CHINA NATURAL RESOURCES INC
Form 20-F
June 12, 2006

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

[ ] TRANSITIONAL 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 2105, West Tower, Shun Tak Centre,
200 Connaught Road C., Sheung Wan, Hong Kong

(Address of principal executive offices)

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

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

Common Shares, without par value

(Title of class)

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. 1,247,823 Common Shares as of December 31, 2005; 11,548,416 Common Shares as of May 31, 2006.

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

Yes [ ]   No [X]

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 [X]

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 [X]   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 15b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ]   Accelerated Filer [ ]   Non-Accelerated Filer [X]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [X]   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 [X]

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CONVENTIONS

Unless otherwise specified, all references in this report to "U.S. Dollars," "Dollars," "US$," or "$" are to United States dollars; all references to "Hong Kong Dollars" or "HK$" are to Hong Kong dollars; and all references to "Renminbi" or "RMB" are to Renminbi yuan, which is the lawful currency of the People's Republic of China ("China" or "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 as quoted by the People's Bank of China (the "PBOC Rate") on December 31, 2005, which was U.S.$1.00 = Rmb8.07. Translations from Hong Kong Dollars to U.S. Dollars have been made at the single rate of exchange as quoted by the Hongkong and Shanghai Banking Corporation Limited on December 31, 2005, which was US$1.00 = HK$7.80. The Renminbi is not freely convertible into foreign currencies and the quotation of exchange rates does not imply convertibility of Renminbi into U.S. Dollars or other currencies. All foreign exchange transactions take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. No representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the PBOC Rate or at all.

References to "CNRI" are to China Natural Resources, Inc. (formerly known as Billion Luck Company Ltd.), a British Virgin Islands company, which was the surviving company after a merger between China Resources and CNRI on December 9, 2004 (the "Redomicile Merger").

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

References to "common stock" are to the common stock, $.001 par value, of China Resources. References to "common shares" are to the common shares, without par value, of CNRI after the Redomicile Merger.

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

References to "Company" are to CNRI, and include, unless the context requires otherwise, the operations of its predecessor and subsidiaries (all as hereinafter defined).

References to "First Supply" are to First Goods And Materials Supply And Sales Corporation, a company organized in the PRC and a wholly-owned subsidiary of HARC.

References to "FMH" are to Feishang Mining Holdings Limited, a British Virgin Islands corporation and, since February 3, 2006, a wholly-owned subsidiary of China Natural.

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

References to "Hainan" are to Hainan Province of the PRC.

References to "HARC" are to Hainan Cihui Industrial Company Limited, a Sino-foreign joint stock company organized in the PRC, and a wholly-owned subsidiary of the Company.

References to "iSense" are to iSense Limited, a Hong Kong company whose capital was 100% acquired by the Company on August 29, 2003.

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 "Medi-China" are to Zhongwei Medi-China.com Limited, a Hong Kong company and a wholly-owned subsidiary of Silver Moon.

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

References to "Second Supply" are to Second Goods And Materials Supply And Sales Corporation, a company organized in the PRC and a wholly-owned subsidiary of HARC.

References to "Series B Preferred Stock" are to the Series B Preferred Stock, $.001 par value, of China Resources. References to "Series B Preferred Shares" are to the Series B Preferred Shares, without par value, of CNRI, after the Redomicile Merger.

References to "Silver Moon" are to Silver Moon Technologies Limited, a British Virgin Islands company, whose capital is 80% owned by the Company.

References to "Sunwide" are to Sunwide Capital Ltd., a British Virgin Islands company, which is a wholly-owned subsidiary of the Company.

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

References to "Xubu" are to Shenzhen Xubu Investment Co. Ltd., a company organized in the PRC and, until its sale in February 2004, a wholly-owned subsidiary of HARC.

References to "Zhongwei Trading" are to Hainan Zhongwei Trading Company Limited, a company organized in the PRC, whose capital is owned 95% by HARC and 5% by the Company.

References to "Zhuhai Zhongwei" are to Zhuhai Zhongwei Development Company Limited, a company organized in the PRC and, until its sale in April 2003, a wholly-owned subsidiary of HARC.

FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Those statements appear in a number of places in this report and include, without limitation, statements regarding the intent, belief and current expectations of the Company, its directors or its officers with respect to the Company's policies regarding investments, dispositions, financings, conflicts of interest and other matters; and trends affecting the Company's financial condition or results of operations. Any such forward-looking statement is not a guarantee of future performance and involves risks and uncertainties, and actual results may differ materially from those in the forward-looking statement as a result of various factors. The accompanying information contained in this report, including without limitation the information set forth above and the information set forth under the heading, "Operating and Financial Review and Prospects," identifies important factors that could cause such differences. With respect to any such forward-looking statement that includes 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

Not applicable.

[Item 2] OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

[Item 3] KEY INFORMATION

A. SELECTED FINANCIAL INFORMATION

The following selected financial data of the Company and its subsidiaries for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, are derived from the audited consolidated financial statements for the periods indicated and should be read in conjunction therewith. This information does not give effect to the Company's February 3, 2006 acquisition of FMH and its wholly owned subsidiary Wuhu. Details of the Company's acquisition of FMH are described elsewhere in this report.

	In thousands, except share amounts Year ended December 31,			
	2001	2002	2003	20
	Rmb	Rmb	Rmb	R
OPERATING STATEMENT DATA				
Net sales	4,093	1,948	3,049	3,97
Operating expenses	(9,995)	(7,267)	(6,401)	(8,01
Loss from continuing operations before income taxes	(24,628)	(56,200)	(29,100)	(22,42
Loss from continuing operations	(26,206)	(56,200)	(29,100)	(22,44
Loss from discontinued operations	(5,136)	(4,032)	(2,637)	-
Net loss	(30,144)	(60,232)	(31,737)	(22,44
Basic and diluted loss per share				
Continuing operations	(29.85)	(67.08)	(30.20)	(18.7
Discontinued operations	(6.13)	(4.81)	(2.74)	-
	(35.98)	(71.89)	(32.94)	(18.7
Weighted average number of shares				
Basic and diluted	837,797	837,797	963,478	1,194,11
BALANCE SHEET DATA				
Total assets	157,217	89,112	66,684	46,86
Current assets	35,636	16,520	15,122	13,14

Current liabilities	17,636	9,656	6,015	3,81
Working capital	18,000	6,864	9,107	9,33
Long term debt	--	--	321	20
Shareholders' equity	139,581	79,456	60,348	42,84

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. Applicable PRC law requires that, before distributing profits to investors, companies such as the Company must (1) satisfy all taxes; and (2) allocate a specified percentage of after-tax profits to surplus reserve (10% of after-tax profits) and collective welfare fund (5-10% of after-tax profits). In addition to the foregoing, any future determination to pay a dividend to holders of its Common Shares will depend on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. Since the acquisition of CNRI by China Resources in December 1994, the Company has not received any distributions from any of its subsidiaries and has not made any distributions to its shareholders.

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 rate of exchange means the quote made by the People's Bank of China (the "PBOC Rate"). The average rate means the average of the exchange rates of the last date of each month during a year.

YEAR	2001	2002	2003	2004	2
High	8.2786	8.2776	8.2778	8.2775	8.2
Low	8.2763	8.2760	8.2765	8.2763	8.0
Average for period	8.2772	8.2770	8.2771	8.2768	8.1
End of period	8.2765	8.2770	8.2767	8.2765	8.0

MONTH	Dec 05	Jan 06	Feb 06	Mar 06	Apr
High	8.0808	8.0702	8.0616	8.0505	8.0
Low	8.0702	8.0601	8.0402	8.0172	8.0

The exchange rate on June 5, 2006 was 8.0077.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

POLITICAL AND ECONOMIC CONSIDERATIONS

Since 1997, the PRC government has been making efforts to promote reforms of its economic system. These reforms have brought about marked economic growth and social progress, and the economy of China has shifted from a planned economy to a socialist market economy. Wuhu has also benefited from the economic reforms implemented by the PRC government and the economic policies and measures. However, revisions or amendments may be made to these policies and measures from time to time, and Wuhu is not in a position to predict whether any change in the political, economic or social conditions may adversely affect the operating results of Wuhu.

LEGAL CONSIDERATIONS

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. 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 are limited in number. Moreover, as they are not binding, both the implementation and interpretation of these regulations are uncertain in many areas. 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.

GEOGRAPHIC LIMITATIONS MAY MAKE IT DIFFICULT TO OBTAIN JURISDICTION OVER OUR COMPANY OR OUR ASSETS

During 2004, we became a British Virgin Islands company and our officers and directors are non-residents of the United States, our assets are located in the PRC and our operations are conducted in the PRC. Therefore, it may not be possible to effect service of process on such persons in the United States, and it may be difficult to enforce any judgments rendered against us or them. Moreover, there is doubt whether courts in the British Virgin Islands or the PRC would enforce (a) judgments of United States courts against us, or our directors or officers based on the civil liability provisions of the securities laws of the Unites 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.

THE RIGHTS OF OUR SHAREHOLDERS ARE SUBJECT TO BRITISH VIRGIN ISLANDS LAW, THE PROVISIONS OF WHICH MAY NOT BE AS FAVORABLE TO SHAREHOLDERS AS US LAW

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

OUR STATUS AS A "FOREIGN PRIVATE ISSUER" RESULTS IN LESS INFORMATION BEING AVAILABLE ABOUT US THAN DOMESTIC REPORTING COMPANIES

We are foreign private issuer and are not required to file as much information about us as United States issuers are required to file. In this regard we are not required to file quarterly reports on Form 10-Q or Current Reports on Form 8-K; we are exempt from the provisions of Regulation FD aimed at preventing issuers from making selective disclosures; the SEC proxy statement and information statement rules do not apply; and our officers, directors and principal shareholders are not required to file reports detailing their beneficial ownership of our shares. There is generally greater information available about United States issuers than about foreign private issuers such as us, and the lack of information about us makes it more difficult to make investment decisions about us.

WE DO NOT INTEND TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE AND THERE ARE RESTRICTIONS ON THE CONVERSION OF LOCAL CURRENCY

We do not intend to pay dividends for the foreseeable future as we intend to reinvest earnings from operations, if any, back into our operations. In addition, our holding company structure creates restrictions on our payment of dividends. The payment of dividends is also subject to numerous restrictions imposed under PRC law, including restrictions on the conversion of local currency into United States dollars and other currencies.

AS A "FOREIGN PRIVATE ISSUER" WE ARE NOT SUBJECT TO CERTAIN RULES PROMULGATED BY NASDAQ THAT OTHER NASDAQ-LISTED ISSUERS ARE REQUIRED TO COMPLY WITH

Our common shares are currently listed on the Nasdaq Capital Market and, for so long as our securities continue to be listed, we will remain subject to the rules and regulations established by Nasdaq applicable to listed companies. As permitted under Nasdaq rules applicable to foreign private issuers such as China Natural Resources, we have determined not to comply with the following Nasdaq rules:

- a majority of our board of directors are not independent as defined by Nasdaq rules;
- our independent directors do not hold regularly scheduled meetings in executive session;
- the compensation of our executive officers is not determined by an independent committee of the board or by the independent members of the board of directors, and our CEO may be present in the deliberations concerning his compensation;

- 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 participate in an electronic link with a specified registered depository in connection with any direct registration program that we may establish in the future.

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

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 1,233,131 of our common shares in the public float and, in general, there has not been an active trading market for our shares. Our shares tend to trade along with other shares of public companies whose operations are based in the People's Republic of China. These shares tend to exhibit periods of extreme volatility and price fluctuations, even when there are no events peculiar to the Company that appear to warrant price changes. We cannot assure you that price volatility will not continue in the future or, as a result thereof, that market prices will reflect actual values of our company.

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

WUHU'S EARNINGS MAY BE AFFECTED BY METALS PRICE VOLATILITY

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

These factors are beyond Wuhu's control and are impossible for it to predict. As a result, changes in the price of zinc and iron may adversely affect Wuhu's operating results. Wuhu has not engaged in hedging transactions or alternative measures to manage possible price fluctuations.

WUHU'S ORE RESERVE ESTIMATES MAY BE IMPRECISE

Both the quantity of ores and metal reserves are primarily based on estimates and there is no assurance that estimated reserves can be fully recovered. Investors are strongly cautioned not to place undue reliance on reserve estimates. Reserve estimation is an interpretive process based upon available data and various assumptions that are believed to be reasonable. The estimates may prove to be inaccurate, in which event Wuhu's mineral production and our operating results may be adversely affected 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.

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RELIANCE ON OPERATING PERFORMANCE OF A SINGLE MINE

The principal operating asset of Wuhu is the Yang Chong Mine. Over 80%

of the turnover of Wuhu was generated from the Yang Chong Mine. Since its acquisition in May 2003 until December 31, 2005, 100 % of Wuhu's sales of zinc and approximately 70% of Wuhu's sales of iron were derived from metal output from Yang Chong Mine. Although Wuhu plans to increase its production levels by opening two additional mine shafts in the Yang Chong Mine, as well as by acquiring additional mining rights in the PRC, there is no assurance that these development projects will be successful. If these development plans are unsuccessful, Wuhu may suffer a decrease in overall profit margins, operating performance and investment return, and may adversely affect the operating results of Wuhu.

AMORTIZATION POLICY FOR MINING RIGHTS

Wuhu's mining rights are amortized based on actual units of production over estimated reserves of the mines. Wuhu reviews the production plans and the reserve levels of the mines periodically. Accordingly, any material change in the production plan of Wuhu's mines or modification of reserve levels may have a negative impact on Wuhu's operating results.

RELIANCE ON SUB-CONTRACTOR

Wuhu sub-contracts its ore extraction work to a third party. To some extent, the operations of Wuhu are affected by the performance of the contractor, whose activities are not within Wuhu's control. If the contractor fails to achieve the guaranteed monthly extraction volume, or the contractor otherwise fails to perform its obligations under its agreement with Wuhu, the agreement may be terminated by Wuhu; however, termination of the relationship could adversely affect the operating results of Wuhu.

RISKS AND HAZARDS ASSOCIATED WITH THE MINING INDUSTRY

Wuhu's business is subject to a number of risks and hazards including:

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

Such risks could result in:

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

Wuhu emphasizes environmental protection in its operations and related activities. 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. Although Wuhu is currently in compliance with applicable environmental regulations of the PRC government, any changes to these regulations may increase the operating costs of the Company and may adversely affect the operating results of the Company.

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

DEPENDENCE ON SINGLE CUSTOMER

Wuhu's entire production of zinc for the years ended December 31, 2003, 2004 and 2005 were sold to a single customer, Huludao Zinc Industry Co. Ltd

(also known as Wulo Island Zinc Stock Company Limited), the largest zinc smelter in Asia. Wuhu is a party to a one-year sales contract with Huludao, subject to renewal every year. In the event Wuhu and Huludao are unable to agree upon renewal terms or Wuhu's sales contract with Huludao is not renewed for any other reason, Wuhu will have to identify one or more alternative outlets for its mineral production. While the sales contract has been renewed on an annual basis in the past, in the event the contract is not renewed in the future, our results of operations may be adversely affected.

COMPETITION FOR RESOURCES

Mines have limited lives and as a result, Wuhu continually seeks to expand its reserves through the acquisition of mining rights at new. As there is a limited supply of desirable mineral deposits in the PRC, Wuhu faces strong competition for mining rights from other mining companies, some of which have greater financial resources than Wuhu, Wuhu may not be able to acquire attractive mineral rights on terms that Wuhu considers acceptable.

[Item 4] INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

China Resources was incorporated as Magenta Corp. on January 15, 1986, in the State of Nevada. It was formed to acquire businesses that would provide a profit to the Company. China Resources had no operating business until control of it was acquired in December 1994, by the former shareholders of CNRI, who exchanged all of the issued and outstanding shares of capital stock of CNRI for 108,000 shares of China Resources' common stock. As a result of the acquisition, the former shareholders of CNRI acquired 90% of the then issued and outstanding shares of common stock of China Resources, and China Resources became the owner of all the outstanding shares of capital stock of CNRI. CNRI was incorporated in the British Virgin Islands on December 14, 1993.

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

On February 3, 2006 the Company consummated the acquisition of all of the issued and outstanding capital stock of FMH from Feishang Group Limited (the "Shareholder"), a British Virgin Islands company, the former owner of all of the issued and outstanding common stock of FMH. Mr. Li Feilie, our President, Chief Executive Officer and Chairman is the sole beneficial owner of the Shareholder.

Under the terms of the Acquisition Agreement governing the acquisition, the Company issued 9,980,593 of its common shares to the Shareholder, representing approximately 86.4% of its issued and outstanding common shares (after giving effect to the issuance and the exchange of 320,000 currently outstanding preferred shares for 320,000 common shares, as described below), and issued to the Shareholder warrants (the "Warrants") to purchase an additional 4,500,000 common shares. Ching Lung Po, director, President, Chief Executive Officer and Chairman of the Company resigned at the closing of the acquisition, and Li Feilie, Chairman of FMH, was appointed as director, President, Chief Executive Officer and Chairman of the Company. The Company's other directors and executive officers remain unchanged following the acquisition.

The Warrants entitle 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. Other than the exercise price and exercise period, all other terms and conditions of the Warrants are identical. The Warrants provide that the exercise price is subject to adjustment in the event of stock splits, dividends and reclassifications. The expiration date of the Warrants is subject to acceleration in the event of the sale, conveyance or disposal of all or substantially all of the Company's property or business or a merger with or into or consolidation with another company or other transaction or series of transactions in which more than 50% of the voting power of the Company is

disposed of, except for a merger undertaken solely for the purpose of changing the domicile of the Company or in connection with an equity financing in which the Company is the surviving corporation.

In connection with the acquisition, Winsland Capital Limited, a corporation wholly owned by Ching Lung Po, the former president and chief executive officer of the Company, exchanged 320,000 Series B preferred shares of the Company for 320,000 common shares. Under the Acquisition Agreement, the Shareholder has irrevocably agreed that prior to February 3, 2008 it will not sell, transfer, pledge, mortgage or otherwise dispose of any of the common shares it received in the transaction.

The Company's principal place of business is located at Room 2105, West Tower, Shun Tak Centre, 200 Connaught Road C., Sheung Wan, Hong Kong, telephone (852) 2810-7205.

B. BUSINESS OVERVIEW

Since 2000, the Company has been primarily engaged in identifying, acquiring and operating business opportunities and, when management deems it advisable, disposing of acquired businesses. Since the disposition of businesses may, from time-to-time, consist of the sale of assets, the Company maintains ownership over numerous direct and indirect currently inactive wholly owned subsidiaries, organized under the laws of various jurisdictions, that may be used in connection with business opportunities in the future.

As of December 31, 2005, the Company's only active business operations consisted of its advertising, promotion and public relations business. The Company has been engaged in advertising, promotion and public relations services since the third quarter of 2003 through the acquisition of iSense. iSense is an integrated marketing company dedicated to providing creative advertising and promotions services to both local and international customers engaged in various industries, including technology and new media, healthcare products and consumer goods.

The advertising business is not seasonal in nature. Since its incorporation, iSense has serviced over 50 customers. For the period from acquisition to December 31, 2003, one advertising customer accounted for 11% of total sales. For the year ended December 31, 2004, five advertising customers accounted for 89% of total sales. For the year ended December 31, 2005, two advertising customers accounted for 62% of total sales. All sales were made in Hong Kong dollars.

The Company commenced operations of a supermarket in the PRC, through Zhuhai Zhongwei, in the fourth quarter of 1999. As the contribution of supermarket operations to the Company's profitability was insignificant since its establishment, the Company disposed of its entire interest in Zhuhai Zhongwei on April 22, 2003 for consideration of RMB6,000,000 (US$743,000). On August 29, 2003, the Company acquired a 100% equity interest in iSense for total consideration of US$724,000 through the issuance of 100,000 shares of the Company's unregistered restricted common stock to the former sole equity owners of iSense. The Company acquired iSense to provide advertising, promotion and public relations services in Hong Kong and mainland China to both local and international customers. The Company also trades copper occasionally through HARC in the PRC. In light of the foregoing transactions, operating results of prior years should not be viewed as being indicative of operating results that may be expected in future years.

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 following describes activities conducted by the Company's subsidiaries during the year ended December 31, 2005.

ISENSE

iSense was Incorporated in March 2000 in Hong Kong and is an integrated marketing company. On August 29, 2003, the Company acquired all of the issued and outstanding capital stock of iSense for total consideration of US$724,000, in exchange for the issuance of 100,000 shares of the Company's unregistered restricted common stock to the former sole equity owners of iSense. The number

of shares issued was based upon the US$7.24 closing price of the Company's common shares (as quoted on the Nasdaq SmallCap Market) on August 22, 2003. The Company acquired iSense to provide advertising, promotion and public relations services in Hong Kong and mainland China to both local and international customers.

HARC

HARC is a Sino-foreign joint stock company incorporated in the PRC on June 28, 1994 with a registered capital of RMB100 million (US$12.4 million). HARC owns a 5.3% equity interest in unlisted shares of Hainan Sundiro Motorcycle Co., Ltd., a PRC company listed on the Shenzhen Stock Exchange in the PRC. HARC also trades copper occasionally for its own account.

SUNWIDE

Sunwide was incorporated in the British Virgin Islands on January 22, 2001. Sunwide is mainly engaged in investing in marketable securities, traded in US markets, as short-term investments.

SILVER MOON AND MEDI-CHINA

Silver Moon is a British Virgin Islands company incorporated on March 24, 2000. The principal business of Silver Moon and its wholly-owned subsidiary, Medi-China (formerly known as Sky Creation Technology Limited), a Hong Kong company incorporated on October 15, 1999, is to provide online Internet healthcare content, through its website, medi-china.com, which offers health-related content in both English and Chinese, with a focus on Chinese herbal medicine and therapies. Neither Silver Moon nor Medi-China is currently engaged in active business operations, however, they are poised to recommence their healthcare-related website to the extent that the e-commerce industry stabilizes and demonstrates signs of revival.

FMH AND WUHU

HISTORY OF FMH

FMH was incorporated under the laws of the British Virgin Islands in September 2004. FMH beneficially owns 100% of the capital stock of Wuhu, a company established under the laws of the PRC. FMH treats the business of Wuhu, a mining enterprise principally engaged in the mining of zinc, iron and other minerals for distribution in the PRC, as its principal business activity.

Wuhu was established as a sino-foreign joint stock limited liability company between Wuhu Feishang Enterprise Development Company Limited ("WFED") (50%) and Feishang International Holdings Limited ("FIH") on June 21, 2002 with a 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. In May 2003, Wuhu acquired the entire business of Anhui Fanchang Zinc and Iron Mine. In April 2005, WFED and FIH transferred their interests in Wuhu to FMH, at cost, and since the date of such transfer, FMH has been the owner of 100% of the capital stock of Wuhu.

BUSINESS OF FMH

FMH conducts its operations through Wuhu. Wuhu's principal activities are the mining of zinc, iron and other minerals for distribution in the PRC. At present, Wuhu owns the mining rights to two mines located in Wuhu City, Anhui Province, the PRC: The Yang Chong Mine contains iron and zinc minerals and the Zao Yun Mine contains mainly iron minerals. The two mines produced 47,000 tons of iron and 8,600 tons of zinc in 2005. The majority of the iron and zinc ore is mined from Yang Chong Mine. Yang Chong Mine has a total mining area of 0.186 square kilometers. Zao Yun Mine has a total mining area of approximately 0.0136 square kilometers. Wuhu City is located in the northwestern Yangtze River Delta and the center of East China, approximately 384 kilometers from Shanghai.

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The table below summarizes the production quantity and sales quantity for each of the year ended December 31, 2003, 2004 and 2005 included in continuing operations.

	2003	2004	2005

Production quantity (tons):			
Zinc	8,170	7,800	8,650
Iron	48,265	58,160	46,800
Micaceous iron oxide - grey	766	1,072	524
Sales quantity (tons):			
Zinc	8,345	7,782	8,841
Iron	51,786	58,326	46,201
Micaceous iron oxide - grey	723	1,089	612

The Yang Chong Mine has been in production since 1999. In 2005, the daily mining capacity of the Yang Chong Mine was approximately 400 tons of ore.

The Zao Yun Mine has been in operation since 1998. In 2005, the monthly mining capacity of the Zao Yun mine was approximately 4,000 tons of iron ore.

Since all mineral resources in the PRC are owned by the State, the Company's right to extract minerals at the mines is licensed to Wuhu by the State for a period of years (see "Government Regulation," below). The Company is the only party that is currently licensed to mine the Yang Chong Mine and the Zao Yun Mine. The Company's current license to mine the Yang Chong Mine expires on December 31, 2011, and may be renewed upon expiry. The Company's current license to mine the Zao Yun Mine expires on August 11, 2006, and may be renewed upon expiry.

Wuhu outsources mine extraction to an unrelated third party. Under two agreements both dated October 1, 2002, Wuhu entered into sub-contracting agreements with Zhejiang Universal Tunnel Engineering Co. Ltd. for outsourcing the mine extraction work for Yang Chong Mine and Zao Yun Mine. For Yang Chong Mine, the subcontractor guarantees an extraction volume of 5,000 tons per month and charges a service fee of RMB41.2 (US$ 5.0) per ton of ore extracted, RMB1,188 (US$ 143) per extra meter of deeper mine extracted and RMB13 (US$1.6) per ton of useless stone removal. For Zao Yun Mine, the subcontractor charges a service fee of RMB68 (US$8.2) per ton of ore extracted. Except for the mining of raw mineral stones, which is outsourced to an unrelated third party, all the procedures of the refinery process are performed by Wuhu. Raw mineral stones extracted from Yang Chong Mine are refined into iron and zinc metals in factories located near the mine. Wuhu's production process for iron and zinc metals is illustrated below:


```
 __________________________________
|                                  |
|              Mining              |
|__________________________________|
                 |
 __________________________________
|                                  |
|             Breaking             |
|__________________________________|
                 |
 __________________________________
|                                  |
|             Grinding             |
|__________________________________|
                 |
 __________________________________
|                                  |
|             Grading              |
|__________________________________|
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                                   __________________________________
                                  |                                  |
                                  |             Sorting              |
                                  |__________________________________|
                                  /                                  \
 ___________________/                                    \_____________________
|                   |                                    |                     |
|     Zinc ore      |                                    |Magnetic separation |
|___________________|                                    |_____________________|
         |                                                          |
 ________|_________                                      ___________|__________
|                   |                                    |                     |
|     Pooling       |                                    | Finished iron ore   |
|___________________|                                    |_____________________|
         |
 ________|_________
|                   |
|   Dehydration     |
|___________________|
         |
 ________|_________
|                   |
|Finished zinc ore  |
|___________________|
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Wuhu's management believes that prospects in the PRC iron and zinc markets will continue to present it with attractive opportunities for growth and expansion. Wuhu plans to increase the existing daily mining capacity to 900 tons in 2007 by opening two additional mine shafts. One mine shaft opened in December 2005 and the other is expected to open in late 2006.

The daily refining capacity of Wuhu is approximately 600 tons. Wuhu plans to increase its current processing capacity by expanding the existing processing facilities in 2006 and it expects the daily refining capacity will gradually increase to 800 tons in 2009 with the expanded processing facilities. The expansion work has not yet been commenced and management estimates the total budget for the expansion work will be approximately RMB2 million (US$248,000).

INDUSTRY OVERVIEW

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 productions are concentrated in Australia, Brazil, the PRC and India, which together accounts for 70% of the world total. As the PRC economy continues to record strong growth, the PRC has become the dominant source of iron ore demand growth. The PRC is also the largest importer of iron ore in the world.

Zinc metal is used in a multitude of applications. 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. Most of the world productions are concentrated in Australia, Canada, the PRC and Peru, which together accounts for 60% of the world total. Due to the rapid growth in the infrastructure, housing and automotive sectors in the PRC, there has been a steep rise in the demand of zinc metal.

SUPPLIERS

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

During the years ended December 31, 2003, 2004 and 2005, the largest five suppliers accounted for 47%, 44% and 59%, respectively, of Wuhu's purchases. During the years ended December 31, 2003, 2004 and 2005, one supplier accounted for 22%, 14% and 24%, respectively, of Wuhu's purchases.

CUSTOMERS

Wuhu sells zinc and iron products to companies in the PRC. All of Wuhu's zinc products were sold to a single customer, Huludao Zinc Industry Co., Ltd., also known as Wulo Island Zinc Stock Company Limited ("Huludao"), which is the largest zinc smelter in Asia. Wuhu has a one-year sales contract with Huludao subject to renewal every year. All sales to Huludao were made on a cash on delivery basis. For iron and other products, sales are generally made under sales contracts with customers, typically with a one-year term. Approximately 90% of these sales are made on cash on delivery basis. For the others, management may extend up to one month's credit to customers who are determined to be creditworthy.

At December 31, 2003, 2004 and 2005, the largest five customers accounted for 84%, 95% and 99% of trade receivables, respectively. During the year ended December 31, 2004, three customers accounted for 47%, 24% and 10%, respectively, of Wuhu's sales. During the year ended December 31, 2005, three customers accounted for 65%, 12% and 8%, respectively, of Wuhu's sales.

COMPETITION

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

GOVERNMENT REGULATION

Under the "Mineral Resources Law", all mineral resources of 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 license period. On December 31, 2005, Wuhu renewed its mining rights to 0.186 square

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

Wuhu'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 is required to submit mining proposal and feasibility studies to the relevant authority. Wuhu is obligated to pay a natural resources fee to the State in an amount equal to 2% of annual sales. Wuhu paid and/or accrued license fees of RMB3 million (US$372,000) when it renewed the license in December 2005.

ENVIRONMENTAL PROTECTION

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 country 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 country 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 adopting 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 adopted 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 is in material compliance with all applicable environmental protection requirements of the State.

EMPLOYEES

FMH presently has two employees consisting of its Chairman and Chief Financial Officer. Wuhu currently employs 377 persons on a full time basis, including 62 technicians and professionals. FMH believes that its relations and those of Wuhu with their employees are generally good.

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C. ORGANIZATIONAL STRUCTURE

The following chart illustrates the equity ownership by percentage of each of the Company's subsidiaries as of December 31, 2005: The chart does not reflect the Company's February 3, 2006 acquisition of FMH and its subsidiary Wuhu.

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                  __________________________________
                 |                                  |
                 |          CHINA NATURAL           |__________________________________
                 |         RESOURCES, INC.          |                      |            |
                 |a British Virgin Islands company  |                      |            |
                 |__________________________________|                      |            |
                                  |                                        |            |
                                  |                                        |            |
      ___________________________|_________________________                |            |
      |                           |                          |             |            |
      | 100%                      | 100%                     | 100%        |            |80%
  ______________            _______________          __________________    |     ______________
 |              |          |               |        |                  |   |    |
 |    ISENSE    |          |     HARC      |        |     SUNWIDE      |   |    |  SILVER MOON
 |  a Hong Kong |          |    a PRC      |        | a British Virgin |   |    | a British Virg
 |    company   |          |   company     |        |  Islands company |   |    | Islands compan
 |______________|          |_______________|        |__________________|   |    |______________
                                  |                                        |            |
                                  |                                        |            |
             ___________________________________________                   |            |
             |                    |                      |                 |            |
             |                    |                      |                 |            |
        100% |               100% |                      | 95%             |            | 100%
     __________________   __________________   __________________          |     ______________
    |                  | |                  | |                  |         |    |
    |   FIRST SUPPLY   | |  SECOND SUPPLY   | | ZHONGWEI TRADING |5%       |    |   MEDI-CHINA
    |  a PRC company   | |  a PRC company   | |  a PRC company   |_________|    |  a Hong Kong
    |    (inactive)    | |    (inactive)    | |    (inactive)    |              |    company
    |__________________| |__________________| |__________________|              |______________
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D.   PROPERTY, PLANTS AND EQUIPMENT

The Company's administrative offices and its principal subsidiaries are located in Hong Kong and Hainan in the PRC.

Pursuant to an office sharing agreement dated September 1, 2000, the Company's head office in Hong Kong is shared on an equal basis between the Company and Anka Consultants Limited, a private Hong Kong company which is owned by certain directors of the Company. The total area of the office is approximately 230 square meters. For the years ended December 31, 2003, 2004 and 2005, the Company paid its share of rental expenses to Anka Consultants Limited amounting to RMB249,000 (US$30,000), RMB232,000 (US$29,000) and RMB211,000 (US$26,000), respectively. The office sharing agreement provides that the Company share certain costs and expenses in connection with its use of the office.

Pursuant to an informal arrangement, iSense shares offices with an unaffiliated third party for a monthly rental of RMB1,000 (US$124). The total area of the office is approximately 140 square meters.

The Company is also a party to a rental agreement entered into between HARC and Haikou Nanyang Building Co. Ltd., an unaffiliated third party, covering office space in Hainan with a total gross area of 138 square meters. The rental agreement was for a period of 2 years from June 4, 2003 to June 3, 2005 at a monthly rental of RMB3,988 (US$494). The rental agreement was renewed for a period of 2 years from June 4, 2005 to June 3, 2007 at a monthly rental of RMB3,580 (US$443).

For the years ended December 31, 2003, 2004 and 2005, the Company incurred capital expenditures of RMB958,000 (US$119,000), RMB111,000 (US$14,000) and RMB25,000 (US$3,000), respectively. The capital expenditures for 2003 and 2004 were mainly for acquisition of motor vehicles, and the capital expenditures for 2005 were mainly for acquisition of office equipment.

FMH's administrative offices are located in Hong Kong. The offices, mining sites and other processing facilities of Wuhu are all located in Wuhu City, Anhui Province in the PRC. Yang Chong Mine has a total mining area of 0.186 square kilometers. Zao Yun Mine has a total mining area of approximately 0.0136 square kilometers. Wuhu'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 assumed the rights to use the land and its leasehold properties when it acquired the entire business of Anhui Fanchang Zinc and Iron Mine (the "Predecessor"). The registration process for the transfer of the land use rights from the Predecessor has not yet been completed. Wuhu has been granted mining rights to Yang Chong Mine and Zao Yun Mine to conduct mining activities in a specific mining area during the license period. On December 31, 2005, Wuhu renewed its mining rights to 0.186 square kilometers covering Yang Chong Mine, which will expire in December 2011, and is subject to renewal upon expiry. On August 11, 2003, Wuhu renewed its mining rights to

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0.0136 square kilometers covering Zao Yun Mine, which will expire in August 2006, and is subject to renewal upon expiry.

[ITEM 4A] UNRESOLVED STAFF COMMENTS

Not applicable.

[Item 5] OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the December 31, 2005 consolidated financial statements and accompanying notes. The following discussion does not give effect to the Company's acquisition of FMH and it wholly-owned subsidiary Wuhu, in February 2006.

A. OPERATING RESULTS

SALES AND GROSS PROFIT-COPPER

From 2003 to 2005 the Company occasionally traded copper. For the year ended December 31, 2003, sales and gross profit amounted to RMB1,904,000 (US$236,000) and nil, respectively. For the year ended December 31, 2004, sales and gross profit amounted to RMB1,842,000 (US$228,000) and RMB1,000 (US$124), respectively. For the year ended December 31, 2005, sales and gross profit amounted to RMB1,989,000 (US$246,000) and RMB1,000 (US$124), respectively.

SALES AND GROSS PROFIT- ADVERTISING AND PROMOTION

The Company has been engaged in advertising, promotion and public relations services since its acquisition of iSense on August 29, 2003. For the year ended December 31, 2003, net sales and gross profit amounted to RMB1,145,000 (US$142,000) and RMB277,000 (US$34,000), respectively. For the year ended December 31, 2004, net sales and gross profit amounted to RMB2,128,000 (US$264,000) and RMB588,000 (US$73,000), respectively. For the year ended December 31, 2005, net sales and gross profit amounted to RMB1,901,000

(US$236,000) and RMB567,000 (US$70,000), respectively.

VALUATION ALLOWANCES

For the year ended December 31, 2003, valuation allowances included the impairment loss on the Company's investment in Hainan Sundiro Motorcycle Co. Ltd. ("Sundiro") amounting to RMB19,000,000 (US$2,354,000), the write off of VAT receivable of RMB3,126,000 (US$387,000) and the write off of loan and interest receivables of RMB2,684,000 (US$333,000). For the year ended December 31, 2004, valuation allowances included the impairment loss on the Company's investment in Sundiro amounting to RMB13,000,000 (US$1,611,000) and the write off of loan and interest receivables of RMB304,000 (US$38,000). For the year ended December 31, 2005, valuation allowances included the impairment loss on the Company's investment in Sundiro amounting to RMB6,300,000 (US$781,000), and the write off of loan receivable of RMB205,000 (US$25,000).

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by RMB1,618,000 (US$200,000) or 25.3% to RMB8,019,000 (US$994,000) in 2004 from RMB6,401,000 (US$793,000) in 2003. The increase was mainly due to increased legal and professional fees in connection with the redomicile in 2004. Selling, general and administrative expenses decreased by RMB1,286,000 (US$159,000) or 16.0% to RMB6,733,000 (US$834,000) in 2005 from RMB8,019,000 (US$994,000) in 2004. The decrease was mainly due to reduction of legal and professional fees as explained above, partly offset by the increase in legal and professional fees in connection with the Feishang acquisition transaction.

INTEREST INCOME/(EXPENSE), NET

Interest income decreased by 93.6% from RMB313,000 (US$39,000) in 2003 to RMB20,000 (US$2,000) in 2004. The decrease was mainly attributable to the default of a short-term loan and related interest receivable of RMB304,000 (US$38,000). Net interest expense for 2005 represent interest paid on finance leases of approximately RMB19,000 (US$2,000), offset by interest income on bank balances of RMB14,000 (US$2,000).

OTHER INCOME/(EXPENSES), NET

Net other income in 2003 mainly consisted of a net gain on trading of marketable securities of RMB1,157,000 (US$143,000). Net other income in 2004 mainly consisted of a net gain on trading of marketable securities of RMB373,000 (US$46,000) and the recovery of bad debts and related costs of RMB2,850,000 (US$353,000). Net other expenses in 2005 mainly represented the net loss on trading of marketable securities of RMB618,000 (US$77,000), recovery of bad debts of RMB88,000 (US$11,000) and a gain on the elimination of payables of RMB293,000 (US$36,000).

INCOME TAXES

Prior to the Redomicile Merger, it was management's intention to reinvest all income attributable to the Company earned by its operations outside the US. Accordingly, no US federal and state income taxes have been provided in the consolidated financial statements. Following the Redomicle Merger, management believes that the Company is no longer subject to US taxes.

Income taxes in 2004 and 2005 consisted of Hong Kong profits tax computed at 17.5% on assessable income of iSense.

SALES AND GROSS PROFIT- SUPERMARKET OPERATIONS (DISCONTINUED OPERATIONS)

The Company ceased its supermarket operations following the disposition of its entire interest in Zhuhai Zhongwei on April 22, 2003. Net sales included in discontinued operations totaled RMB1,758,000 (US$218,000) with gross profit of RMB201,000 (US$25,000) for the year ended December 31, 2003. Profit from discontinued supermarket operations is reported net of income tax expense, if any.

B. LIQUIDITY AND CAPITAL RESOURCES

The Company's and its subsidiaries' primary liquidity needs are to fund operating expenses, and to expand business operations.

Net cash (used in)/provided by operating activities was RMB4,529,000 (US$561,000), (RMB3,652,000) (US$453,000) and (RMB10,755,000) (US$1,333,000), in fiscal 2003, 2004 and 2005, respectively. Net cash flows from the Company's operating activities are attributable to the Company's income and changes in operating assets and liabilities.

The following summarizes the Company's financial condition and liquidity at the dates indicated:

	At December 31,	
	2005	2004
Current ratio	1.8x	3.4x
Working capital	2,733,000	9,331,000
Ratio of long-term debt to total shareholders' equity	.005x	0.001x

Net cash provided by investing activities was RMB42,000 (US$5,000), RMB449,000 (US$56,000) and RMB62,000 (US$8,000), in fiscal 2003, 2004 and 2005, respectively. Net cash provided by/(used in) financing activities was RMB3,665,000 (US$454,000), RMB4,773,000 (US$591,000) and (RMB183,000) (US$23,000) in fiscal 2003, 2004 and 2005, respectively. Net cash flows from the Company's financing activities in 2003 and 2004 were attributable to proceeds from issuance of common stock from the exercise of stock options.

Except as disclosed above, there have been no significant changes in the financial condition and liquidity during the years ended December 31, 2004 and 2005. The Company believes that, following the FMH acquisition, its internally generated funds will be sufficient to satisfy its anticipated working capital needs for at least the next 12 months.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

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

D. TREND INFORMATION

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.

Notwithstanding the foregoing, on February 3, 2006, the Company acquired all of the issued and outstanding capital stock of FMH and its subsidiary Wuhu, and thereby acquired the mining operations of Wuhu. Inasmuch as the acquisition was accounted for as a reverse acquisition that resulted in a change of control of the Company, in future filings, the operations of FMH and Wuhu will be presented on a consolidated basis and the historic operations of the Company will be those of FMH. Following the acquisition, we will be substantially dependent upon the operations of FMH and Wuhu in order to generate meaningful revenue and profitable operations. A description of the Company's acquisition of FMH is contained elsewhere in this report.

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:

- Any obligation under certain guarantee contracts;
- Any 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 contract that would be accounted for as a derivative instrument, except that it is both indexed to our stock and classified in stockholder's equity 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,. 2005, 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. The Company has not assumed any off-balance sheet arrangements upon the FMH acquisition.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The Company has no contractual obligations and commercial commitments as at December 31, 2005 except the following:

Total