when the Company was experiencing significant increases in non-performing residential real estate secured loans as a result of post-recession consumer strain. The associated reserve was based on estimated fair value of the loans if sold as a group. While the loans in the pool shared certain characteristics, the qualifying pool composition varied. The Company determined the sale of loans as a group was less likely and discontinued the use of a separate pool. Loans that were formerly part of this pooling methodology are now being evaluated for an allowance as part of the loss allocation factor analysis.

During 2012, the Company modified its process to base historical loss factors on the net rather than gross charge-offs. The effect of the change was to reduce the historical loss factor component of the ALL by \$325,000.

The board of directors monitors credit risk through the Directors' Loan Review Committee, which reviews large credit exposures, monitors the external loan review reports, reviews the lending authority for individual loan officers when required, and has approval authority and responsibility for all matters regarding the loan policy and other credit-related policies, including reviewing and monitoring asset quality trends, concentration levels, and the ALL methodology. The Corporate Risk Management Group and the Credit Risk Policy Committee oversee the Company's systems and procedures to monitor the credit quality of its loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system, determine the adequacy of the ALL, and support the oversight efforts of the Directors' Loan Review Committee and the board of directors. The Company's practice is to proactively manage the portfolio such that management can identify problem credits early, assess and implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Company continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. For purposes of determining the ALL, the Company disaggregates its loans into portfolio segments, which include residential real estate, commercial real estate, commercial, home equity, and consumer.

The following table presents the activity in the ALL and select loan information by portfolio segment for the year ended December 31, 2013:

|  | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial | Home<br>Equity | Consumer | Unallocated | Total    |
|--|----------------------------|---------------------------|------------|----------------|----------|-------------|----------|
| ALL:                                     |                            |                           |            |                |          |             |          |
| Beginning balance                        | \$6,996                    | \$4,549                   | \$5,933    | \$2,520        | \$184    | \$2,862     | \$23,044 |
| Loans charged off                        | (1,059 )                   | (952 )                    | (1,426 )   | (647 )         | (190 )   | —           | (4,274 ) |
| Recoveries                               | 35                         | 121                       | 495        | 56             | 61       | —           | 768      |
| Provision (reduction)                    | (369 )                     | 656                       | 1,218      | 474            | 264      | (191 )      | 2,052    |
| Ending balance                           | \$5,603                    | \$4,374                   | \$6,220    | \$2,403        | \$319    | \$2,671     | \$21,590 |
| ALL balance attributable<br>loans:       |                            |                           |            |                |          |             |          |
| Individually evaluated for<br>impairment | \$1,750                    | \$526                     | \$132      | \$433          | \$140    | \$—         | \$2,981  |
| Collectively evaluated for<br>impairment | 3,853                      | 3,848                     | 6,088      | 1,970          | 179      | 2,671       | 18,609   |
| Total ending ALL                         | \$5,603                    | \$4,374                   | \$6,220    | \$2,403        | \$319    | \$2,671     | \$21,590 |

## Loans:

|                                       |           |           |           |           |          |     |             |
|---------------------------------------|-----------|-----------|-----------|-----------|----------|-----|-------------|
| Individually evaluated for impairment | \$14,435  | \$8,864   | \$2,635   | \$1,571   | \$442    | \$— | \$27,947    |
| Collectively evaluated for impairment | 555,384   | 532,235   | 176,568   | 271,059   | 17,209   | —   | 1,552,455   |
| Total ending loans balance            | \$569,819 | \$541,099 | \$179,203 | \$272,630 | \$17,651 | \$— | \$1,580,402 |

Table of Contents

The following table presents activity in the ALL and select loan information by portfolio segment for the year ended December 31, 2012:

|  | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial | Home<br>Equity | Consumer | Unallocated | Total       |
|--|----------------------------|---------------------------|------------|----------------|----------|-------------|-------------|
| ALL:                                     |                            |                           |            |                |          |             |             |
| Beginning balance                        | \$6,398                    | \$5,702                   | \$4,846    | \$2,704        | \$420    | \$2,941     | \$23,011    |
| Loans charged off                        | (1,197 )                   | (593 )                    | (1,393 )   | (1,234 )       | (85 )    | —           | (4,502 )    |
| Recoveries                               | 73                         | 222                       | 406        | 23             | 20       | —           | 744         |
| Provision (reduction)                    | 1,722                      | (782 )                    | 2,074      | 1,027          | (171 )   | (79 )       | 3,791       |
| Ending balance                           | \$6,996                    | \$4,549                   | \$5,933    | \$2,520        | \$184    | \$2,862     | \$23,044    |
| ALL balance attributable<br>loans:       |                            |                           |            |                |          |             |             |
| Individually evaluated for<br>impairment | \$2,255                    | \$265                     | \$286      | \$261          | \$39     | \$—         | \$3,106     |
| Collectively evaluated for<br>impairment | 4,741                      | 4,284                     | 5,647      | 2,259          | 145      | 2,862       | 19,938      |
| Total ending ALL                         | \$6,996                    | \$4,549                   | \$5,933    | \$2,520        | \$184    | \$2,862     | \$23,044    |
| Loans:                                   |                            |                           |            |                |          |             |             |
| Individually evaluated for<br>impairment | \$13,805                   | \$7,968                   | \$3,610    | \$1,515        | \$259    | \$—         | \$27,157    |
| Collectively evaluated for<br>impairment | 558,368                    | 498,263                   | 186,844    | 276,860        | 16,374   | —           | 1,536,709   |
| Total ending loans balance               | \$572,173                  | \$506,231                 | \$190,454  | \$278,375      | \$16,633 | \$—         | \$1,563,866 |

The ALL for the Company's portfolio segments is determined based on loan balances and the historical performance factor of each portfolio segment. The significant change in the ALL at December 31, 2013 compared to December 31, 2012 was within the residential real estate portfolio segment. As previously discussed, the decrease in the ALL for the residential real estate portfolio segment is primarily the result of a change in the allowance related to the pool of residential real estate loans for which a separate reserve was previously established.

The Company focuses on maintaining a well-balanced and diversified loan portfolio. Despite such efforts, it is recognized that credit concentrations may occasionally emerge as a result of economic conditions, changes in local demand, natural loan growth and runoff. To ensure that credit concentrations can be effectively identified, all commercial and commercial real estate loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. Shifts in portfolio concentrations are monitored by the Corporate Risk Management Group. As of December 31, 2013, the two most significant industry exposures within the commercial real estate loan portfolio were non-residential building operators (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings) and lodging (inns, bed & breakfasts, ski lodges, tourist cabins, hotels, and motels). At December 31, 2013, exposure to these two industries, as a percentage of total commercial real estate loans was 28% and 25%, respectively.

To further identify loans with similar risk profiles, the Company categorizes each portfolio segment into classes by credit risk characteristic and applies a credit quality indicator to each portfolio segment. The indicators for commercial, commercial real estate and residential real estate loans are represented by Grades 1 through 10 as outlined below. In general, risk ratings are adjusted periodically throughout the year as updated analysis and review warrants. This process may include, but is not limited to annual credit and loan reviews, periodic reviews of loan performance metrics such as delinquency rates, and quarterly reviews of adversely risk rated loans. The Company uses

the following definitions when assessing grades for the purpose of evaluating the risk and adequacy of the ALL:

Grade 1 through 6 — Grades 1 through 6 represent loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risks, which is measured using a variety of credit risk criteria, such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.

- Grade 7 — Loans with potential weakness (Special Mention). Loans in this category are currently protected based on collateral and repayment capacity and do not constitute undesirable credit risk, but have potential weakness that may result in deterioration of the repayment process at some future date. This classification is used if a negative trend is evident in the obligor's financial situation. Special mention loans do not sufficiently expose the Company to warrant adverse classification.

Table of Contents

Grade 8 — Loans with definite weakness (Substandard). Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or by collateral pledged. Borrowers experience difficulty in meeting debt repayment requirements. Deterioration is sufficient to cause the Company to look to the sale of collateral.

Grade 9 — Loans with potential loss (Doubtful). Loans classified as doubtful have all the weaknesses inherent in the substandard grade with the added characteristic that the weaknesses make collection or liquidation of the loan in full highly questionable and improbable. The possibility of some loss is extremely high, but because of specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Grade 10 — Loans with definite loss (Loss). Loans classified as loss are considered uncollectible. The loss classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset because recovery and collection time may be protracted.

Asset quality indicators are periodically reassessed to appropriately reflect the risk composition of the Company's loan portfolio. Home equity and consumer loans are not individually risk rated, but rather analyzed as groups taking into account delinquency rates and other economic conditions which may affect the ability of borrowers to meet debt service requirements, including interest rates and energy costs. Performing loans include loans that are current and loans that are past due less than 90 days. Loans that are past due over 90 days and non-accrual loans are considered non-performing loans.

The following table summarizes credit risk exposure indicators by portfolio segment as of the following dates:

|                           | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial | Home Equity | Consumer | Total       |
|---------------------------|----------------------------|---------------------------|------------|-------------|----------|-------------|
| December 31, 2013:        |                            |                           |            |             |          |             |
| Pass (Grades 1 – 6)       | \$551,035                  | \$496,257                 | \$155,851  | \$—         | \$—      | \$1,203,143 |
| Performing                | —                          | —                         | —          | 271,059     | 17,210   | 288,269     |
| Special Mention (Grade 7) | 3,196                      | 7,749                     | 11,315     | —           | —        | 22,260      |
| Substandard (Grade 8)     | 15,588                     | 37,093                    | 12,037     | —           | —        | 64,718      |
| Non-performing            | —                          | —                         | —          | 1,571       | 441      | 2,012       |
| Total                     | \$569,819                  | \$541,099                 | \$179,203  | \$272,630   | \$17,651 | \$1,580,402 |
| December 31, 2012:        |                            |                           |            |             |          |             |
| Pass (Grades 1 – 6)       | \$555,444                  | \$440,610                 | \$165,460  | \$—         | \$—      | \$1,161,514 |
| Performing                | —                          | —                         | —          | 276,742     | 16,376   | 293,118     |
| Special Mention (Grade 7) | 1,291                      | 17,069                    | 7,449      | —           | —        | 25,809      |
| Substandard (Grade 8)     | 15,438                     | 48,552                    | 17,545     | —           | —        | 81,535      |
| Non-performing            | —                          | —                         | —          | 1,633       | 257      | 1,890       |
| Total                     | \$572,173                  | \$506,231                 | \$190,454  | \$278,375   | \$16,633 | \$1,563,866 |

The Company closely monitors the performance of its loan portfolio. A loan is placed on non-accrual status when the financial condition of the borrower is deteriorating, payment in full of both principal and interest is not expected as scheduled or principal or interest has been in default for 90 days or more. Exceptions may be made if the asset is well-secured by collateral sufficient to satisfy both the principal and accrued interest in full and collection is assured by a specific event such as the closing of a pending sale contract. When one loan to a borrower is placed on non-accrual status, all other loans to the borrower are re-evaluated to determine if they should also be placed on non-accrual status. All previously accrued and unpaid interest is reversed at this time. A loan may be returned to



accrual status when collection of principal and interest is assured and the borrower has demonstrated timely payments of principal and interest for a reasonable period. Unsecured loans, however, are not normally placed on non-accrual status because they are charged-off once their collectability is in doubt.

Table of Contents

The following is a loan aging analysis by portfolio segment (including loans past due over 90 days and non-accrual loans) and a summary of non-accrual loans, which include TDRs, and loans past due over 90 days and accruing as of the following dates:

|                            | 30 – 59<br>Days Past<br>Due | 60 – 89<br>Days Past<br>Due | Greater<br>Than 90<br>Days | Total Past<br>Due | Current     | Total Loans<br>Outstanding | Loans > 90<br>Days Past<br>Due and<br>Accruing | Non-Accrual<br>Loans |
|----------------------------|-----------------------------|-----------------------------|----------------------------|-------------------|-------------|----------------------------|--|----------------------|
| December 31,<br>2013:      |                             |                             |                            |                   |             |                            |  |                      |
| Residential<br>real estate | \$3,218                     | \$684                       | \$7,269                    | \$11,171          | \$558,648   | 569,819                    | \$—  | \$ 10,520            |
| Commercial<br>real estate  | 926                         | 2,036                       | 3,301                      | 6,263             | 534,836     | 541,099                    | 257  | 7,799                |
| Commercial<br>Home equity  | 159                         | 237                         | 1,980                      | 2,376             | 176,827     | 179,203                    | 198  | 2,146                |
| Consumer                   | 1,395                       | 388                         | 1,007                      | 2,790             | 269,840     | 272,630                    | —  | 1,571                |
| Total                      | 63                          | 21                          | 418                        | 502               | 17,149      | 17,651                     | —  | 441                  |
|                            | \$5,761                     | \$3,366                     | \$13,975                   | \$23,102          | \$1,557,300 | \$1,580,402                | \$455  | \$ 22,477            |
| December 31,<br>2012:      |                             |                             |                            |                   |             |                            |  |                      |
| Residential<br>real estate | \$1,459                     | \$850                       | \$8,410                    | \$10,719          | \$561,454   | \$572,173                  | \$193  | \$ 10,584            |
| Commercial<br>real estate  | 896                         | 2,227                       | 5,380                      | 8,503             | 497,728     | 506,231                    | 138  | 6,719                |
| Commercial<br>Home equity  | 1,079                       | 68                          | 2,969                      | 4,116             | 186,338     | 190,454                    | 160  | 3,409                |
| Consumer                   | 2,230                       | 355                         | 1,105                      | 3,690             | 274,685     | 278,375                    | 118  | 1,514                |
| Total                      | 342                         | 199                         | 259                        | 800               | 15,833      | 16,633                     | 2  | 257                  |
|                            | \$6,006                     | \$3,699                     | \$18,123                   | \$27,828          | \$1,536,038 | \$1,563,866                | \$611  | \$ 22,483            |

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was approximately \$990,000 for 2013 and \$1.1 million for both 2012 and 2011.

The Company takes a conservative approach in credit risk management and remains focused on community lending and reinvesting. The Company works closely with borrowers experiencing credit problems to assist in loan repayment or term modifications. TDR loans consist of loans where the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that it would not otherwise consider. TDRs involve term modifications or a reduction of either interest or principal. Once such an obligation has been restructured, it will continue to remain in a restructured status until paid in full.

At December 31, 2013 and 2012, the allowance related to TDRs was \$656,000 and \$494,000, respectively. The specific reserve component was determined by discounting the total expected future cash flows from the borrower, or if the loan is currently collateral-dependent, using the fair value of the underlying collateral, which was obtained through independent appraisals and internal evaluations. At December 31, 2013, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

For 2013, the Company modified fourteen loans as TDRs, which had current balances of \$1.7 million at December 31, 2013. For 2012, the Company modified nine loans with current balances of \$1.9 million at December 31, 2012. The modification of these loans as TDRs did not have a material financial effect on the Company. Loans restructured due to credit difficulties that are now performing were \$5.5 million at December 31, 2013 and \$4.7 million at December

31, 2012. The Company had three TDRs that subsequently defaulted during 2013, which had current balances of \$765,000 at December 31, 2013. The Company had one TDR that subsequently defaulted during 2012, which had a current balance of \$65,000 at December 31, 2012.

Table of Contents

The following is a summary of accruing and non-accruing TDR loans by portfolio segment as of December 31, 2013 and 2012:

|                          | Number of Contracts     |      | Pre-Modification Outstanding Recorded Investment |         | Post-Modification Outstanding Recorded Investment |         | Current Balance |         |
|--------------------------|-------------------------|------|--|---------|---|---------|-----------------|---------|
|                          | 2013                    | 2012 | 2013   | 2012    | 2013  | 2012    | 2013            | 2012    |
|                          | Residential real estate | 26   | 20   | \$4,140 | \$3,305   | \$4,311 | \$3,434         | \$4,089 |
| Commercial real estate   | 10                      | 6    | 3,031  | 2,602   | 3,074   | 2,649   | 2,558           | 2,344   |
| Commercial               | 7                       | 3    | 504  | 303     | 504   | 303     | 488             | 236     |
| Consumer and home equity | 1                       | 1    | 3  | 3       | 3   | 3       | 1               | 2       |
| Total                    | 44                      | 30   | \$7,678  | \$6,213 | \$7,892   | \$6,389 | \$7,136         | \$5,868 |

The following is a summary of TDR loans that subsequently defaulted by portfolio segment as of December 31, 2013 and 2012:

|                         | 2013                | Recorded Investment | 2012                | Recorded Investment |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                         | Number of Contracts |                     | Number of Contracts |                     |
| Residential real estate | 1                   | \$109               | 1                   | \$65                |
| Commercial real estate  | 2                   | 656                 | —                   | —                   |
| Total                   | 3                   | \$765               | 1                   | \$65                |

Impaired loans consist of non-accrual and TDR loans. All impaired loans are allocated a portion of the allowance to cover potential losses.

The following is a summary of impaired loan balances and the associated allowance by portfolio segment as of December 31, 2013:

|                                     | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|
| With related allowance recorded:    |                     |                          |                   |                             |                            |
| Residential real estate             | \$11,902            | \$11,902                 | \$1,750           | \$10,411                    | \$118                      |
| Commercial real estate              | 6,805               | 6,805                    | 526               | 5,517                       | 20                         |
| Commercial                          | 1,876               | 1,876                    | 132               | 2,543                       | 10                         |
| Home equity                         | 1,228               | 1,228                    | 433               | 1,291                       | —                          |
| Consumer                            | 425                 | 425                      | 140               | 460                         | —                          |
| Ending Balance                      | \$22,236            | \$22,236                 | \$2,981           | \$20,222                    | \$148                      |
| Without related allowance recorded: |                     |                          |                   |                             |                            |
| Residential real estate             | \$2,533             | \$3,846                  | \$—               | \$2,925                     | \$28                       |
| Commercial real estate              | 2,059               | 2,782                    | —                 | 3,362                       | 55                         |
| Commercial                          | 759                 | 871                      | —                 | 765                         | 8                          |
| Home equity                         | 343                 | 479                      | —                 | 334                         | —                          |
| Consumer                            | 17                  | 37                       | —                 | 11                          | —                          |
| Ending Balance                      | \$5,711             | \$8,015                  | \$—               | \$7,397                     | \$91                       |
| Total impaired loans                | \$27,947            | \$30,251                 | \$2,981           | \$27,619                    | \$239                      |



Table of Contents

The following is a summary of impaired loan balances and the associated allowance by portfolio segment as of December 31, 2012:

|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With related allowance recorded:    |                        |                                |                      |                                   |                                  |
| Residential real estate             | \$11,021               | \$11,021                       | \$2,255              | \$10,585                          | \$114                            |
| Commercial real estate              | 4,296                  | 4,296                          | 265                  | 5,551                             | —                                |
| Commercial                          | 2,971                  | 2,971                          | 286                  | 3,927                             | —                                |
| Home equity                         | 1,236                  | 1,236                          | 261                  | 1,289                             | —                                |
| Consumer                            | 257                    | 257                            | 39                   | 239                               | —                                |
| Ending Balance                      | \$19,781               | \$19,781                       | \$3,106              | \$21,591                          | \$114                            |
| Without related allowance recorded: |                        |                                |                      |                                   |                                  |
| Residential real estate             | \$2,784                | \$3,841                        | \$—                  | \$2,548                           | \$26                             |
| Commercial real estate              | 3,672                  | 4,127                          | —                    | 2,056                             | 33                               |
| Commercial                          | 639                    | 956                            | —                    | 389                               | 13                               |
| Home equity                         | 279                    | 550                            | —                    | 617                               | —                                |
| Consumer                            | 2                      | 2                              | —                    | 6                                 | —                                |
| Ending Balance                      | \$7,376                | \$9,476                        | \$—                  | \$5,616                           | \$72                             |
| Total impaired loans                | \$27,157               | \$29,257                       | \$3,106              | \$27,207                          | \$186                            |

## 5. Goodwill and Other Intangible Assets

In 2012, the Company recorded \$6.2 million of goodwill and \$2.9 million of core deposit intangible related to the Branch Acquisition.

The changes in goodwill for the years ended December 31, 2013 and 2012 are shown in the table below:

|                               | Banking  | Financial<br>Services | Total    |
|-------------------------------|----------|-----------------------|----------|
| December 31, 2011:            |          |                       |          |
| Goodwill                      | \$34,720 | \$7,750               | \$42,470 |
| Accumulated impairment losses | —        | (740)                 | (740)    |
| Reported goodwill             | 34,720   | 7,010                 | 41,730   |
| 2012 activity                 | 6,182    | (276)                 | 5,906    |
| December 31, 2012:            |          |                       |          |
| Goodwill                      | 40,902   | 7,474                 | 48,376   |
| Accumulated impairment losses | —        | (740)                 | (740)    |
| Reported goodwill             | 40,902   | 6,734                 | 47,636   |
| 2013 activity                 | —        | (2,830)               | (2,830)  |
| December 31, 2013:            |          |                       |          |
| Goodwill                      | 40,902   | 7,474                 | 48,376   |
| Accumulated impairment losses | —        | (3,570)               | (3,570)  |
| Reported goodwill             | \$40,902 | \$3,904               | \$44,806 |

The Company performs its annual goodwill impairment assessment as of November 30 and at interim periods if indicators of potential impairment exist. At December 31, 2013, the carrying value of goodwill was \$44.8 million,

consisting of goodwill of \$40.9 million associated with the banking reporting unit and \$3.9 million attributable to the financial services reporting unit.

The annual impairment evaluation of goodwill associated with the banking reporting unit did not identify any impairment in 2013. The Company engaged an independent valuation firm to assist with the goodwill impairment assessment for the

72

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Table of Contents

financial services reporting unit as of November 30, 2013 as qualitative factors suggested that it was more-likely-than-not that the fair value of the reporting unit was less than its carrying amount. These qualitative factors included a decline in the revenue base as the result of (i) a decision to focus on the Company's core business of managing assets and administering trusts for families and local nonprofit organizations resulting in a lower revenue base by increasing account minimums and transferring smaller relationships to affiliates; and (ii) divesting the employee benefits product line. Also in the fourth quarter of 2013, new information became available resulting in the Company refining its approach of who represents a market participant for the financial services reporting unit and reassessing the valuation implications imposed by the required regulatory capital requirements.

The Company performed the two-step goodwill impairment test in accordance with GAAP. In performing step 1, two separate valuation methodologies were used to determine the fair value of the financial services reporting unit: (i) a discounted cash flow valuation technique (income approach); and (ii) a comparison of the price to revenue and assets under management of comparable market participant transactions (market approach). Both methods indicated the fair value of the financial services reporting unit was less than its carrying value. The step 2 analysis was then performed, and the results indicated the financial services reporting unit goodwill was impaired as the implied fair value of goodwill was less than its carrying value. As a result, the Company recorded a non-cash goodwill impairment charge of \$2.8 million related to the financial services reporting unit included within non-interest expense in the consolidated statements of income for the year ended December 31, 2013. The impairment was caused by lower forecasted revenue, an increase in the discount rate, the anticipated market participants and increased regulatory driven operating costs and capital levels required by potential market participants which impacts the valuation metrics.

The fair value of goodwill for the financial services reporting unit as of November 30, 2013 was determined by evenly weighting the income and market approach. The income approach utilized a discounted cash flow method, which is based on the expected future cash flows of the reporting unit. The key assumptions within the discounted cash flow model include projected assets under management and revenue growth, projected margin, and the discount rate. The market approach measures fair value based on what other market participants have paid for assets that can be considered reasonably similar to those being valued. The following table presents the key Level 3 unobservable inputs used within the discounted cash flow model to measure fair value of the financial services reporting unit at November 30, 2013:

| Valuation Methodology | Unobservable Input   | Input Used |
|-----------------------|----------------------|------------|
| Discounted cash flow  | Revenue growth rate  | 5.0%       |
|                       | Margin percentage    | 8.3%       |
|                       | Discount rate        | 16.5%      |
|                       | Fair value weighting | 50.0%      |
| Market approach       | Fair value weighting | 50.0%      |

The annual impairment evaluation of goodwill did not identify any impairment for 2012. During 2012, the Company exited its employee benefits line resulting in a reduction of financial services reporting unit goodwill of \$276,000.



Table of Contents

The changes in core deposit intangible and trust relationship intangible assets for the years ended December 31, 2013 and 2012 are shown in the table below:

|                              | Core Deposit Intangible |                          |            | Trust Relationship Intangible |                          |          |
|------------------------------|-------------------------|--------------------------|------------|-------------------------------|--------------------------|----------|
|                              | Total                   | Accumulated Amortization | Net        | Total                         | Accumulated Amortization | Net      |
| Balance at December 31, 2011 | \$ 14,444               | \$(11,432)               | ) \$ 3,012 | \$ 753                        | \$(301)                  | ) \$ 452 |
| 2012 activity                | 2,856                   | (582)                    | ) 2,274    | —                             | (75)                     | ) (75)   |
| Balance at December 31, 2012 | 17,300                  | (12,014)                 | ) 5,286    | 753                           | (376)                    | ) 377    |
| 2013 activity                | —                       | (1,074)                  | ) (1,074)  | ) —                           | (76)                     | ) (76)   |
| Balance at December 31, 2013 | \$ 17,300               | \$(13,088)               | ) \$ 4,212 | \$ 753                        | \$(452)                  | ) \$ 301 |

It is estimated that core deposit and trust relationship intangible assets will be fully amortized as of December 31, 2017. The following table reflects the expected amortization schedule for intangible assets at December 31, 2013.

|                              | Core Deposit Intangible | Trust Relationship Intangible |
|------------------------------|-------------------------|-------------------------------|
| 2014                         | \$ 1,073                | \$ 75                         |
| 2015                         | 1,073                   | 75                            |
| 2016                         | 1,073                   | 75                            |
| 2017                         | 993                     | 76                            |
| Total unamortized intangible | \$ 4,212                | \$ 301                        |

## 6. Premises and Equipment

Details of premises and equipment, at cost, at December 31 were as follows:

|   | 2013      | 2012       |
|---|-----------|------------|
| Land and land improvements                | \$ 3,019  | \$ 3,310   |
| Buildings and leasehold improvements      | 29,772    | 31,195     |
| Furniture, fixtures and equipment         | 19,792    | 19,572     |
| Total cost                                | 52,583    | 54,077     |
| Accumulated depreciation and amortization | (26,856)  | ) (26,018) |
| Net premises and equipment                | \$ 25,727 | \$ 28,059  |

Depreciation and amortization expense on premises and equipment was \$2.7 million, \$2.2 million and \$2.3 million for 2013, 2012 and 2011, respectively. At December 31, 2013 and 2012, the Company has capitalized software costs of \$3.2 million and \$3.0 million, respectively, and related accumulated depreciation expense of \$2.7 million and \$2.4 million, respectively. Capitalized software costs are presented within other assets on the consolidated statement of condition. Depreciation and amortization expense on capitalized software costs for 2013, 2012, and 2011 were \$296,000, \$301,000, and \$273,000, respectively.

Lease expense was approximately \$1.3 million, \$997,000 and \$918,000 for 2013, 2012 and 2011, respectively. The Company has a capital lease for a branch facility with payments that extend until 2026 at an interest rate of 9.75% per year. The related asset, recorded in premises and equipment, has a cost basis of \$855,000 and accumulated

depreciation of \$331,000. At December 31, 2013, under current operating and capital lease contracts, the Company had the following schedule of future minimum lease payments:

74

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Table of Contents

|            | Operating | Capital |
|------------|-----------|---------|
| 2014       | \$1,102   | \$129   |
| 2015       | 908       | 129     |
| 2016       | 763       | 127     |
| 2017       | 682       | 126     |
| 2018       | 489       | 126     |
| Thereafter | 1,575     | 938     |
|            | \$5,519   | \$1,575 |

During 2012, the Company recorded a gain of \$479,000 on the sale of a branch facility and is presented within other income on the consolidated statements of income. There were no recorded gains or losses from the sale of premises or equipment in 2013.

## 7. OREO

OREO properties acquired through foreclosure or deed-in-lieu of foreclosure are recorded at the fair value of the real estate, less estimated costs to sell. Any write-down of the recorded investment in the related loan is charged to the allowance for loan losses upon transfer to OREO. Subsequent write-downs required for declines in value are recorded through a valuation allowance and charged to other non-interest expense. During 2013, the Company consolidated two branches in Lewiston, Maine and transferred one of those branches to OREO at fair value, less estimated costs to sell, of \$305,000. Also during 2013, the Company sold one of its branch facilities that was carried within OREO at fair value, less estimated costs to sell, of \$360,000 at December 31, 2012 and recorded a gain of \$27,000. The Company recorded a net gain of \$40,000 on the sale of OREO properties in 2013, including the \$27,000 gain on sale of one of its branch facilities. In 2012 and 2011, the Company recorded a net loss on the sale of OREO properties of \$318,000 and \$119,000, respectively. The gain or loss recorded on sale of OREO properties is presented within other real estate owned and collection costs on the consolidated statements of income.

The activity in OREO for the years presented below was as follows:

|                              | 2013    | 2012    | 2011    |
|------------------------------|---------|---------|---------|
| Balance at beginning of year | \$1,313 | \$1,682 | \$2,387 |
| Additions                    | 1,958   | 2,180   | 1,989   |
| Disposals                    | (906)   | (2,388) | (2,506) |
| Write-downs                  | (170)   | (161)   | (188)   |
| Balance at end of year       | \$2,195 | \$1,313 | \$1,682 |

## 8. Mortgage Servicing

Residential real estate mortgages are originated by the Company both for its portfolio and for sale into the secondary market. The Company may sell its loans to institutional investors such as Freddie Mac. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed-upon rate on the loan, which is less than the interest rate received from the borrower. The Company retains the difference as a fee for servicing the residential real estate mortgages. The Company capitalizes MSR's at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The balance of capitalized MSR's, net of a valuation allowance, included in other assets on the consolidated statements of condition at December 31, 2013, and 2012 was \$726,000 and \$542,000, respectively. For the same periods, the fair value of MSR's was \$1.5 million and \$879,000, respectively. In evaluating the reasonableness of the carrying values of the MSR's, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model

utilizes a variety of assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Prepayment assumptions, which are impacted by loan rates and terms, are calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association and modeled against the serviced loan portfolio by the third party valuation specialist. The discount rate is the quarterly average 10-year U.S. Treasury rate plus 4.91%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of the mortgage servicing rights, as well as write-offs of capitalized rights due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income. Mortgage servicing fee income, net of

75

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Table of Contents

amortization and write-offs, for the years ended December 31, 2013, 2012, and 2011 was \$679,000, \$320,000, and \$437,000, respectively. Mortgage servicing fee income is presented in mortgage banking income, net on the consolidated statements of income. Also included within mortgage banking income, net on the consolidated statements of income is the net gains or losses recognized upon the sale of originated mortgage loans to Freddie Mac. For the years ended December 31, 2013, 2012, and 2011, the Company recognized gains upon the sale of loans of \$728,000, \$268,000, and \$292,000, respectively.

The following summarizes MSR capitalizations and amortizations, along with the activity in the related valuation allowance:

|  | 2013   | 2012   | 2011   |
|--|--------|--------|--------|
| <b>Mortgage Servicing Rights:</b>                          |        |        |        |
| Balance at beginning of year                               | \$542  | \$768  | \$898  |
| Capitalized upon sale                                      | 466    | 153    | 204    |
| Amortization charged against mortgage servicing fee income | (340)  | (349)  | (310)  |
| Valuation adjustment                                       | 58     | (30)   | (24)   |
| Balance at end of year                                     | \$726  | \$542  | \$768  |
| <b>Valuation Allowance:</b>                                |        |        |        |
| Balance at beginning of year                               | \$(73) | \$(43) | \$(19) |
| Increase in impairment reserve                             | (34)   | (174)  | (33)   |
| Reduction of impairment reserve                            | 92     | 144    | 9      |
| Balance at end of year                                     | \$(15) | \$(73) | \$(43) |
| Fair value, beginning of year <sup>(1)</sup>               | 879    | 1,138  | 973    |
| Fair value, end of year <sup>(1)</sup>                     | 1,494  | 879    | 1,138  |

(1) Reported fair value represents all MSRs currently being serviced by the Company, regardless of carrying amount.

Mortgage loans serviced for Freddie Mac are not included in the accompanying consolidated statements of condition. Mortgage loans serviced for Freddie Mac totaled \$157.9 million, \$156.1 million and \$178.0 million at December 31, 2013, 2012 and 2011, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing for Freddie Mac, and included in demand deposits, were \$518,000 and \$449,000 at December 31, 2013 and 2012, respectively.

While not capitalized as MSRs, the Company serves as the primary servicer of loans originated by MaineHousing. The Company has entered into a contract with MaineHousing to perform loan servicing on the MaineHousing portfolio for a fee. For the years ended December 31, 2013, 2012, and 2011, the Company earned fees of \$1.1 million, \$1.2 million, and \$1.1 million, respectively, for the servicing of MaineHousing loans included in other income on the consolidated statements of income. The MaineHousing loans serviced by the Company, which are not included in the accompanying consolidated statements of condition, totaled \$614.4 million, \$650.6 million, and \$709.6 million at December 31, 2013, 2012 and 2011, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing for MaineHousing and included in demand deposits were \$5.3 million and \$5.4 million at December 31, 2013 and 2012, respectively.

Table of Contents

## 9. Deposits

The following is a summary of scheduled maturities of certificates of deposit as of December 31, 2013:

|                               | Retail    | Brokered | Total     |
|-------------------------------|-----------|----------|-----------|
| 2014                          | \$203,236 | \$2,576  | \$205,812 |
| 2015                          | 84,525    | 17,033   | 101,558   |
| 2016                          | 23,835    | 28,622   | 52,457    |
| 2017                          | 11,428    | 6,545    | 17,973    |
| 2018                          | 7,288     | —        | 7,288     |
| Thereafter                    | 12,722    | —        | 12,722    |
| Total certificates of deposit | \$343,034 | \$54,776 | \$397,810 |

Certificates of deposit issued in amounts of \$100,000 or more totaled \$163.9 million and \$190.0 million at December 31, 2013 and 2012, respectively, including brokered certificates of deposit of \$39.2 million for both December 31, 2013 and 2012.

At December 31, 2013 and 2012, the Company, in the normal course of business, had deposits from certain officers, directors, and their associated companies totaling \$48.6 million and \$58.8 million, respectively.

## 10. Borrowings

## Other Borrowed Funds

Short-term borrowings consist of retail repurchase agreements, FHLBB advances due in less than 90 days, FHLBB and correspondent bank overnight borrowings, and other short-term borrowings due within one year. The Company, through its bank subsidiary, had an available line of credit with the FHLBB of \$9.9 million at December 31, 2013 and 2012. The Company had no outstanding balance on the line of credit with the FHLBB at December 31, 2013 or 2012. Long-term borrowings represent securities sold under repurchase agreements with major brokerage firms and notes payable with maturity dates over one year. Both wholesale and retail repurchase agreements are secured by mortgage-backed securities and securities of government sponsored enterprises. The Company has a \$10.0 million line of credit with a maturity date of December 20, 2014.

The following table summarizes other borrowed funds outstanding at December 31:

|  | 2013      | 2012      |
|--|-----------|-----------|
| Short-Term Borrowings:                                   |           |           |
| Securities sold under repurchase agreements – retail     | \$130,047 | \$151,035 |
| FHLBB advances less than 90 days                         | 230,000   | —         |
| FHLBB and correspondent bank overnight borrowings        | 38,800    | 41,500    |
| Capital lease obligation                                 | 60        | 57        |
| Notes payable  | 25        | 89        |
| Total short-term borrowings                              | 398,932   | 192,681   |
| Long-Term Borrowings:                                    |           |           |
| Securities sold under repurchase agreements – commercial | 30,142    | 66,187    |
| Capital lease obligation                                 | 984       | 1,044     |
| Notes payable  | —         | 28        |
| Total long-term borrowings                               | 31,126    | 67,259    |
| Total other borrowed funds                               | \$430,058 | \$259,940 |



Table of Contents

Information on the amounts outstanding and interest rates of short-term borrowings for each of the three years in the period ended December 31 are as follows:

|   | 2013      | 2012      | 2011      |   |
|---|-----------|-----------|-----------|---|
| Balance outstanding at end of year            | \$398,932 | \$192,681 | \$247,928 |   |
| Average daily balance outstanding             | 271,281   | 261,335   | 220,847   |   |
| Maximum balance outstanding at any month end  | 398,932   | 346,786   | 332,321   |   |
| Weighted average interest rate for the year   | 0.19      | % 0.21    | % 0.34    | % |
| Weighted average interest rate at end of year | 0.16      | % 0.18    | % 0.19    | % |

The securities sold under repurchase agreements – commercial are fixed rate borrowings, which are callable quarterly, with the following schedule of maturities, rate and year in which the instrument becomes callable, as of December 31, 2013:

|       | Amount   | Rate | Callable |
|-------|----------|------|----------|
| 2016  | \$25,000 | 2.61 | % 2014   |
| 2017  | 5,142    | 4.67 | % 2014   |
| Total | \$30,142 | 2.96 | %        |

## FHLB Advances

FHLB advances are collateralized by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one- to four-family properties, certain commercial real estate loans, certain pledged investment securities and other qualified assets. The carrying value of residential real estate and commercial loans pledged as collateral was \$742.8 million and \$671.5 million at December 31, 2013 and 2012, respectively. The carrying value of securities pledged as collateral at the FHLB was \$3.7 million and \$7.0 million at December 31, 2013 and 2012, respectively.

The advances payable to the FHLB are summarized as follows:

|                           | December 31, 2013 |          | December 31, 2012 |          |
|---------------------------|-------------------|----------|-------------------|----------|
|                           | Total Outstanding | Callable | Total Outstanding | Callable |
| Fixed Rate:               |                   |          |                   |          |
| 0.28% – 6.15% due in 2013 | \$—               | \$—      | \$222             | \$—      |
| 2.75% – 4.75% due in 2015 | 11,112            | 10,000   | 11,182            | 10,000   |
| 1.80% – 1.95% due in 2016 | 25,000            | —        | 25,000            | —        |
| 3.99% – 4.06% due in 2017 | 20,000            | 20,000   | 20,000            | 20,000   |
| Total FHLB advances       | \$56,112          | \$30,000 | \$56,404          | \$30,000 |

## Junior Subordinated Debentures

In April 2006, the Company formed CCTA, which issued and sold trust preferred securities to the public. The Company received \$36.1 million from the issuance of the trust preferred securities in return for junior subordinated debentures issued by the Company to CCTA. The Company owns all of the \$1.1 million of outstanding common securities of CCTA. The interest rate of the trust preferred securities was fixed at 6.71% through June 2011 and now floats at the 3 month LIBOR plus 140 basis points. The proceeds from the offering were used to repurchase Company common stock under the tender offer completed in May 2006. The trust preferred securities, which pay interest quarterly at the same rate as the junior subordinated debentures held by CCTA, are mandatorily redeemable on June



30, 2036, or may be redeemed by CCTA at par any time on or after June 30, 2011.

In connection with the acquisition of Union Bankshares Company in 2008, the Company assumed \$8.0 million of trust preferred securities, held through a Delaware trust affiliate, UBCT. In 2006, Union Bankshares Company issued an aggregate principal amount of \$8.2 million of 30-year junior subordinated deferrable interest debt securities to UBCT. The Company owns all of the \$248,000 of outstanding common securities of UBCT. The debt securities obligate the Company to pay interest

78

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Table of Contents

on their principal sum quarterly in arrears on January 7, April 7, July 7, and October 7 of each year. The interest rate of the trust preferred securities until April 7, 2011 was a blended rate equal to the sum of (1) the product of 50% times the average three-month LIBOR plus 1.42%, plus (2) the product of 50% times 6.4725%. The rate is now the average three-month LIBOR plus 1.42%. The debt securities mature on April 7, 2036, but may be redeemed by the Company, in whole or in part, beginning on April 7, 2011, on any interest payment date. The debt securities may also be redeemed by the Company in whole or in part, within 90 days of the occurrence of certain special redemption events as defined in the Indenture.

CCTA and UBCT are Delaware statutory trusts created for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Company. The junior subordinated debentures are the sole assets of the trusts. The Company is the owner of all of the common securities of CCTA and UBCT and fully and unconditionally guarantees each trust's securities obligations. In accordance with GAAP, CCTA and UBCT are treated as unconsolidated subsidiaries. The common stock investment in the statutory trusts is included in other assets on the consolidated statements of condition. Interest expense on the junior subordinated debentures totaled \$2.5 million during 2013, \$2.5 million during 2012 and \$2.6 million during 2011. At December 31, 2013, \$43.0 million of the trust preferred securities were included in the Company's total Tier I capital and amounted to 18.1% of Tier I capital of the Company.

The Company has a notional amount of \$43.0 million in interest rate swap agreements on its junior subordinated debentures. Further discussion on the terms and accounting for the interest rate swap agreements is included within Note 17 to the consolidated financial statements.

## 11. Income Taxes

The current and deferred components of income tax expense on the consolidated statements of income were as follows:

|                    | 2013      | 2012      | 2011      |
|--------------------|-----------|-----------|-----------|
| Current:           |           |           |           |
| Federal            | \$ 11,853 | \$ 5,107  | \$ 11,301 |
| State              | 400       | 457       | 463       |
|                    | 12,253    | 5,564     | 11,764    |
| Deferred:          |           |           |           |
| Federal            | (121      | ) 5,318   | 17        |
| Income tax expense | \$ 12,132 | \$ 10,882 | \$ 11,781 |

The income tax expense differs from the amount computed by applying the statutory federal income tax rate as a result of the following:

|  | 2013      | 2012      | 2011      |   |
|--|-----------|-----------|-----------|---|
| Computed tax expense                                 | \$ 12,220 | \$ 12,008 | \$ 13,285 |   |
| Increase (reduction) in income taxes resulting from: |           |           |           |   |
| Tax exempt income                                    | (510      | ) (623    | ) (753    | ) |
| State taxes, net of federal benefit                  | 260       | 297       | 301       |   |
| Goodwill impairment                                  | 991       | —         | 18        |   |
| Income from life insurance                           | (459      | ) (484    | ) (760    | ) |
| Low income housing credits                           | (299      | ) (328    | ) (393    | ) |
| Other  | (71       | ) 12      | 83        |   |
| Income tax expense                                   | \$ 12,132 | \$ 10,882 | \$ 11,781 |   |



Table of Contents

Temporary differences between the financial statements carrying amounts and the tax bases of assets and liabilities gave rise to the following deferred tax assets and liabilities:

|  | 2013     |           | 2012     |           |
|--|----------|-----------|----------|-----------|
|  | Asset    | Liability | Asset    | Liability |
| Allowance for possible losses on loans                           | \$7,564  | \$—       | \$8,081  | \$—       |
| Net unrealized losses and gains on available-for-sale securities | 4,288    | —         | —        | 6,969     |
| Pension and other benefits                                       | 3,900    | —         | 3,715    | —         |
| Net unrealized losses on derivative instruments                  | 1,369    | —         | 3,879    | —         |
| Net unrealized losses on postretirement plans                    | 992      | —         | 1,476    | —         |
| Deferred compensation and benefits                               | 963      | —         | 904      | —         |
| Purchase accounting and deposit premium                          | 321      | —         | —        | 147       |
| Allowance for OTTI of investments                                | 71       | —         | 71       | —         |
| Allowance for OREO valuation                                     | 59       | —         | 149      | —         |
| Depreciation   | —        | 1,765     | —        | 2,073     |
| Deferred loan origination fees                                   | —        | 1,390     | —        | 1,256     |
| Prepaid expenses   | —        | 766       | —        | 683       |
| Mortgage servicing rights  | —        | 254       | —        | 190       |
| Other  | 695      | —         | 706      | —         |
|  | \$20,222 | \$4,175   | \$18,981 | \$11,318  |

The related income taxes have been calculated using a rate of 35%. No valuation allowance is deemed necessary for the deferred tax assets.

Although not currently under review, income tax returns for the years ended December 31, 2010 through 2012 are open to audit by federal and Maine authorities. If the Company, as a result of an audit, were assessed interest and penalties, the amounts would be recorded through other non-interest expense on the consolidated statements of income.

## 12. Shareholders' Equity

### Dividends

The primary source of funds available to the Company for the payment of dividends to its shareholders is dividends paid to the Company by its subsidiaries. The Company's subsidiaries are subject to certain requirements imposed by federal banking laws and regulations. These requirements, among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by the subsidiaries to the Company. Under regulations prescribed by the OCC, without prior OCC approval, a bank subsidiary may not declare dividends in any year in excess of the bank's (i) net income for the current year, (ii) plus its retained net income for the prior two years. The Company declared \$8.3 million, \$7.7 million and \$11.5 million in dividends to shareholders for the years ended December 31, 2013, 2012 and 2011, respectively.

### Common Stock Repurchase

On September 24, 2013, the board of directors authorized the 2013 Repurchase Plan. The 2013 Repurchase Plan allows for the repurchase of up to 250,000 shares of the Company's outstanding common stock. This program is expected to continue until the authorized number of shares is repurchased, or the Company's board terminates the program. As of December 31, 2013, the Company repurchased 68,145 shares at a weighted-average price of \$40.78,

or 27% of the program's total allotment and 1% of total outstanding shares.

On September 25, 2012, the board of directors authorized the 2012 Repurchase Plan. The 2012 Repurchase Plan authorized management to repurchase up to 500,000 shares of the Company's outstanding common stock over a one-year term which expired on October 1, 2013. The Company did not repurchase any shares under the 2012 Repurchase Plan.

Table of Contents

## 13. EPS

The following is an analysis of basic and diluted EPS, reflecting the application of the two-class method, as described below:

|   | 2013      | 2012      | 2011      |
|---|-----------|-----------|-----------|
| Net income  | \$22,783  | \$23,428  | \$26,177  |
| Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup> | (64       | ) (60     | ) (42     |
| Net income available to common shareholders   | \$22,719  | \$23,368  | \$26,135  |
| Weighted-average common shares outstanding for basic EPS                                  | 7,634,455 | 7,646,861 | 7,672,126 |
| Dilutive effect of stock-based awards <sup>(2)</sup>                                      | 18,815    | 14,412    | 7,769     |
| Weighted-average common and potential common shares for diluted EPS                       | 7,653,270 | 7,661,273 | 7,679,895 |
| Earnings per common share:  |           |           |           |
| Basic EPS   | \$2.98    | \$3.06    | \$3.41    |
| Diluted EPS   | 2.97      | 3.05      | 3.40      |

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.

(2) Represents the effect of the assumed exercise of stock options, vesting of restricted shares, vesting of restricted stock units, and vesting of LTIP awards that have met the performance criteria, utilizing the treasury stock method.

Nonvested stock-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested stock-based awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested stock-based awards.

Diluted EPS is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

At December 31, 2013, 2012, and 2011, options to purchase 15,250, 49,500, and 102,000 shares, respectively, of common stock were not considered in the computation of potential common shares for purposes of diluted EPS, since the exercise prices of the options were greater than the average market price of the common stock for the respective periods.

## 14. Employee Benefit Plans

## 401(k)/Profit Sharing Plan

The Company has a 401(k)/profit sharing plan and the majority of employees participate in the plan. Employees may contribute pre-tax contributions to the 401(k)/profit sharing plan up to the maximum amount allowed by federal tax laws. The Company makes matching contributions of up to 4% of an employee's eligible compensation. The Company may make additional matching contributions subject to the discretion of the board of directors. For the years ended

December 31, 2013, 2012, and 2011, these contributions amounted to 3% of pre-tax compensation each year. For the years ended December 31, 2013, 2012 and 2011, expenses under the 401(k)/Profit Sharing plan amounted to \$1.4 million, \$1.2 million, and \$1.1 million, respectively.

Table of Contents

## SERP and Other Postretirement Benefit Plan

The Company sponsors unfunded, non-qualified SERPs for certain officers. These agreements are designed to make up the shortfall (when compared to a non-highly compensated employee) in replacing income at retirement due to IRS compensation and benefit limits under the 401(k) plan and Social Security. With a SERP in place, participants should be able to replace 65 – 75% of their final average compensation. For those eligible for benefits, the SERP provides for a minimum 15-year guaranteed benefit for all vested participants. In addition, the Company provides medical and life insurance to certain eligible retired employees under the other postretirement benefit plan.

The following table summarizes changes in the benefit obligation and plan assets for (i) the supplemental executive retirement plan and (ii) the other postretirement benefit plan as of December 31, 2013 and 2012:

|   | SERP     |          | Other Postretirement Benefits |         |
|---|----------|----------|-------------------------------|---------|
|   | 2013     | 2012     | 2013                          | 2012    |
| Benefit obligations:  |          |          |                               |         |
| Beginning of year   | \$10,346 | \$8,868  | \$3,536                       | \$3,187 |
| Service cost  | 326      | 269      | 42                            | 70      |
| Interest cost   | 377      | 408      | 173                           | 148     |
| Actuarial (gain) loss                                       | (579)    | ) 1,334  | (538)                         | ) 275   |
| Benefits paid   | (543)    | ) (533)  | ) (119)                       | ) (144) |
| End of year   | 9,927    | 10,346   | 3,094                         | 3,536   |
| Fair value of plan assets:                                  |          |          |                               |         |
| Beginning of year   | —        | —        | —                             | —       |
| Employer contributions                                      | 543      | 533      | 119                           | 144     |
| Benefits paid   | (543)    | ) (533)  | ) (119)                       | ) (144) |
| End of year   | —        | —        | —                             | —       |
| Funded status at end of year, included in other liabilities | \$9,927  | \$10,346 | \$3,094                       | \$3,536 |
| Amounts recognized in AOCI, net of tax:                     |          |          |                               |         |
| Net actuarial loss  | \$1,539  | \$2,061  | \$458                         | \$639   |
| Prior service cost (credit)                                 | 29       | 41       | (185)                         | ) —     |
| Total   | \$1,568  | \$2,102  | \$273                         | \$639   |

The accumulated benefit obligation for the SERP was \$8.0 million and \$7.9 million at December 31, 2013 and 2012, respectively. In 2014, approximately \$140,000 and \$19,000 in net actuarial losses and prior service cost, respectively, are expected to be recognized as components of net period benefit cost for the SERP, and approximately \$10,000 and \$22,000 in net actuarial loss and prior service credit, respectively, are expected to be recognized for the other postretirement benefit plan.



Table of Contents

The components of net period benefit cost and other amounts recognized in OCI, before taxes, were as follows:

|   | SERP  |         |         | Other Postretirement Benefits |         |       |
|---|-------|---------|---------|-------------------------------|---------|-------|
|   | 2013  | 2012    | 2011    | 2013                          | 2012    | 2011  |
| Net period benefit cost:  |       |         |         |                               |         |       |
| Service cost  | \$326 | \$269   | \$232   | \$42                          | \$70    | \$65  |
| Interest cost   | 377   | 408     | 431     | 173                           | 148     | 150   |
| Recognized net actuarial loss                                     | 224   | 114     | 67      | 48                            | 31      | 5     |
| Amortization of prior service cost (credit)                       | 19    | 19      | 19      | (23)                          | —       | —     |
| Net period benefit cost   | 946   | 810     | 749     | 240                           | 249     | 220   |
| Changes in funded status recognized in OCI, before taxes:         |       |         |         |                               |         |       |
| Net actuarial (gain) loss   | (579) | ) 1,334 | 615     | (538)                         | ) 275   | 417   |
| Reclassifications to net period benefit cost:                     |       |         |         |                               |         |       |
| Amortization of net unrecognized actuarial loss                   | (224) | ) (114) | ) (67)  | ) (48)                        | ) (31)  | ) (5) |
| Amortization of prior service (cost) credit                       | (19)  | ) (19)  | ) (19)  | ) 23                          | —       | —     |
| Total recognized in OCI, before taxes                             | (822) | ) 1,201 | 529     | (563)                         | ) 244   | 412   |
| Total recognized in net period benefit cost and OCI, before taxes | \$124 | \$2,011 | \$1,278 | \$(323)                       | ) \$493 | \$632 |

The following assumptions were used in determining benefit obligations and net period benefit costs:

|  | SERP |        |        | Other Postretirement Benefits |        |        |
|--|------|--------|--------|-------------------------------|--------|--------|
|  | 2013 | 2012   | 2011   | 2013                          | 2012   | 2011   |
| Weighted-average assumptions as of end of year:      |      |        |        |                               |        |        |
| Discount rate for benefit obligation                 | 4.75 | % 3.75 | % 4.75 | % 5.02                        | % 4.05 | % 4.75 |
| Discount rate for net period benefit cost            | 3.75 | % 4.75 | % 5.50 | % 4.05                        | % 4.75 | % 5.45 |
| Rate of compensation increase                        | 4.50 | % 4.50 | % 4.50 | % —                           | —      | —      |
| Health care cost trend rate assumed for future years | —    | —      | —      | 7.00                          | % 7.00 | % 7.00 |

A 1.0% increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation and the related service and interest cost \$378,000 and \$28,000, respectively, while a 1.0% decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and the related service and interest cost \$345,000 and \$26,000, respectively. The postretirement plan has a built-in cap on annual benefits to participants and, thus, the accumulated postretirement benefit obligation and the assumed health care cost trend are relatively stable each period.

Table of Contents

In 2014, the expected contribution is \$594,000 for the SERP and \$145,000 for the other postretirement benefit plan. The expected benefit payments for the next ten years are presented in the following table:

|           | SERP  | Other<br>Postretirement<br>Benefits |
|-----------|-------|-------------------------------------|
| 2014      | \$594 | \$145                               |
| 2015      | 480   | 140                                 |
| 2016      | 487   | 137                                 |
| 2017      | 471   | 134                                 |
| 2018      | 471   | 130                                 |
| 2019-2023 | 3,021 | 775                                 |

In December 2003, the Act was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of the Act on the accumulated projected benefit obligation or net period post-retirement benefit cost are not reflected in the financial statements or accompanying notes because the Company has not concluded whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

## 15. Stock-Based Compensation Plans

### Stock-Based Compensation

On April 29, 2003 and May 1, 2012, the shareholders of the Company approved the 2003 Plan and 2012 Plan, respectively. The maximum number of shares of stock reserved and available for issuance under each the 2003 Plan and 2012 Plan is 800,000 shares. Awards may be granted in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, deferred stock, unrestricted stock, performance shares and dividend equivalent rights, or any combination of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant in the case of incentive stock options, or 85% of the fair market value on the date of grant in the case of non-qualified stock options. No stock options are exercisable more than ten years after the date the stock option is granted. The exercise price of all options equaled the market price of the Company's stock on the date of grant.

### Stock Option Awards

Stock options granted under the 2003 Plan and the 2012 Plan have been incentive stock options. Options granted vest pro rata over a 5 year period and have a contractual life of 10 years.

On the date of each grant, the fair value of each award is derived using the Black-Scholes option pricing model based on assumptions made by the Company as follows:

• Dividend yield is based on the dividend rate of the Company's stock at the date of grant.

• Risk-free interest rate is based on the U.S. Treasury bond rate with a term equaling the expected life of the granted options.

• Expected volatility is based on the historical volatility of the Company's stock price.

• Expected life represents the period of time that granted options are expected to be outstanding based on historical trends.

The following table presents the option pricing assumptions and the estimated fair value of the options using these assumptions:

84

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Table of Contents

|  | 2013    | 2012    | 2011    |   |
|--|---------|---------|---------|---|
| Dividend yield                                 | 1.00    | % 2.20  | % 3.04  | % |
| Weighted average risk-free interest rate       | 1.60    | % 0.79  | % 1.95  | % |
| Weighted average expected volatility           | 52.32   | % 53.31 | % 51.90 | % |
| Weighted average expected life in years        | 5.30    | 5.30    | 5.12    |   |
| Weighted average fair value of options granted | \$15.97 | \$13.00 | \$12.30 |   |

Compensation expense is recognized on a straight-line basis over the option vesting period and totaled \$134,000, \$99,000 and \$204,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Unrecognized compensation cost for nonvested stock options, which reflects an estimated annualized average forfeiture rate of approximately 3% per year over the vesting period, totaled \$190,000 at December 31, 2013, and is expected to be recognized over the remaining weighted-average vesting period of 2.4 years. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012, and 2011 was \$153,000, \$146,000, and \$16,000, respectively.

Stock option activity for 2013 is as follows:

|  | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|------------------|---------------------------------|---|---------------------------|
| Options outstanding at January 1, 2013   | 139,400          | \$32.97                         |   |                           |
| Granted                                  | 1,000            | 41.11                           |   |                           |
| Exercised                                | (22,100 )        | 31.24                           |   |                           |
| Forfeited and expired                    | (6,350 )         | 33.23                           |   |                           |
| Options outstanding at December 31, 2013 | 111,950          | \$33.36                         | 4.9   | \$987                     |
| Options exercisable at December 31, 2013 | 77,000           | \$34.06                         | 4.0   | \$637                     |

A summary of the status of the Company's nonvested stock options as of December 31, 2013 and changes during the year then ended is presented below:

|                                | Awards    | Weighted-Average Grant Date Fair Value |
|--------------------------------|-----------|--|
| Nonvested at January 1, 2013   | 59,500    | \$9.67                                 |
| Granted                        | 1,000     | 15.97                                  |
| Vested                         | (20,400 ) | 9.64                                   |
| Forfeited                      | (5,150 )  | 11.41                                  |
| Nonvested at December 31, 2013 | 34,950    | \$11.23                                |

#### Restricted Stock Awards and Management Stock Purchase Plan

The Company issues restricted stock awards to certain key employees. Employees' shares vest pro-rata over three years, with requisite service conditions and no performance-based conditions to such vesting. The Company provides a MSPP to provide an opportunity for management employees to receive restricted shares of the Company's common stock in lieu of their annual incentive bonus. Restricted shares under the MSPP are granted at a discount of one-third of the fair market value of the stock on the date of grant and cliff vests two years after the grant date. During the vesting period, dividends are accrued on the restricted stock and the recipients are entitled to vote these restricted shares.



Table of Contents

Compensation expense recognized in connection with the restricted stock awards and MSPP is presented in the following table:

|                                       | Year Ended December 31, |       |       |
|---------------------------------------|-------------------------|-------|-------|
|                                       | 2013                    | 2012  | 2011  |
| Restricted stock awards               | \$149                   | \$163 | \$92  |
| Management stock purchase plan grants | 73                      | 65    | 37    |
| Total compensation expense            | \$222                   | \$228 | \$129 |
| Related income tax benefit            | \$78                    | \$80  | \$45  |
| Fair value of grants vested           | \$229                   | \$121 | \$106 |

The following table presents a summary of the activity related to restricted stock awards and the MSPP for the period indicated:

|                                | Restricted Stock |  | MSPP             |  |
|--------------------------------|------------------|--|------------------|--|
|                                | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Nonvested at January 1, 2013   | 10,017           | \$34.84                                | 12,052           | \$10.69                                |
| Granted                        | 6,325            | 33.72                                  | 7,801            | 11.75                                  |
| Vested                         | (4,965)          | ) 34.12                                | (5,395)          | ) 11.03                                |
| Forfeited                      | (897)            | ) 34.51                                | (238)            | ) 11.32                                |
| Nonvested at December 31, 2013 | 10,480           | \$34.53                                | 14,220           | \$11.14                                |

At December 31, 2013, unrecognized compensation cost related to nonvested restricted stock awards and MSPP was \$251,000 which is expected to be recognized over a weighted average period of 1.6 years.

#### Long-Term Performance Share Plan

The LTIP is intended to attract and retain executives who will contribute to the Company's future success. The long-term performance period is a period of three consecutive years beginning on January 1 of the first year and ending on December 31 of the third year. Awards are based upon the attainment of certain performance targets on specific performance measures selected by the Compensation Committee and approved by the board of directors. The performance-based share units granted will vest only if certain revenue and expense goals or service conditions, as defined under the LTIP, are achieved. Failure to achieve the goals and service conditions will result in all or a portion of the shares being forfeited.

Compensation expense recognized in connection with the LTIP is presented in the following table:

|                             | Year Ended December 31, |       |       |
|-----------------------------|-------------------------|-------|-------|
|                             | 2013                    | 2012  | 2011  |
| Compensation expense        | \$200                   | \$174 | \$672 |
| Related income tax benefit  | \$70                    | \$61  | \$235 |
| Fair value of grants vested | \$497                   | \$609 | \$570 |

Table of Contents

The following table presents a summary of the activity related to LTIP for the period indicated:

|                                | Number of<br>Shares | Weighted<br>Average Grant<br>Date<br>Fair Value |
|--------------------------------|---------------------|---|
| Nonvested at January 1, 2013   | 61,623              | \$35.25   |
| Granted                        | 22,165              | 36.81   |
| Vested                         | (13,978             | ) 35.65   |
| Forfeited                      | (25,018             | ) 35.47   |
| Nonvested at December 31, 2013 | 44,792              | \$35.78   |

Based on current performance levels, unrecognized stock compensation expense for the performance share awards was \$338,000 with a weighted-average remaining amortization period of 0.9 years at December 31, 2013.

#### Defined Contribution Retirement Plan

The DCRP is an unfunded deferred compensation plan for the benefit of certain senior management employees of the Company. The Company's Compensation Committee determines eligibility in the DCRP and annually, participants will receive a credit to an account administered by the Company of 10% of each participant's annual base salary and bonus for the prior performance period. Annual credits to a participant's account will be denominated in Deferred Stock Awards (the right to receive a share of common stock of the Company upon the satisfaction of certain restrictions) based on the fair market value of the common stock of the Company on the date of grant. Vesting occurs ratably from the date of participation until the participant reaches the age of 65, at which time the participant is 100% vested. Upon retirement or termination of employment, the participant will receive shares of common stock equal to the Deferred Stock Awards in the account multiplied by the vested percentage, reduced by the amount to be withheld for income taxes. The Company granted 2,304, 2,322, and 2,135 of Deferred Stock Awards during 2013, 2012 and 2011, respectively under the DCRP. Compensation expense totaled \$40,000, \$37,000, and \$20,000 for the years ended December 31, 2013, 2012, and 2011, respectively. Unrecognized stock compensation expense for the Deferred Stock Awards was \$216,000 with a weighted-average remaining amortization period of 12.9 years at December 31, 2013.

#### 16. Other Non-Interest Expenses

Detail of other expenses included in the consolidated statements of income is as follows:

|                                       | Year Ended December 31, |         |         |
|---------------------------------------|-------------------------|---------|---------|
|                                       | 2013                    | 2012    | 2011    |
| Debit and ATM-related costs           | \$2,118                 | \$1,792 | \$1,714 |
| Donations and marketing               | 1,561                   | 1,949   | 1,347   |
| Postage, freight, and courier         | 1,284                   | 1,012   | 971     |
| Employee-related costs <sup>(1)</sup> | 1,217                   | 1,113   | 981     |
| Office supplies and forms             | 997                     | 1,067   | 767     |
| Other expenses                        | 3,197                   | 2,059   | 2,817   |
| Total                                 | \$10,374                | \$8,992 | \$8,597 |

(1) Employee related costs include hiring, training, education, meeting and business travel costs.

Table of Contents

## 17. Commitments and Contingencies

## Legal Contingencies

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions. Although the Company is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that based on the information currently available the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position as a whole.

Reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case a reserve will not be recognized until that time.

As of December 31, 2013, the Company did not have any loss contingencies that were both probable and reasonably estimable and, therefore, no accrued liability has been recognized.

## Financial Instruments

In the normal course of business, the Company is a party to both on-and off-balance sheet financial instruments involving, to varying degrees, elements of credit risk and interest rate risk in addition to the amounts recognized in the consolidated statements of condition.

The following is a summary of the contractual and notional amounts of the Company's financial instruments:

|  | December 31, |           |
|--|--------------|-----------|
|  | 2013         | 2012      |
| Lending-Related Instruments:                                 |              |           |
| Loan origination commitments and unadvanced lines of credit: |              |           |
| Home equity  | \$276,671    | \$277,373 |
| Commercial and commercial real estate                        | 26,688       | 20,016    |
| Residential  | 6,408        | 9,497     |
| Letters of credit  | 1,789        | 1,836     |
| Other commitments  | 437          | 16,845    |
| Derivative Financial Instruments:                            |              |           |
| Customer loan swaps  | 15,702       | 16,093    |
| Interest rate swaps  | 43,000       | 43,000    |

## Lending-Related Instruments

The contractual amounts of the Company's lending-related financial instruments do not necessarily represent future cash requirements since certain of these instruments may expire without being funded and others may not be fully drawn upon. These instruments are subject to the Company's credit approval process, including an evaluation of the customer's creditworthiness and related collateral requirements. Commitments generally have fixed expiration dates or other termination clauses.

## Derivative Financial Instruments



The Company uses derivative financial instruments for risk management purposes (primarily interest rate risk) and not for trading or speculative purposes. The Company controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures.

Table of Contents

## Interest Rate Swaps:

The Company's interest rate swap arrangements contain provisions that require the Company to post cash collateral with the counterparty for contracts that are in a net liability position based on their fair values and the Company's credit rating. The Company had a notional amount of \$43.0 million in interest rate swap agreements on its junior subordinated debentures and \$5.3 million in cash held as collateral. The Company swapped its variable interest rate for a fixed interest rate and the terms of the interest rate swap agreements are as follows:

| Notional Amount | Fixed Rate | Maturity Date  |
|-----------------|------------|----------------|
| \$ 10,000       | 5.09%      | June 30, 2021  |
| 10,000          | 5.84%      | June 30, 2029  |
| 10,000          | 5.71%      | June 30, 2030  |
| 5,000           | 4.35%      | March 30, 2031 |
| 8,000           | 4.14%      | July 7, 2031   |

The fair value of the swap agreements on the Company's junior subordinated debentures at December 31, 2013 was a liability of \$3.9 million and is presented within accrued interest and other liabilities on the consolidated statements of condition. As each instrument qualifies as a highly effective cash flow hedge, the change in fair value of the interest rate swaps during 2013 of \$4.7 million was recorded in OCI, net of tax. Net payments to the counterparty for 2013 were \$1.6 million and have been classified as cash flows from operating activities in the consolidated statements of cash flows. The Company would reclassify unrealized gains or losses accounted for within AOCI into earnings if the interest rate swaps were to become ineffective or the arrangements were to terminate. In the next 12 months, the Company does not believe it will reclassify any related unrealized gains or losses accounted for within AOCI into earnings.

At December 31, 2012, the Company had interest rate swap arrangements with a notional amount of \$43.0 million. The fair value of the swap agreements on its junior subordinated debentures at December 31, 2012 was a liability of \$11.1 million and is presented within accrued interest and other liabilities on the consolidated statements of condition. As each instrument qualified as a highly effective cash flow hedge, the change in fair value of the interest rate swaps during 2012 of \$60,000 was recorded in OCI, net of tax. Net payments to the counterparty for 2012 were \$1.6 million and have been classified as cash flows from operating activities in the consolidated statements of cash flows.

## Customer Derivatives

At December 31, 2013 and 2012, the Company had a notional amount of \$7.9 million in interest rate swap agreements with commercial customers and interest rate swap agreements of equal notional amounts with a dealer bank related to the Company's commercial loan level derivative program. As the two swap agreements have substantially equivalent and offsetting terms, they do not materially change the Company's interest rate risk or present any material exposure to the Company's consolidated statements of income for either of 2013 or 2012.

## Forward Commitments to Sell Residential Mortgage Loans

From time to time, the Company enters into forward commitments to sell residential mortgages in order to reduce the market risk associated with originating loans for sale in the secondary market. At December 31, 2013 and 2012, there were no commitments to sell residential mortgages.

## Interest Rate Locks and Mortgage Loan Commitments

As part of originating residential mortgage and commercial loans, the Company may enter into rate lock agreements with customers, and may issue commitment letters to customers, which are considered interest rate lock or forward commitments. At December 31, 2013 and 2012, based upon the pipeline of mortgage loans with rate lock commitments and commercial loans with commitment letters, and the change in fair value of those commitments due to changes in market interest rates, the Company determined the impact on the consolidated financial statements was not material.

Table of Contents

## 18. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using quoted market prices. However, in many instances, quoted market prices are not available. In such instances, fair values are determined using various valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

GAAP permits an entity to choose to measure certain eligible financial instruments and other items at fair value. The Company elected the fair value option for its loans held for sale. Electing the fair value option for loans held for sale enables the Company's financial position to more clearly align with the economic value of the actively traded asset. The Company did not have any loans held for sale at December 31, 2013 or 2012.

The fair value hierarchy for valuation of an asset or liability is as follows:

- Level 1: Valuation is based upon unadjusted quoted prices in active markets for identical assets and liabilities that the entity has the ability to access as of the measurement date.
- Level 2: Valuation is determined from quoted prices for similar assets or liabilities in active markets, from quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.
- Level 3: Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon model-based techniques incorporating various assumptions including interest rates, prepayment speeds and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

**Financial Instruments Recorded at Fair Value on a Recurring Basis**

**AFS Securities:** The fair value of debt AFS securities is reported utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the bond's terms and conditions. The fair value of debt securities are classified as Level 2.

**Trading Account Assets:** Trading account assets are invested in mutual funds and classified as Level 1 based upon quoted prices.

**Derivatives:** The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of December 31, 2013 and December 31, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.



Table of Contents

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

|   | Fair Value | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Company Determined Fair Value (Level 3) |
|---|------------|---|----------------------------------|---|
| At December 31, 2013:   |            |   |                                  |   |
| Financial Assets:   |            |   |                                  |   |
| AFS debt securities:  |            |   |                                  |   |
| Obligations of states and political subdivisions  | \$31,207   | \$—                                       | \$31,207                         | \$—                                     |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | 395,903    | —   | 395,903                          | —                                       |
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 374,435    | —   | 374,435                          | —                                       |
| Private issue collateralized mortgage obligations   | 6,932      | —   | 6,932                            | —                                       |
| Trading account assets  | 2,488      | 2,488                                     | —                                | —                                       |
| Customer interest rate swap agreement   | 114        | —   | 114                              | —                                       |
| Financial Liabilities:  |            |   |                                  |   |
| Interest rate swap agreements   | 3,911      | —   | 3,911                            | —                                       |
| Customer interest rate swap agreement   | 114        | —   | 114                              | —                                       |
| At December 31, 2012:   |            |   |                                  |   |
| Financial Assets:   |            |   |                                  |   |
| AFS debt securities:  |            |   |                                  |   |
| Obligations of states and political subdivisions  | \$33,040   | \$—                                       | \$33,040                         | \$—                                     |
| Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises          | 358,148    | —   | 358,148                          | —                                       |
| Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises | 381,688    | —   | 381,688                          | —                                       |
| Private issue collateralized mortgage obligations   | 8,174      | —   | 8,174                            | —                                       |
| Trading account assets  | 2,300      | 2,300                                     | —                                | —                                       |
| Customer interest rate swap agreement   | 496        | —   | 496                              | —                                       |
| Financial Liabilities:  |            |   |                                  |   |
| Interest rate swap agreements   | 11,580     | —   | 11,580                           | —                                       |
| Customer interest rate swap agreement   | 496        | —   | 496                              | —                                       |

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during 2013. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.



## Table of Contents

### Financial Instruments Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period.

**Collateral-Dependent Impaired Loans:** Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The Company's policy is to individually evaluate for impairment loans with a principal balance greater than \$250,000 and are risk rated 8 or above or are on non-accrual status. Once the population of loans are identified for individual impairment assessment, the Company measures these loans for impairment using one of three methods: (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral-dependent. If the measure is less than the loan's net carrying value, then a loss is recognized as part of the ALL to adjust the loan's net carrying value to fair value. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis. Management has estimated the fair values of these assets using Level 2 inputs, such as the fair value of collateral based on independent third-party market approach appraisals for collateral-dependent loans, and Level 3 inputs where circumstances warrant an adjustment to the appraised value based on the age of the appraisal and/or comparable sales, condition of the collateral, and market conditions.

**MSRs:** The Company accounts for mortgage servicing assets at cost, subject to impairment testing. When the carrying value exceeds fair value, a valuation allowance is established to reduce the carrying cost to fair value. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The Company obtains a third-party valuation based upon loan level data including note rate, type and term of the underlying loans. The model utilizes a variety of observable inputs for its assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Other assumptions include delinquency rates, servicing cost inflation and annual unit loan cost. MSRs are classified within Level 2 of the fair value hierarchy.

### Non-Financial Assets and Non-Financial Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Non-financial assets measured at fair value on a non-recurring basis consist of OREO and goodwill.

**OREO:** OREO properties acquired through foreclosure or deed in lieu of foreclosure are recorded at the fair value of the real estate, less costs to sell. Any write-down of the recorded investment in the related loan is charged to the allowance for loan losses upon transfer to OREO. Upon acquisition of a property, a current appraisal or a broker's opinion is used to substantiate fair value for the property. After foreclosure, management periodically obtains updated valuations of the OREO assets and, if additional impairments are deemed necessary, the subsequent write-downs for declines in value are recorded through a valuation allowance and a provision for losses charged to other non-interest expense. Certain assets require assumptions, such as expected future cash flows, that are not observable in an active market in determination of fair value and are classified as Level 3.

**Goodwill:** Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The fair value of goodwill is estimated by utilizing several standard valuation techniques, including discounted cash flow analyses, bank merger multiples, and an estimation of the impact of business conditions and investor activities on the long-term value of the goodwill.



In 2013, the Company recorded a goodwill impairment of \$2.8 million to write-down the financial services reporting unit to fair value of \$3.9 million. Refer to Note 5 of the consolidated financial statements for discussion of goodwill impairment analysis and related significant inputs used, including Level 3 inputs. Additionally, the banking reporting unit was not deemed impaired.

There was no goodwill write-down during 2012 for either the financial services or banking reporting units, and thus the December 31, 2012 goodwill balances are recorded at their carrying amount.

Table of Contents

The table below highlights financial and non-financial assets measured and recorded at fair value on a non-recurring basis as of December 31, 2013 and December 31, 2012. Not included in the table below because they are not recorded at fair value are: (i) impaired loans of \$19.4 million and \$22.3 million at December 31, 2013 and 2012, respectively; (ii) MSR's reported of \$322,000 and \$60,000 at December 31, 2013 and 2012, respectively; and (iii) OREO properties of \$612,000 at December 31, 2013 (all OREO properties were carried at fair value at December 31, 2012).

|                                     | Fair Value | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Company Determined Fair Value (Level 3) |
|-------------------------------------|------------|---|----------------------------------|---|
| At December 31, 2013:               |            |   |                                  |   |
| Financial assets:                   |            |   |                                  |   |
| Collateral-dependent impaired loans | \$8,557    | \$—                                       | \$—                              | \$8,557                                 |
| MSRs <sup>(1)</sup>                 | 404        | —   | 404                              | —                                       |
| Non-financial assets:               |            |   |                                  |   |
| Other real estate owned             | 1,583      | —   | —                                | 1,583                                   |
| At December 31, 2012:               |            |   |                                  |   |
| Financial assets:                   |            |   |                                  |   |
| Collateral-dependent impaired loans | \$4,862    | \$—                                       | \$—                              | \$4,862                                 |
| MSRs <sup>(1)</sup>                 | 482        | —   | 482                              | —                                       |
| Non-financial assets:               |            |   |                                  |   |
| Other real estate owned             | 1,313      | —   | —                                | 1,313                                   |

(1) Represents MSRs deemed to be impaired and a valuation allowance was established to carry at fair value at December 31, 2013 and 2012.

The fair value of Level 3 assets carried at fair value as a percentage of total assets carried at fair value was 1% at December 31, 2013 and 2012.

Table of Contents

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2013 and 2012:

|                                      | Fair Value | Valuation Methodology                   | Unobservable input                 | Discount Range<br>(Weighted-Average) |       |
|--------------------------------------|------------|---|------------------------------------|--------------------------------------|-------|
| December 31, 2013:                   |            |   |                                    |                                      |       |
| Collateral-dependent impaired loans: |            |   |                                    |                                      |       |
| Partially charged-off                | \$1,874    | Market approach appraisal of collateral | Management adjustment of appraisal | 0 - 85%                              | (14%) |
| Specifically reserved <sup>(1)</sup> | 6,683      | Market approach appraisal of collateral | Management adjustment of appraisal | 7 - 90%                              | (22%) |
| Other real estate owned              | 1,583      | Market approach appraisal of collateral | Management adjustment of appraisal | 0 - 41%                              | (16%) |
|                                      |            |   | Estimated selling costs            | 6 - 10%                              | (10%) |
| December 31, 2012:                   |            |   |                                    |                                      |       |
| Collateral-dependent impaired loans: |            |   |                                    |                                      |       |
| Partially charged-off                | \$2,767    | Market approach appraisal of collateral | Management adjustment of appraisal | 0 - 37%                              | (10%) |
| Specifically reserved <sup>(1)</sup> | 2,095      | Market approach appraisal of collateral | Management adjustment of appraisal | 19 - 63%                             | (44%) |
| Other real estate owned              | 1,313      | Market approach appraisal of collateral | Management adjustment of appraisal | 0 - 42%                              | (19%) |
|                                      |            |   | Estimated selling costs            | 10%                                  | —     |

(1) The specific reserve for collateral-dependent impaired loans is determined by any loan-to-value ratio in excess of 80% for consumer loans and any loan-to-value ratio in excess of 75% for commercial loans. Appraisals are received on impaired loans in accordance with the Company's internal policy. As such, adjustments to the appraised fair value are made, as necessary, should the appraisal not be current. Adjustments are made to the appraised fair value to reflect changes in known factors, including, but not limited to, property condition, property location, and costs to sell the collateral.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used by the Company in estimating the fair values of its other financial instruments.

**Cash and Due from Banks:** The carrying amounts reported in the consolidated statements of condition approximate fair value.

**FHLB and FRB Stock and Investments in CCTA AND UBCT:** The carrying amounts reported in the consolidated statements of condition approximate fair value.

**Loans:** For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Interest Receivable and Payable: The carrying amounts reported in the consolidated statements of condition approximate fair value.

Deposits: The fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates and remaining maturities for currently offered certificates of deposit.

Table of Contents

**Borrowings:** The carrying amounts of short-term borrowings from the FHLB, securities sold under repurchase agreements, notes payable and other short-term borrowings approximate fair value. The fair values of long-term borrowings and commercial repurchase agreements are based on the discounted cash flows using current rates for advances of similar remaining maturities.

**Junior Subordinated Debentures:** The carrying amounts reported in the consolidated statements of condition approximate fair value.

The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities at December 31, 2013:

|                                       | Carrying Amount | Fair Value  | Fair Value Measurement at December 31, 2013 |                                    |  |
|---------------------------------------|-----------------|-------------|---|------------------------------------|--|
|                                       |                 |             | Readily Available Market Prices (Level 1)   | Observable Market Prices (Level 2) | Company Determined Market Prices (Level 3) |
| <b>Financial assets:</b>              |                 |             |   |                                    |  |
| Cash and due from banks               | \$51,355        | \$51,355    | \$51,355                                    | \$—                                | \$—  |
| AFS securities                        | 808,477         | 808,477     | —   | 808,477                            | —  |
| FHLB and FRB stock                    | 19,724          | 19,724      | 19,724                                      | —                                  | —  |
| Trading account assets                | 2,488           | 2,488       | 2,488                                       | —                                  | —  |
| Residential real estate loans         | 563,425         | 577,153     | —   | —                                  | 577,153                                    |
| Commercial real estate loans          | 536,107         | 535,961     | —   | —                                  | 535,961                                    |
| Commercial loans                      | 172,105         | 171,432     | —   | —                                  | 171,432                                    |
| Home equity loans                     | 269,888         | 271,041     | —   | —                                  | 271,041                                    |
| Consumer loans                        | 17,287          | 17,662      | —   | —                                  | 17,662                                     |
| MSRs <sup>(1)</sup>                   | 726             | 1,494       | —   | 1,494                              | —  |
| Interest receivable                   | 5,808           | 5,808       | —   | 5,808                              | —  |
| Investment in CCTA and UBCT           | 1,331           | 1,331       | —   | —                                  | 1,331                                      |
| Customer interest rate swap agreement | 114             | 114         | —   | 114                                | —  |
| <b>Financial liabilities:</b>         |                 |             |   |                                    |  |
| Deposits                              | \$1,813,824     | \$1,817,199 | \$1,324,221                                 | \$492,978                          | \$—  |
| FHLB advances                         | 56,112          | 59,118      | —   | 59,118                             | —  |
| Commercial repurchase agreements      | 30,142          | 32,038      | —   | 32,038                             | —  |
| Other borrowed funds                  | 399,916         | 400,144     | 400,144                                     | —                                  | —  |
| Junior subordinated debentures        | 43,922          | 43,922      | —   | 43,922                             | —  |
| Interest payable                      | 567             | 567         | 567   | —                                  | —  |
| Interest rate swap agreements         | 3,911           | 3,911       | —   | 3,911                              | —  |
| Customer interest rate swap agreement | 114             | 114         | —   | 114                                | —  |

(1) Reported fair value represents all MSRs currently being serviced by the Company at December 31, 2013, regardless of carrying amount.

Table of Contents

The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities at December 31, 2012:

|                                       | Carrying Amount | Fair Value  | Fair Value Measurement at December 31, 2012 |                                    |  |
|---------------------------------------|-----------------|-------------|---|------------------------------------|--|
|                                       |                 |             | Readily Available Market Prices (Level 1)   | Observable Market Prices (Level 2) | Company Determined Market Prices (Level 3) |
| <b>Financial assets:</b>              |                 |             |   |                                    |  |
| Cash and due from banks               | \$58,290        | \$58,290    | \$58,290                                    | \$—                                | \$—  |
| AFS securities                        | 781,050         | 781,050     | —   | 781,050                            | —  |
| FHLB and FRB stock                    | 21,034          | 21,034      | 21,034                                      | —                                  | —  |
| Trading account assets                | 2,300           | 2,300       | 2,300                                       | —                                  | —  |
| Residential real estate loans         | 564,184         | 591,139     | —   | —                                  | 591,139                                    |
| Commercial real estate loans          | 501,037         | 492,602     | —   | —                                  | 492,602                                    |
| Commercial loans                      | 183,680         | 179,519     | —   | —                                  | 179,519                                    |
| Home equity loans                     | 275,498         | 277,194     | —   | —                                  | 277,194                                    |
| Consumer loans                        | 16,423          | 16,866      | —   | —                                  | 16,866                                     |
| MSRs <sup>(1)</sup>                   | 542             | 879         | —   | 879                                | —  |
| Interest receivable                   | 6,215           | 6,215       | —   | 6,215                              | —  |
| Investment in CCTA and UBCT           | 1,331           | 1,331       | —   | —                                  | 1,331                                      |
| Customer interest rate swap agreement | 496             | 496         | —   | 496                                | —  |
| <b>Financial liabilities:</b>         |                 |             |   |                                    |  |
| Deposits                              | \$1,929,469     | \$1,936,446 | \$1,339,290                                 | \$597,156                          | \$—  |
| FHLB advances                         | 56,404          | 60,813      | —   | 60,813                             | —  |
| Commercial repurchase agreements      | 66,187          | 69,067      | —   | 69,067                             | —  |
| Other borrowed funds                  | 193,753         | 193,753     | 193,753                                     | —                                  | —  |
| Junior subordinated debentures        | 43,819          | 43,819      | —   | 43,819                             | —  |
| Interest payable                      | 905             | 905         | 905   | —                                  | —  |
| Interest rate swap agreements         | 11,580          | 11,580      | —   | 11,580                             | —  |
| Customer interest rate swap agreement | 496             | 496         | —   | 496                                | —  |

(1) Reported fair value represents all MSRs currently being serviced by the Company at December 31, 2012, regardless of carrying amount.

## 19. Regulatory Capital Requirements

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the FRB and the OCC. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. These capital requirements represent quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital (as defined in the applicable regulations) to risk-weighted assets (as defined in the applicable regulations) and of Tier I capital to average assets (as defined in the applicable regulations). In addition, the OCC requires a minimum level of \$2.5 million of Tier I capital to be maintained at

Acadia Trust. Management believes that, as of December 31, 2013, the Company and its subsidiaries meet all capital requirements to which they are subject.

Table of Contents

As of December 31, 2013, the Company and the Bank were categorized by its supervisory regulatory agencies as "well capitalized". To be categorized as "well capitalized", the Company and Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Company or Bank's respective capital categories.

The Bank's actual capital amounts and ratios are presented in the following table:

|                               | Actual Regulatory Capital |       | Minimum Regulatory Capital Required |       | Minimum Regulatory Provision To Be "Well Capitalized" |       |  |   |
|-------------------------------|---------------------------|-------|-------------------------------------|-------|---|-------|--|---|
|                               | Amount                    | Ratio | Amount                              | Ratio | Amount  | Ratio |  |   |
| As of December 31, 2013:      |                           |       |                                     |       |   |       |  |   |
| Total risk-based capital      | \$228,375                 | 14.80 | % \$123,421                         | 8.00  | % \$154,276   | 10.00 |  | % |
| Tier I capital                | 209,062                   | 13.55 | % 61,710                            | 4.00  | % 92,566  | 6.00  |  | % |
| Tier I leverage capital ratio | 209,062                   | 8.39  | % 101,439                           | 4.00  | % 126,798   | 5.00  |  | % |
| As of December 31, 2012:      |                           |       |                                     |       |   |       |  |   |
| Total risk-based capital      | \$213,435                 | 14.04 | % \$121,625                         | 8.00  | % \$152,031   | 10.00 |  | % |
| Tier I capital                | 194,381                   | 12.79 | % 60,812                            | 4.00  | % 91,219  | 6.00  |  | % |
| Tier I leverage capital ratio | 194,381                   | 7.97  | % 99,347                            | 4.00  | % 124,184   | 5.00  |  | % |

The Company's actual capital amounts and ratios are presented in the following table:

|                               | Actual Regulatory Capital |       | Minimum Regulatory Capital Required |       | Minimum Regulatory Provision To Be "Well Capitalized" |       |  |   |
|-------------------------------|---------------------------|-------|-------------------------------------|-------|---|-------|--|---|
|                               | Amount                    | Ratio | Amount                              | Ratio | Amount  | Ratio |  |   |
| As of December 31, 2013:      |                           |       |                                     |       |   |       |  |   |
| Total risk-based capital      | \$256,648                 | 16.45 | % \$124,787                         | 8.00  | % \$155,983   | 10.00 |  | % |
| Tier I capital                | 237,124                   | 15.20 | % 62,393                            | 4.00  | % 93,590  | 6.00  |  | % |
| Tier I leverage capital ratio | 237,124                   | 9.43  | % 102,551                           | 4.00  | % 128,188   | 5.00  |  | % |
| As of December 31, 2012:      |                           |       |                                     |       |   |       |  |   |
| Total risk-based capital      | \$239,831                 | 15.56 | % \$123,293                         | 8.00  | % \$154,116   | 10.00 |  | % |
| Tier I capital                | 220,519                   | 14.31 | % 61,646                            | 4.00  | % 92,469  | 6.00  |  | % |
| Tier I leverage capital ratio | 220,519                   | 8.94  | % 100,770                           | 4.00  | % 125,963   | 5.00  |  | % |



Table of Contents

## 20. Parent Company Financial Statements

Following are the condensed statements of condition, income and cash flows for the Company (parent company only):

## STATEMENTS OF CONDITION

|   | December 31, |           |
|---|--------------|-----------|
|   | 2013         | 2012      |
| <b>ASSETS</b>                               |              |           |
| Cash  | \$21,788     | \$19,510  |
| Trading assets                              | 2,488        | 2,300     |
| Premises and equipment                      | 4,797        | 4,846     |
| Investment in subsidiaries:                 |              |           |
| Bank subsidiary                             | 246,213      | 253,512   |
| Other subsidiary                            | 8,733        | 11,108    |
| Amounts receivable from subsidiaries        | 2,062        | 2,643     |
| Investments in CCTA and UBCT                | 1,331        | 1,331     |
| Other assets                                | 7,278        | 9,765     |
| Total assets                                | \$294,690    | \$305,015 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |              |           |
| Amounts due to subsidiaries                 | \$5          | \$88      |
| Junior subordinated debentures              | 43,922       | 43,819    |
| Accrued interest and other liabilities      | 19,667       | 27,293    |
| Shareholders' equity                        | 231,096      | 233,815   |
| Total liabilities and shareholders' equity  | \$294,690    | \$305,015 |

Table of Contents

## STATEMENTS OF INCOME

|   | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2013                     | 2012      | 2011      |
| Operating Income  |                          |           |           |
| Dividend income from subsidiaries   | \$ 13,500                | \$ 13,400 | \$ 15,400 |
| Fees from subsidiaries  | 20,930                   | 20,070    | 18,048    |
| Other income  | 270                      | 170       | 13        |
| Total operating income  | 34,700                   | 33,640    | 33,461    |
| Operating Expenses  |                          |           |           |
| Salaries and employee benefits  | 13,354                   | 13,007    | 11,417    |
| Furniture, equipment and data processing  | 4,570                    | 3,971     | 3,296     |
| Interest on borrowings  | 2,532                    | 2,546     | 2,614     |
| Depreciation and amortization   | 1,197                    | 1,196     | 1,194     |
| Stock-based compensation expense  | 596                      | 538       | 1,025     |
| Net occupancy   | 523                      | 492       | 473       |
| Other operating expenses  | 1,454                    | 1,056     | 822       |
| Total operating expenses  | 24,226                   | 22,806    | 20,841    |
| Income before equity in undistributed earnings of subsidiaries and income taxes | 10,474                   | 10,834    | 12,620    |
| Equity in undistributed earnings of subsidiaries                                | 11,233                   | 11,647    | 12,441    |
| Income before income taxes  | 21,707                   | 22,481    | 25,061    |
| Income tax benefit  | 1,076                    | 947       | 1,116     |
| Net Income  | \$ 22,783                | \$ 23,428 | \$ 26,177 |

Table of Contents

## STATEMENTS OF CASH FLOWS

|  | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2013                     | 2012      | 2011      |
| Operating Activities   |                          |           |           |
| Net income   | \$22,783                 | \$23,428  | \$26,177  |
| Adjustments to reconcile net income to net cash provided by operating activities:                                  |                          |           |           |
| Equity in undistributed earnings of subsidiaries   | (11,233                  | ) (11,647 | ) (12,441 |
| Depreciation and amortization  | 1,197                    | 1,196     | 1,194     |
| Stock-based compensation expense   | 596                      | 538       | 1,025     |
| Decrease (increase) in amount receivable from subsidiaries   | 498                      | (983      | ) (22     |
| Increase in other assets   | (845                     | ) (1,334  | ) (35     |
| Increase in accrued expenses   | 459                      | 636       | 3,522     |
| Net cash provided by operating activities  | 13,455                   | 11,834    | 19,420    |
| Investing Activities   |                          |           |           |
| Purchase of premises and equipment   | (896                     | ) (1,009  | ) (1,286  |
| Net cash used by investing activities  | (896                     | ) (1,009  | ) (1,286  |
| Financing Activities   |                          |           |           |
| Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit | 300                      | (212      | ) (134    |
| Common stock repurchase  | (2,460                   | ) (2,097  | ) (389    |
| Cash dividends paid on common stock  | (8,121                   | ) (7,667  | ) (11,524 |
| Net cash used by financing activities  | (10,281                  | ) (9,976  | ) (12,047 |
| Net increase in cash   | 2,278                    | 849       | 6,087     |
| Cash at beginning of year  | 19,510                   | 18,661    | 12,574    |
| Cash at end of year  | \$21,788                 | \$19,510  | \$18,661  |
| Supplemental information   |                          |           |           |
| Common stock repurchased not yet settled   | \$320                    | \$—       | \$—       |

## 21. Quarterly Results of Operations (Unaudited)

The following table presents a summary of the quarterly results of operations for 2013 and 2012:

|  | 2013     |          |          |          | 2012     |          |          |          |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
|  | First    | Second   | Third    | Fourth   | First    | Second   | Third    | Fourth   |
| Interest income                          | \$22,426 | \$22,481 | \$21,891 | \$21,419 | \$22,965 | \$22,797 | \$22,636 | \$22,549 |
| Interest expense                         | 3,258    | 3,231    | 3,184    | 3,069    | 4,594    | 4,431    | 4,189    | 3,988    |
| Net interest income                      | 19,168   | 19,250   | 18,707   | 18,350   | 18,371   | 18,366   | 18,447   | 18,561   |
| Provision for (release of) credit losses | 674      | 695      | 665      | (6       | ) 1,005  | 835      | 868      | 1,108    |
| Non-interest income                      | 6,336    | 6,376    | 6,475    | 8,614    | 5,228    | 5,754    | 5,038    | 7,392    |
| Non-interest expense                     | 16,500   | 15,648   | 15,199   | 18,986   | 12,919   | 13,979   | 13,370   | 18,763   |
| Income before income taxes               | 8,330    | 9,283    | 9,318    | 7,984    | 9,675    | 9,306    | 9,247    | 6,082    |
| Income tax expense                       | 2,668    | 2,952    | 2,952    | 3,560    | 3,092    | 2,894    | 2,992    | 1,904    |
| Net income                               | \$5,662  | \$6,331  | \$6,366  | \$4,424  | \$6,583  | \$6,412  | \$6,255  | \$4,178  |
| Per common share:                        |          |          |          |          |          |          |          |          |
| Basic                                    | \$0.74   | \$0.83   | \$0.83   | \$0.58   | \$0.86   | \$0.83   | \$0.82   | \$0.55   |

|         |        |        |        |        |        |        |        |        |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| Diluted | \$0.74 | \$0.82 | \$0.83 | \$0.58 | \$0.86 | \$0.83 | \$0.82 | \$0.55 |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|

100

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Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors  
Camden National Corporation

We have audited the accompanying consolidated statements of condition of Camden National Corporation and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. We have also audited Camden National Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Camden National Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Camden National Corporation and Subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of

America. Also, in our opinion, Camden National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in COSO.

/s/ Berry Dunn McNeil & Parker, LLC

Berry Dunn McNeil & Parker, LLC

Bangor, Maine

March 12, 2014

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the past two fiscal years, the Company has not made changes in, and has not had disagreements with, its independent accountant on accounting and financial disclosures.

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company’s management conducted an evaluation with the participation of the Company’s Chief Executive Officer and Chief Financial Officer & Principal Financial and Accounting Officer, regarding the effectiveness of the Company’s disclosure controls and procedures, as of the end of the last fiscal year. In designing and evaluating the Company’s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer & Principal Financial and Accounting Officer concluded that they believe the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**MANAGEMENT’S ANNUAL REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K. Management is also responsible for establishing and maintaining adequate internal control over financial reporting and for identifying the framework used to evaluate its effectiveness. Management has designed processes, internal controls and a business culture that foster financial integrity and accurate reporting. The Company’s comprehensive system of internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with accounting principles generally accepted in the United States of America. The Company’s accounting policies and internal control over financial reporting, established and maintained by management, is under the general oversight of the Company’s board of directors, including the board of directors’ Audit Committee.

Management has made a comprehensive review, evaluation, and assessment of the Company’s internal control over financial reporting as of December 31, 2013. The standard measures adopted by management in making its evaluation are the measures in Internal Control — Integrated Framework (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon its review and evaluation, management concluded that, as of December 31, 2013, the Company’s internal control over financial reporting was effective and that there were no material weaknesses. However, Management recognizes a control system, no matter how well designed and operated, has inherent limitations and can provide only reasonable, not absolute, assurance that the control system’s objectives will be met and may not prevent or detect all error and fraud. Therefore, even a system determined to be effective can

provide only reasonable assurance with respect to financial statement preparation and presentation.

Berry Dunn McNeil & Parker, LLC, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its written attestation report on management's assessment of the Company's internal control over financial reporting which precedes this report.

**Item 9B. Other Information**

A meeting of the Board of Directors was held on March 11, 2014 to consider and vote upon a proposed amendment to the Corporation's Amended and Restated Bylaws that would eliminate the requirement that the Board of Directors consist of an odd number of Directors. The Board voted to approve the amendment and a copy of the Amended and Restated Bylaws, as amended, are filed with this Annual Report on Form 10-K.



Table of Contents

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on April 29, 2014.

## Item 11. Executive Compensation

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on April 29, 2014.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities authorized for issuance under equity compensation plans are as follows:

|   | Number of<br>Securities to Be<br>Issued Upon<br>Exercise of<br>Outstanding<br>Options, Warrants<br>and Rights<br>(a) | Weighted Average<br>Exercise Price of<br>Outstanding<br>Options, Warrants<br>and Rights<br>(b) | Number of Securities<br>Remaining Available<br>for Future Issuance<br>(Excluding Securities<br>in Column (a))<br>(c) |     |
|---|--|--|--|-----|
| Equity compensation plans approved by shareholders        | 191,620  | \$21.16  | 809,006  | (1) |
| Equity compensation plans not approved by<br>shareholders | —  | —  | —  |     |
| Total   | 191,620  | \$21.16  | 809,006  |     |

(1) Represents the 800,000 shares available under the 2012 Equity and Incentive Plan less awards granted plus shares added back due to the forfeiture, cancellation or reacquisition by the Company for the settlement of an award to cover the exercise price or tax withholding under the current and previous plans.

Refer to Notes 1 and 15 to the consolidated financial statements within Item 8. "Financial Statements and Supplementary Data" for further information related to the Company's equity compensation plans.

Other information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on April 29, 2014.

## Item 13. Certain Relationships, Related Transactions and Director Independence

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on April 29, 2014.

## Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on April 29, 2014.



Table of Contents

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

## (a) 1. Index to Financial Statements:

The consolidated financial statements of the Company and report of the Company's independent registered public accounting firm incorporated herein are included in Item 8 of this Report, as follows:

|   |                   |
|---|-------------------|
| <u>Consolidated Statements of Condition</u>                       | Page<br><u>51</u> |
| <u>Consolidated Statements of Income</u>                          | <u>52</u>         |
| <u>Consolidated Statements of Comprehensive Income</u>            | <u>53</u>         |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u> | <u>54</u>         |
| <u>Consolidated Statements of Cash Flows</u>                      | <u>55</u>         |
| <u>Notes to Consolidated Financial Statements</u>                 | <u>56</u>         |
| <u>Report of Independent Registered Public Accounting Firm</u>    | <u>101</u>        |

## 2. Financial Statement Schedules:

Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

## 3. Exhibits:

| Exhibit No. | Definition  |
|-------------|---|
| 2.1         | Purchase and Assumption Agreement, dated April 23, 2012, by and between Bank of America, National Association and Camden National Bank (incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed with the Commission on April 24, 2012). |
| 3.1         | Articles of Incorporation of Camden National Corporation, as amended (incorporated herein by reference to Exhibit 3.i.1 to the Company's Form 10-K filed with the Commission on March 2, 2011).   |
| 3.2*        | Amended and Restated Bylaws of Camden National Corporation.   |
| 10.1+       | Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Commission on August 8, 2008).  |
| 10.2+       | Form of Incentive Stock Option Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K filed with the Commission on March 2, 2011).                   |
| 10.3+       | Form of Restricted Stock Award Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-K filed with the Commission on March 2, 2011).                   |
| 10.4+       | Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed with the Commission on May 1, 2008).    |
| 10.5+       | Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on May 8, 2012).   |
| 10.6+       |   |

Form of Incentive Stock Option Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Commission on February 28, 2013).

10.7+ Form of Restricted Stock Award Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Form 10-K filed with the Commission on February 28, 2013).

104

---

Table of Contents

| Exhibit No. | Definition  |
|-------------|---|
| 10.8+       | Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Form 10-K filed with the Commission on February 28, 2013). |
| 10.9+       | Camden National Corporation Amended and Restated Defined Contribution Retirement Plan (incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the Commission on February 4, 2008).   |
| 10.10+      | Supplemental Executive Retirement Program (incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the Commission on February 4, 2008).   |
| 10.11+      | Union Trust Company's Amended and Restated Deferred Compensation Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Commission on May 12, 2008).   |
| 10.12+      | Camden National Corporation Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-K filed with the Commission on March 17, 2008).   |
| 10.13+      | Amendment to Executive Deferred Compensation Plan, dated as of February 26, 2013 (incorporated herein by reference to Exhibit 10.13 to the Company's Form 10-K filed with the Commission on February 28, 2013).   |
| 10.14+      | Amendment and Restatement of Camden National Corporation Director Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K filed with the Commission on March 9, 2007).  |
| 10.15+      | 2007 Amendment to the Camden National Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K filed with the Commission on March 17, 2008).  |
| 10.16       | Camden National Corporation Audit Committee Complaint Procedures (incorporated herein by reference to Exhibit 10.12 to the Company's Form 10-K filed with the Commission on March 2, 2011).   |
| 10.17+      | 2010 Executive Incentive Compensation Program (incorporated herein by reference to Exhibit 10.19 to the Company's Form 10-K filed with the Commission on March 12, 2010).   |
| 10.18+      | Form of Change in Control Agreement for chief executive officer (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on April 14, 2009).   |
| 10.19+      | Form of Change in Control Agreement for named executive officers (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed with the Commission on April 14, 2009).  |
| 10.20+      | Amended and Restated Employment Agreement, dated as of April 29, 2008, by and between Camden National Corporation and Robert W. Daigle (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on May 1, 2008). |
| 10.21+      | Camden National Corporation 2011-2013 Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Form 8-K filed with the Commission on March 30, 2011).   |
| 10.22+      | Camden National Corporation 2012-2014 Long-Term Performance Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Form 8-K filed with the Commission on March 27, 2012).   |
| 10.23+      | Camden National Corporation 2013-2015 Amended and Restated Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.23 to the Company's Form 8-K filed with the Commission on March 26, 2013).  |
| 11.1        | Statement regarding computation of per share earnings (incorporated herein by reference to Note 13 to the Notes to Consolidated Financial Statements in this report.)   |
| 14          | Camden National Corporation Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to the Company's Form 10-K filed with the Commission on March 2, 2011).   |
| 21*         | Subsidiaries of the Company.  |
| 23*         | Consent of Berry Dunn McNeil & Parker, LLC.   |

Table of Contents

| Exhibit No. | Definition   |
|-------------|--|
| 31.1*       | Certification of President and Chief Executive Officer required by Section 302 of the Sarbanes- Oxley Act of 2002.   |
| 31.2*       | Certification of Principal Financial and Accounting Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1**      | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2**      | Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101***      | The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders’ Equity, (iv) the Consolidated Statements of Comprehensive Income (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements. |
| *           | Filed herewith   |
| **          | Furnished herewith   |
| ***         | Pursuant to Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.   |
| +           | Management contract or a compensatory plan or arrangement.   |

Table of Contents

## SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 12, 2014

CAMDEN NATIONAL CORPORATION  
/s/ Gregory A. Dufour  
Gregory A. Dufour  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name   | Position   | Date           |
|--|--|----------------|
| /s/ Gregory A. Dufour<br>Gregory A. Dufour   | President, Director and Chief Executive Officer                        | March 12, 2014 |
| /s/ Deborah A. Jordan<br>Deborah A. Jordan   | Chief Financial Officer and Principal Financial and Accounting Officer | March 12, 2014 |
| /s/ Karen W. Stanley<br>Karen W. Stanley     | Chairman and Director  | March 12, 2014 |
| /s/ Ann W. Bresnahan<br>Ann W. Bresnahan     | Director   | March 12, 2014 |
| /s/ Robert J. Campbell<br>Robert J. Campbell | Director   | March 12, 2014 |
| /s/ David C. Flanagan<br>David C. Flanagan   | Director   | March 12, 2014 |
| /s/ Craig S. Gunderson<br>Craig S. Gunderson | Director   | March 12, 2014 |
| /s/ John W. Holmes<br>John W. Holmes         | Director   | March 12, 2014 |
| /s/ James H. Page<br>James H. Page           | Director   | March 12, 2014 |
| /s/ John M. Rohman<br>James M. Rohman        | Director   | March 12, 2014 |
| /s/ Robin A. Sawyer<br>Robin A. Sawyer       | Director   | March 12, 2014 |

Table of Contents

Exhibit Index

| Exhibit No. | Definition  |
|-------------|---|
| 2.1         | Purchase and Assumption Agreement, dated April 23, 2012, by and between Bank of America, National Association and Camden National Bank (incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed with the Commission on April 24, 2012). |
| 3.1         | Articles of Incorporation of Camden National Corporation, as amended (incorporated herein by reference to Exhibit 3.i.1 to the Company's Form 10-K filed with the Commission on March 2, 2011).   |
| 3.2*        | Amended and Restated Bylaws of Camden National Corporation.   |
| 10.1+       | Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Commission on August 8, 2008).  |
| 10.2+       | Form of Incentive Stock Option Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K filed with the Commission on March 2, 2011).                   |
| 10.3+       | Form of Restricted Stock Award Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-K filed with the Commission on March 2, 2011).                   |
| 10.4+       | Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed with the Commission on May 1, 2008).    |
| 10.5+       | Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on May 8, 2012).   |
| 10.6+       | Form of Incentive Stock Option Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Commission on February 28, 2013).                     |
| 10.7+       | Form of Restricted Stock Award Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Form 10-K filed with the Commission on February 28, 2013).                     |
| 10.8+       | Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Form 10-K filed with the Commission on February 28, 2013).   |
| 10.9+       | Camden National Corporation Amended and Restated Defined Contribution Retirement Plan (incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the Commission on February 4, 2008).   |
| 10.10+      | Supplemental Executive Retirement Program (incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed with the Commission on February 4, 2008).   |
| 10.11+      | Union Trust Company's Amended and Restated Deferred Compensation Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Commission on May 12, 2008).   |
| 10.12+      | Camden National Corporation Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-K filed with the Commission on March 17, 2008).   |
| 10.13+      | Amendment to Executive Deferred Compensation Plan, dated as of February 26, 2013 (incorporated herein by reference to Exhibit 10.13 to the Company's Form 10-K filed with the Commission on February 28, 2013).   |
| 10.14+      | Amendment and Restatement of Camden National Corporation Director Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K filed with the Commission on March 9, 2007).  |
| 10.15+      | 2007 Amendment to the Camden National Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K filed with the Commission on March 17, 2008).  |





Table of Contents

| Exhibit No. | Definition   |
|-------------|--|
| 10.16       | Camden National Corporation Audit Committee Complaint Procedures (incorporated herein by reference to Exhibit 10.12 to the Company's Form 10-K filed with the Commission on March 2, 2011).  |
| 10.17+      | 2010 Executive Incentive Compensation Program (incorporated herein by reference to Exhibit 10.19 to the Company's Form 10-K filed with the Commission on March 12, 2010).  |
| 10.18+      | Form of Change in Control Agreement for chief executive officer (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on April 14, 2009).  |
| 10.19+      | Form of Change in Control Agreement for named executive officers (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed with the Commission on April 14, 2009).   |
| 10.20+      | Amended and Restated Employment Agreement, dated as of April 29, 2008, by and between Camden National Corporation and Robert W. Daigle (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on May 1, 2008).  |
| 10.21+      | Camden National Corporation 2011-2013 Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Form 8-K filed with the Commission on March 30, 2011).  |
| 10.22+      | Camden National Corporation 2012-2014 Long-Term Performance Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Form 8-K filed with the Commission on March 27, 2012).  |
| 10.23+      | Camden National Corporation 2013-2015 Amended and Restated Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.23 to the Company's Form 8-K filed with the Commission on March 26, 2013).   |
| 11.1        | Statement regarding computation of per share earnings (incorporated herein by reference to Note 13 to the Notes to Consolidated Financial Statements in this report.)  |
| 14          | Camden National Corporation Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to the Company's Form 10-K filed with the Commission on March 2, 2011).  |
| 21*         | Subsidiaries of the Company.   |
| 23*         | Consent of Berry Dunn McNeil & Parker, LLC.  |
| 31.1*       | Certification of President and Chief Executive Officer required by Section 302 of the Sarbanes- Oxley Act of 2002.   |
| 31.2*       | Certification of Principal Financial and Accounting Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1**      | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2**      | Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101***      | The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Comprehensive Income (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements. |
| *           | Filed herewith   |
| **          | Furnished herewith   |
| ***         | Pursuant to Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.   |
| +           | Management contract or a compensatory plan or arrangement.   |