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CHINA NATURAL RESOURCES INC  
Form 20-F  
May 02, 2007

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, 2006

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.  
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(Exact name of Registrant as specified in its Charter)

Not Applicable  
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(Translation of Registrant's name into English)

British Virgin Islands  
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(Jurisdiction of incorporation or organization)

Room 2105, West Tower, Shun Tak Centre,  
200 Connaught Road C., Sheung Wan, Hong Kong  
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(Address of principal executive offices)

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

Common Shares, without par value  
(Title of class)

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

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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. 11,548,416 Common Shares as of December 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

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

Yes  No

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

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Item 17  Item 18

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

Yes  No

### CONVENTIONS

Unless otherwise specified, all references in this report to "U.S. Dollars," "Dollars," "US\$," or "\$" are to United States dollars; all references to "Hong Kong Dollars" or "HK\$" are to Hong Kong dollars; and all references to "Renminbi" or "RMB" are to Renminbi yuan, which is the lawful currency of the People's Republic of China ("China" or "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, 2006, which was U.S.\$1.00 = Rmb7.80. Translations from Hong Kong Dollars to U.S. Dollars have

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been made at the single rate of exchange as quoted by the Hongkong and Shanghai Banking Corporation Limited on December 31, 2006, which was U.S.\$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.

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

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. On October 3, 2006, the Company disposed of its entire interest in HARC, including its subsidiaries, First Goods And Materials Supply And Sales Corporation, Second Goods And Materials Supply And Sales Corporation and Hainan Zhongwei Trading Company Limited, to an unaffiliated third party.

References to "iSense" are to iSense Limited, a Hong Kong company whose capital was 100% acquired by the Company on August 29, 2003. On July 31, 2006, the Company disposed of its entire interest in iSense to the director and former shareholder of iSense.

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.

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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 "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.

### 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.

ii

### 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

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No disclosure is required in response to this Item.

[Item 3] KEY INFORMATION

A. SELECTED FINANCIAL INFORMATION

On February 3, 2006 (the "Acquisition Date"), the Company consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining Holdings Limited ("FMH"), a British Virgin Islands corporation (the "Acquisition"). The acquisition of FMH by the Company was accounted for using the purchase method of accounting and is treated as a reverse acquisition because on a post-merger basis, the former FMH shareholder holds 86.4% of the outstanding common shares of the Company. As a result, FMH is deemed to be the acquirer for accounting purposes. Accordingly, the following selected financial data for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, represent the operations of FMH and its wholly-owned subsidiary, Wuhu Feishang Mining Development Co. Ltd. ("Wuhu"), through February 2, 2006 and the consolidated operations of FMH and the Company subsequent to February 2, 2006. We have retroactively restated our issued share capital to reflect the acquisition by FMH. The selected financial data are derived from (I) the audited financial statements of Anhui Fanchang Zinc and Iron Mine (the predecessor of Wuhu, see "history of FMH" below) for the year ended December 31, 2002 and four months ended April 30, 2003, (II) the audited financial statements of Wuhu for the eight months ended December 31, 2003; (III) the audited consolidated financial statements of FMH for the years ended December 31, 2004 and 2005, (IV) the audited consolidated financial statements of the Company for the year ended December 31, 2006, and should be read in conjunction therewith. Details of the Company's acquisition of FMH are described elsewhere in this report.

	IN THOUSANDS, EXCEPT SHARE AMOUNTS			
	PREDECESSOR OF WUHU (I)	SUCCESSOR (WUHU) (II)	FMH (III)	F
	4 MONTHS ENDED DECEMBER 31, 2002	8 MONTHS ENDED DECEMBER 31, 2003	YEAR ENDED DECEMBER 31, 2004	Y DEC
	RMB	RMB	RMB	RMB
<b>OPERATING STATEMENT DATA</b>				
Net sales	36,129	10,439	31,893	77,939
Operating expenses	(7,943)	(2,154)	(4,541)	(4,597)
Income/(loss) from continuing operations before income taxes	(42)	778	7,460	41,992
Income/(loss) from continuing operations	(42)	753	7,460	41,992
Income/(loss) from discontinued operations	(1,825)	(159)	(72)	12
Net Income/(loss)	(1,867)	594	7,388	42,004
<b>Income/(loss) per share:</b>				
Basic				
Continuing operations	(0.01)	0.08	0.75	4.21
Discontinued operations	(0.18)	(0.02)	(0.01)	--
	-----	-----	-----	-----
	(0.19)	0.06	0.74	4.21
	=====	=====	=====	=====
<b>Income/(loss) per share:</b>				

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Diluted					
Continuing operations	(0.01)	0.08	0.66	3.73	
Discontinued operations	(0.18)	(0.02)	(0.01)	--	
	-----	-----	-----	-----	
	(0.19)	0.06	0.65	3.73	
	=====	=====	=====	=====	
Weighted average number of shares outstanding					
Basic	9,980,593	9,980,593	9,980,593	9,980,593	
Diluted	9,980,593	9,980,593	11,249,369	11,245,975	1
BALANCE SHEET DATA					
Total assets	68,777	71,334	71,894	89,601	
Current assets	21,880	30,522	28,416	55,381	
Current liabilities	47,710	49,587	52,514	28,218	
Working capital	(25,830)	(19,065)	(24,098)	27,163	
Shareholders' equity	21,067	21,747	19,380	61,383	

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. In accordance with the relevant PRC regulations and the Articles of Association of Wuhu, appropriations of net income as reflected in its statutory financial statements are to be allocated to each of the general reserve, enterprise expansion reserve and staff bonus and welfare reserve, respectively, as determined by the resolution of the board of directors annually. 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. Prior to the Acquisition, the board of directors of Wuhu declared dividends of RMB44,005,000 and RMB38,462,000 on February 28, 2005 and January 27, 2006, respectively.

EXCHANGE RATES

The Company's reporting currency is Renminbi. Translations of amounts from Renminbi to U.S. Dollars are for the convenience of the reader. The 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	2002	2003	2004	2005	2006
-----	-----	-----	-----	-----	-----
High	8.2776	8.2778	8.2775	8.2767	8.0702
Low	8.2760	8.2765	8.2763	8.0702	7.8160
Average for period	8.2770	8.2771	8.2768	8.1826	7.9149
End of period	8.2770	8.2767	8.2765	8.0702	7.8160
MONTH	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
-----	-----	-----	-----	-----	-----
High	7.9149	7.8811	7.8360	7.8160	7.7100

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Low 7.8738 7.8313 7.8051 7.7705 7.7

The exchange rate on April 20, 2007 was 7.7150.

2

### 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

INVESTORS SHOULD CONSIDER POLITICAL, ECONOMIC AND LEGAL FACTORS APPLICABLE TO INVESTMENTS IN THE PRC PRIOR TO INVESTING IN OUR COMPANY.

Since 1997, the PRC government has been making efforts to promote reforms of its economic system. These reforms have brought about marked economic growth and social progress, and the economy of China has shifted from a planned economy to a socialist market economy. Wuhu has 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 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, 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. 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, OUR MANAGEMENT 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 United States or any state, or (b) in original actions brought in the British Virgin Islands or the PRC, liabilities against us or any

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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).

3

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, SOME OF WHICH ARE DESIGNED TO PROVIDE INFORMATION TO AND PROTECT INVESTORS.

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

- o a majority of our board of directors are not independent as defined by Nasdaq rules;
- o our independent directors do not hold regularly scheduled meetings in executive session;
- o 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;
- o related party transactions are not required to be reviewed or approved by our audit committee or other independent body of the



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- board of directors;
- o 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;
- o we are not required to hold an in-person annual meeting to elect directors and transact other business customarily conducted at an annual meeting; and
- o 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 1,262,926 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.

4

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.

WUHU'S EARNINGS AND, THEREFORE, OUR PROFITABILITY, 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.

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WUHU HAS NOT PERFORMED FEASIBILITY STUDIES AND, THEREFORE, RELIABLE ESTIMATES OF PROVEN OR PROBABLE RESERVES CANNOT BE PROVIDED AND IF MINERALS ARE DEPLETED FROM OUR MINES PRIOR TO TERMINATION OF OUR MINERAL RIGHTS, WE MAY BE UNABLE TO GENERATE REVENUES.

Both the quantity of ores and metal reserves are primarily based on estimates and we have conducted no feasibility studies to confirm the amount of proven or probable reserves contained in the mines in which we have mineral rights. While we are currently extracting and selling minerals from our mines, we are unable to predict the extent of mineral deposits in our mines or whether there will continue to be sufficient minerals deposits to allow us to extract minerals at current levels for the duration of our mining rights. Moreover, 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.

WE RELY ON OPERATING PERFORMANCE OF A SINGLE MINE AND IF OUR MINE DEVELOPMENT PLANS ARE UNSUCCESSFUL, WUHU, AND AS A RESULT, WE, MAY SUFFER A DECREASE IN PROFITABILITY.

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, 2006, 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.

WUHU'S OPERATING RESULTS MAY BE DEGATIVELY IMPACTED BY AMORTIZATION POLICIES APPLICABLE TO 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.

5

WUHU RELIES ON SUB-CONTRACTORS TO PERFORM MINERAL EXTRACTION OVER WHOM WUHU HAS LITTLE CONTROL.

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.

WE ARE SUBJECT TO NUMEROUS RISKS AND HAZARDS ASSOCIATED WITH THE MINING INDUSTRY.

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

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

Such risks could result in:

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

WUHU DEPENDS ON A SINGLE CUSTOMER WITH WHOM WUHU HAS NO BINDING CONTRACTUAL UNDERSTANDINGS, AND THE LOSS OF THAT CUSTOMER WOULD MATERIALLY AND ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Wuhu's entire production of zinc for the years ended December 31, 2004, 2005 and 2006 were sold to a single customer, Huludao Zinc Industry Co. Ltd. ("Huludao"), the largest zinc smelter in Asia. Wuhu is a party to a one-year sales contract with Huludao, subject to renewal every year; however, the sales contract does not obligate Huludao to purchase zinc from Wuhu. In the event Huludao ceases or reduces its purchases from Wuhu, or if 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, the loss of Huludao as a source for Wuhu's zinc production could adversely affect our results of operations.

WUHU MAY BE UNABLE TO SUCCESSFULLY COMPETE FOR MINERAL RIGHTS WITH COMPANIES HAVING GREATER FINANCIAL RESOURCES THAN IT HAS.

Mines have limited lives and as a result, Wuhu continually seeks to expand its reserves through the acquisition of additional mining rights. 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.

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### 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 CNRI became a wholly owned subsidiary of China Resources. 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 consummated through an exchange of shares of China Resources for 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 "CHRE". 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 were not changed as a result of 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

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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.

7

The Company's executive offices are located at Room 2105, West Tower, Shun Tak Centre, 200 Connaught Road C., Sheung Wan, Hong Kong, telephone (852) 2810-7205. The Company does not currently have an agent in the United States.

### B. BUSINESS OVERVIEW

From 2000 until 2005, the Company was primarily engaged in identifying, acquiring and operating business opportunities and, when management deems it advisable, disposing of acquired businesses.

The Company commenced an advertising, promotion and public relations business which it operated through iSense, in 2003. 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 Company ceased its advertising business upon the disposal of iSense on July 31, 2006.

On February 3, 2006, the Company consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining Holdings Limited ("FMH"), a British Virgin Islands corporation (the "Acquisition"). Since the date the Acquisition was completed the Company's sole operations have consisted of the mining of zinc, iron and other minerals for distribution in the PRC, through the acquisition of FMH.

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, 2006.

#### iSENSE

iSense was Incorporated in March 2000 in Hong Kong. iSense is an integrated marketing company which provide advertising, promotion and public relations services in Hong Kong and mainland China to both local and international customers. On July 31, 2006, the Company disposed of its 100% equity interest in iSense to the director and former shareholders of iSense for consideration of RMB2,060,000 (US\$264,000).

#### 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\$12.8 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. On October 3, 2006, we consummated the sale of all of our right, title and interest in and to the capital stock of HARC to Allied Clear Investments Limited, an unaffiliated British Virgin Islands corporation, for a purchase price of RMB30,900,000 (US\$3,862,000).

#### SUNWIDE

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

### SILVER MOON AND MEDI-CHINA

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

8

### 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. The registered capital of Wuhu is RMB12 million (US\$1.5 million), of which RMB6 million (US\$769,000) was each contributed by WFED and FIH. In May 2003, Wuhu acquired the entire business of Anhui Fanchang Zinc and Iron Mine, a stated-owned enterprise ("Anhui Fanchang"). 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. In early 2004, Wuhu sold its mining business in activated bleaching earth and metallurgy bentonite to Wuhu Feishang Non-Metal Material Co. Ltd. ("WFNM"), a related party, for consideration of RMB8,050,000 (US\$1,032,000). 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, and 46,000 tons of iron and 6,400 tons of zinc in 2006. The majority of the iron and zinc ore is mined from the Yang Chong Mine. Wuhu acquired the entire business of Anhui Fanchang in May 2003, including but not limited to the mining rights to two mines, the properties and the refinery facilities of the mines. Wuhu City is located in the northwestern Yangtze River Delta and the center of East China, approximately 384 kilometers from Shanghai.

The table below summarizes the production quantity and sales quantity

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for each of the years ended December 31, 2004, 2005 and 2006 included in continuing operations.

	2004 -----	2005 -----	2006 -----
Production quantity (tons):			
Zinc	7,800	8,650	6,380
Iron	58,160	46,800	46,107
Micaceous iron oxide - grey	1,072	524	628
Sales quantity (tons):			
Zinc	7,782	8,841	6,248
Iron	58,326	46,201	46,357
Micaceous iron oxide - grey	1,089	612	713

9

### YANG CHONG MINE

The Yang Chong Mine is an underground mine located in Fanyang Town, Fanchang, Anhui Province in the PRC, the centre of which has a geological coordinate EL 118(degree)08'00", NL31(degree)05'40". The mine is approximately 4.2 kilometers east of Fanchang City and 13.5 kilometers north-west of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers from Wuhu City. Yang Chong Mine has a total mining area of 0.186 square kilometers. The Yang Chong Mine contains iron and zinc.

The area's mining history dates back to the early 1990s. An exploration and development campaign was completed by Nanchang Engineering & Research Institute of Nonferrous Metal in 1991, with a planned daily mining capacity of approximately 100 tons of ore. Full scale ore production started in 1999 and the daily mining capacity gradually increased to approximately 600 tons of ore in 2006.

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

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

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

Wuhu outsources mine extraction to an unrelated third party. Under an

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agreement dated October 1, 2002 and a supplementary agreement dated January 1, 2006, Wuhu entered into sub-contracting agreements with Wenzhou Mining Engineering Co. Ltd. (formerly known as Zhejiang Universal Tunnel Engineering Co. Ltd.) for outsourcing the mine extraction work for Yang Chong Mine. Under the agreements, the subcontractor guarantees an extraction volume of 5,000 tons per month and charges a service fee of RMB41.2 (US\$5.30) per ton of ore extracted and RMB13 (US\$1.70) per ton of useless stone removal. For the developing of ramps, the subcontractor charges a service fee of RMB1,500 (US\$192) per extra meter of inclined shaft and RMB1,188 (US\$152) per extra meter of flat shaft. Except for the mining of raw minerals, which is outsourced to an unrelated third party (as described above), all the procedures of the refinery process are performed by Wuhu. Raw minerals extracted from Yang Chong Mine are refined into iron and zinc metals in factories located near the mine.

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 of raw ore by the end of 2007 opening two additional mine shafts. One mine shaft opened in December 2005 and the other has been under trial run since December 2006.

All equipment, infrastructure and facilities material to Wuhu's operations are believed to be in good condition. The plant was constructed in 1991 and has been periodically upgraded. The processing plant is capable of producing approximately 600 tons of finished products per day. The processing facilities process raw ore from both the Yang Chong Mine and Zao Yun Mine. Site infrastructure includes roads, water supply system, electric supply system, warehouses, living quarters, dining facilities and an administration building. At December 31, 2006, the net book value of property, plant and equipment of Yang Chong Mine was approximately RMB21,732,000 (US\$2,786,000)

10

### ZAO YUN MINE

The Zao Yun Mine is also an underground mine located in Fanyang Town, Fanchang, Anhui Province in the PRC, the centre of which has a geological coordinate EL 118(degree)12'47", NL31(degree)08'54". The mine is approximately 8.5 kilometers east of Fanchang City and 17 kilometers northwest of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers through Wuhu City. Zao Yun Mine has a total mining area of approximately 0.0136 square kilometers. The Zao Yun Mine contains mainly iron. In September 2006, a small quantity of copper was found in Zao Yun Mine, and Wuhu has installed processing equipment for copper which is currently under trial production.

The Zao Yun Mine has been in operation since 1998. In 2006, the monthly mining capacity of the Zao Yun mine was approximately 4,000 tons of iron ore. The Company is the only party that is currently licensed to mine the the Zao Yun Mine. The Company's current license to mine the Zao Yun Mine expires on October 31, 2009, and may be renewed upon expiry.

Access to the underground workings at the Zao Yun Mine is via a ramp from the surface and connecting numerous levels. At the end of 2006, the exploitation of the Zao Yun Mine 70-meter below sea level was completed. Since early 2007, the principal working levels lay between 70 and 195 meters below sea level. The electricity supply in the mining area is mainly provided by Meishan Power Station, with 110 kilo voltage of transmission base located in 8 kilometers north-east of Zao Yun Mine.

Wuhu outsources mine extraction to an unrelated third party. Under an agreement dated October 1, 2002 and a supplementary agreement dated April 1,



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2006, Wuhu entered into sub-contracting agreements with Wenzhou Mining Engineering Co. Ltd. for outsourcing the mine extraction work for Zao Yun Mine. Under the agreements, the subcontractor charges a service fee of RMB68 (US\$8.70) per ton of ore extracted and RMB19.5 (US\$2.50) per ton of useless stone removal. For the developing of ramps, the subcontractor charges a service fee of RMB1,700 (US\$218) per extra meter of inclined shaft and RMB1,500 (US\$192) per extra meter of flat shaft. Except for the extraction of raw minerals, which is outsourced to an unrelated third party, all phases of the refinery process are performed by Wuhu.

All equipment, infrastructure and facilities material to Wuhu's operations are believed to be in good condition. The plant was constructed in 1998 and has been periodically upgraded. Site infrastructure includes roads, water supply system, electric supply system, warehouses, living quarters, dining facilities and administration building. At December 31, 2006, the net book value of property, plant and equipment of Zao Yun Mine was approximately RMB2,584,000 (US\$331,000)

### INDUSTRY OVERVIEW

#### ZINC

Zinc 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, which accounts for approximately 50% of the total world zinc consumption. 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 world's largest zinc producing and consuming country.

Driven by the rapid growth in mainland China's economy over the past few years, there has been a steep rise in demand, production and prices of zinc. The following shows the production, consumption and prices of zinc in China over the past five years:

	2002	2003	2004	2005
	-----	-----	-----	-----
Production (in thousand tons)	2,160	2,300	2,520	2,700
Consumption (in thousand tons)	1,820	2,060	2,680	3,000
Average price (RMB/ton)	7,889	8,504	11,459	13,000

Source: China Non-ferrous Metal Industry Association

#### IRON

Iron ore is one of the key compounds for producing crude steel which is used mainly by the infrastructure, real estate, shipbuilding and automobile sectors. Most of the world's production is concentrated in Australia, Brazil, the PRC, India and South Africa, which together account for over 70% of the world's total. In 2005, the total world iron ore production and consumption were approximately 13 million tons and 12.5 million tons, respectively. While the PRC

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is the largest producer of crude iron ore, it is also the largest importer of iron ore in the world. The iron ore production in the PRC increased by more than 80% from 233 million tons in 2002 to 420 million tons in 2005. However, the PRC only ranked the fifth in the world on the proven iron reserves with a relatively low iron content of approximately 33% compared to over 60% of that of Australia and Brazil. As the PRC economy continues to record strong growth, the PRC has become the dominant source of iron ore demand growth. The iron ore imported by the PRC increased by over 85% from 148 million tons in 2003 to 275 million tons in 2005.

World iron ore production is dominated by three companies: Companhia Vale do Rio Doce (Brazil), Ril Tinto Plc (Australia) and BHP Billiton Limited (Australia). These three companies together account for approximately 70% of world's total iron ore exports.

### 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 range from 30 to 60 days on an open account basis.

During the years ended December 31, 2004, 2005 and 2006, the largest five suppliers accounted for 44%, 59% and 54%, respectively, of Wuhu's purchases. During the years ended December 31, 2004 and 2005, one supplier accounted for 14% and 24%, respectively, of Wuhu's purchases. During the year ended December 31, 2006, no supplier accounted for more than 10% 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., which is the largest zinc smelter in Asia. Wuhu has a one-year sales contract with Huludao subject to renewal every year; however the sales contract does not obligate Huludao to purchase zinc from Wuhu. The loss of Huludao as a source for Wuhu's zinc production would require Wuhu to identify new outlets for its zinc and could delay revenue generation and adversely affect our results of operations (see Item 3D-Risk Factors). All sales to Huludao were made on cash on delivery basis. For iron and other products, sales are generally made under sales contracts with customers, typically with a one-year term. Approximately 90% of these sales are made on a cash on delivery basis. For the others, management may extend up to one month's credit to customers who are determined to be creditworthy.

At December 31, 2004, 2005 and 2006, the largest five customers accounted for 95%, 99% and 100% 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. During the year ended December 31, 2006, three customers accounted for 85%, 5% and 5%, 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 tons and Wuhu has a long-standing sales relationship with Huludao, management believes that Wuhu will be able to renew its sales contract

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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 has the competitive advantage based upon its high product quality and purity, and low cost of production.

12

### 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. In October 2006, Wuhu renewed its mining rights to 0.0136 square kilometers covering Zao Yun Mine, which will expire in October 2009, 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 if 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. The license fee for the renewal of the mining rights to Yang Chong Mine in December 2005 was RMB3 million (US\$385,000). RMB1.5 million (US\$192,000) was paid in January 2006, with RMB500,000 (US\$64,000) and RMB1 million (US\$128,000) payable in November 2007 and November 2008, respectively. The license fee for the renewal of the mining rights to Zao Yun Mine was RMB354,000 (US\$45,000) and was paid in October 2006.

### 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

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

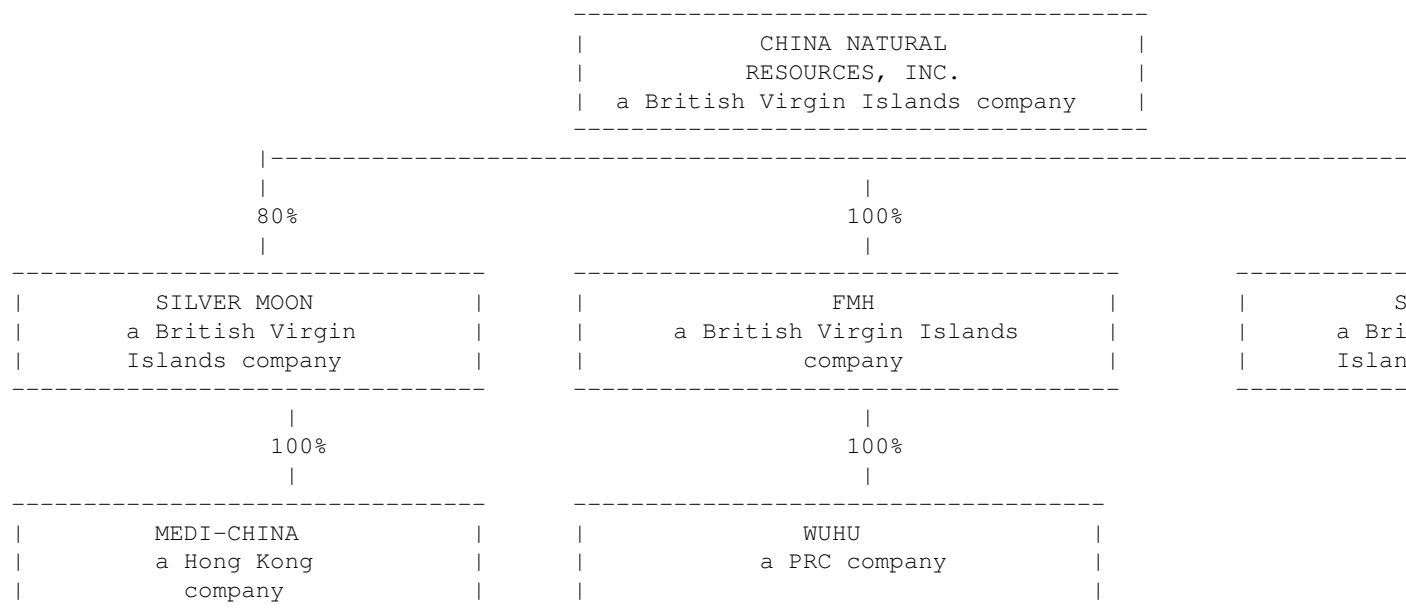
### EMPLOYEES

FMH presently has two employees consisting of its Chairman and Chief Financial Officer. Wuhu currently employs 377 persons on a full time basis, including 69 technicians and professionals. FMH believes that its relations and those of Wuhu with their employees are generally good.

13

### C. ORGANIZATIONAL STRUCTURE

The following chart illustrates the equity ownership by percentage of each of the Company's subsidiaries as of December 31, 2006:



### D. PROPERTY, PLANT AND EQUIPMENT

The Company's administrative offices and its principal subsidiaries are located in Hong Kong and Wuhu 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, 2004, 2005 and 2006, the Company paid its share of rental expenses to Anka Consultants Limited

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amounting to RMB232,000 (US\$30,000), RMB211,000 (US\$27,000) and RMB226,000 (US\$29,000), respectively. The office sharing agreement provides that the Company share certain costs and expenses in connection with its use of the office.

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, and 46,000 tons of iron and 6,400 tons of zinc in 2006. 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.

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. 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 October 31, 2009, and may be renewed upon expiry.

Wuhu outsources mine extraction to an unrelated third party. 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.

The offices, mining sites and other processing facilities of Wuhu are all located in Wuhu City, Anhui Province in the PRC. 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

14

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, Wuhu's predecessor.. 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. The mining rights to 0.186 square kilometers covering Yang Chong Mine will expire in December 2011, subject to renewal upon expiry. The mining rights to 0.0136 square kilometers covering Zao Yun Mine will expire in October 2009, subject to renewal upon expiry.

All processing facilities and equipment of Wuhu 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.

For the years ended December 31, 2004, 2005 and 2006, the Company incurred capital expenditures (excluding fee for renewal of mining rights) of RMB1,981,000 (US\$254,000), RMB2,304,000 (US\$295,000) and RMB3,532,000 (US\$453,000), respectively.

[Item 4A] UNRESOLVED STAFF COMMENTS

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No disclosure is required in response to this Item.

### [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, 2006 consolidated financial statements and accompanying notes.

#### OVERVIEW

We are a British Virgin Islands corporation, which, through our subsidiaries, conducts business operations in the People's Republic of China (PRC). Prior to 2006, our operations consisted of acquiring and operating businesses located in the PRC and Hong Kong. As of December 31, 2005, our only material operations were those of iSense, an integrated marketing company that provides advertising services to an international customer base. Through Hainan Cihui Industrial Co. Ltd. (HARC), another of our subsidiaries, we also held an interest in the unlisted shares of Hainan Sundiro Motorcycle Co., Ltd., a PRC company listed on the Shenzhen Stock Exchange.

In February 2006, we acquired all of the outstanding capital stock of Feishang Mining Holdings Limited, a British Virgin Islands corporation (FMH), and its subsidiary Wuhu Feishang Mining Development Co. Ltd., a PRC corporation (Wuhu), in a reverse acquisition with FMH being the accounting acquirer. As a result of the acquisition, we are now engaged in the mining of zinc, iron and other minerals for distribution in the PRC. In order to focus our efforts on our mining operations, during 2006, we also disposed of our interests in iSense and HARC and currently our sole business operations are the mining operations of Wuhu. The operations of iSense and HARC are reflected as discontinued operations in our financial statements for the year ended December 31, 2006.

Wuhu has acquired mining rights to and operates two mines located in Anhui Province in the PRC, where it primarily mines zinc, and to a lesser extent, iron, and is studying the feasibility of mining copper. Wuhu obtains its mining rights from the State, for a term of years, subject to renewal, and payment to the State of a license fee when the mining rights are renewed and a natural resource fee equal to 2% of gross sales which is paid annually. Wuhu performs all phases of the production and sales process, except that it outsources mineral extraction to a third party. Zinc sales, which accounted for approximately 80%, 66% and 47% of revenues in 2006, 2005 and 2004, respectively, were made to a single customer. While demand for zinc continues to increase in the PRC and Wuhu believes that its zinc is of high grade, the sole customer is not obligated to purchase zinc from Wuhu.

Fiscal 2006 saw a significant increase in net income, primarily attributable to increased demand for our ore, higher prices and correspondingly higher gross profit. Demand in 2007 is not expected to decline from 2006 levels, with average prices expected to increase by approximately 20%.

15

We do not anticipate significant capital expenditures during 2007. However, in order to expand our revenue base, we are seeking to acquire additional active mining operations in the PRC. We have no agreements or understandings to acquire any mining operations at this time, although we are evaluating several prospects, and continue to do so on a routine basis. We expect to fund acquisitions with cash-on-hand, the issuance of our debt or equity securities, or a combination of both, and we may use our securities to raise capital to be used to fund operations. The use of our securities in this manner may be dilutive to shareholders.

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SG&A expenses increased in 2006, in part due to assimilating the operations of CHNR as a public company following the reverse acquisition, and in part due to increased costs of regulatory compliance. As a foreign private issuer we are not subject to certain of the reporting and compliance obligations of other US publicly-traded companies; however, costs of compliance are expected to rise as regulators continue to expand the scope of controls and disclosure obligations, and as those obligations are made applicable to foreign private issuers.

### DISCONTINUED OPERATIONS

Pursuant to a January 1, 2004 agreement, Wuhu disposed of its interest in the mining of activated bleaching earth operations to a related party, Wuhu Feishang Non-Metal Material Co. Ltd. ("WFNM"), for total consideration of RMB8,050,000 (US\$1,032,000). The activated bleaching earth operations had not been profitable for several years prior to disposition. The sale price of the bleaching earth segment equaled its carrying value and accordingly there was no gain or loss on the sale. As a result of the disposition, WFM ceased its activated bleaching earth operations and its results have been retroactively presented as discontinued operations. Revenues from the discontinued activated bleaching earth operations were RMB808,000 (US\$104,000) for the year ended December 31, 2004. Income before income taxes from the discontinued activated bleaching earth operations were RMB12,000 (US\$1,000) for the year ended December 31, 2004.

On July 31, 2006, the Company disposed of its 100% equity interest in iSense to the director and former shareholder of iSense for consideration of RMB2,060,000 (US\$264,000). On October 3, 2006, the Company consummated the sale of its 100% equity interest in HARC to an unaffiliated third party for total consideration of RMB30,900,000 (US\$3,962,000). The Company recognized a loss of approximately RMB11,901,000 (US\$1,526,000) from the dispositions which was recorded in fiscal 2006. Revenues from discontinued iSense operations were RMB189,000 (US\$24,000) for the year ended December 31, 2006. Revenues from discontinued HARC operations were RMB117,000 (US\$15,000) for the year ended December 31 2006. Loss before income taxes for discontinued iSense operations was RMB271,000 (US\$35,000) for the year ended December 31, 2006. Loss before income taxes from discontinued HARC operations was RMB659,000 (US\$84,000) for the year ended December 31, 2006. Following the disposition of these unprofitable businesses, management expects to expand our revenue base through the acquisition of additional mining rights.

16

### A. OPERATING RESULTS

#### SALES AND GROSS PROFIT

Sales for the year ended December 31, 2006 increased by 47% compared to year ended December 31, 2005. The increase was mainly due to the 152% increase in the average selling price of zinc, partly offset by the decrease in the sales volume of zinc as actual zinc mined was 2% lower during the current year. Sales for the year ended December 31, 2005 increased by 27% compared to year ended December 31, 2004. The increase was due to the increase in sales volume and average selling price of zinc by 14% and 56%, respectively, during 2005. The Company's selling prices were driven by market forces. While the PRC's zinc consumption increased by over 95% from 2002 to 2006, the PRC's zinc production only increased by 46% during the same period. As a result of the shortage in supply, the PRC's average zinc prices increased more than threefold from 2002 to

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2006. We expect that the zinc prices will continue to increase for the next several years.

The Yang Chong Mine's zinc content and ore grades vary at different underground levels and locations in the mining area. As the zinc content at the extraction levels during 2006 was relatively low, the yield of zinc output was lower than that of fiscal 2005 despite the opening of an additional mine shaft in December 2005. It is expected that the zinc content at the current working levels approximate that of fiscal 2006.

The gross profit margin for the year ended December 31, 2006 was 75%, compared to 61% for the year ended December 31, 2005. The increase was primarily due to the increase in selling price of zinc as a result of increased demand. Cost of sales is mainly comprised of direct materials, direct salaries, depreciation of property and equipment, sub-contracting charges, transportation expenses, natural resources fee and mining safety fee. Except for natural resources fees which were calculated as a percentage of sales, other costs, in general, varied with the sales volume of raw ore extracted. While the selling prices increased, sales volume decreased during 2006 which accounted for the decrease in cost of sales and the increase in gross profit margin. The gross profit margin for the year ended December 31, 2005 was 61%, compared to 60% for the year ended December 31, 2004. The increase was due to the increase in selling price of zinc.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") are mainly comprised of salaries and staff welfare expenses, contribution to retirement fund, utilities, depreciation expenses, travel and entertainment expenses and office expenses. SG&A expenses increased by RMB4,998,000 (US\$641,000) or 54% to RMB14,170,000 (US\$1,817,000) for the year ended December 31, 2006 from RMB9,172,000 (US\$1,176,000) for the year ended December 31, 2005. SG&A expenses for the year ended December 31, 2005 only represented those of FMH and Wuhu. SG&A expenses for the year ended December 31, 2006 included those of FMH and Wuhu and those of CHNR incurred after February 3, 2006 following the reverse acquisition and which amounted to approximately RMB5.6 million (US\$718,000), and include salaries, legal, accounting, filing fees and other expenses of public company operations. These expenses are recurring. It is anticipated that these expenses will increase moderately in future years in line with general inflation.

SG&A expenses for the year ended December 31, 2004 also only represented those of FMH and Wuhu. They increased by RMB4,575,000 (US\$587,000) or 100% to RMB9,172,000 (US\$1,176,000) for the year ended December 31, 2005 from RMB4,597,000 (US\$589,000) for the year ended December 31, 2004. The increase was primarily attributable to the increase in salary and retirement benefits, and the professional fees in connection with the acquisition transaction.

### INTEREST INCOME

Interest income decreased by RMB312,000 (US\$40,000) or 26% to RMB904,000 (US\$116,000) for the year ended December 31, 2006 from RMB1,216,000 (US\$156,000) for the year ended December 31, 2005. The decrease was primarily due to a decrease in interest income earned on loans and advances to related parties in 2005 of RMB515,000 (US\$66,000), partly offset by an increase in cash balances in 2006.

Interest income increased by RMB1,054,000 (US\$135,000) to RMB1,216,000 (US\$156,000) for the year ended December 31, 2005 from RMB162,000 (US\$21,000) for the year ended December 31, 2004. The increase was primarily due to an interest income earned on loans and advances to related parties in 2005 of RMB950,000 (US\$122,000) and the increase in average bank balances.



OTHER INCOME/(EXPENSES), NET

Other income, net for the year ended December 31, 2006 primarily consisted of a net gain on trading of marketable securities of RMB5,013,000 (US\$643,000).

Other income/(expenses), net for the year ended December 31, 2005 mainly consisted of a loss on disposal of property and equipment of RMB92,000 (US\$12,000).

DISCONTINUED OPERATIONS

Discontinued operations for the year ended December 31, 2006 consisted of a loss on disposal of iSense and HARC of RMB11,901,000 (US\$1,526,000).

INCOME TAXES

Management believes that the Company is not subject to US taxes.

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 PRC federal statutory tax rate applicable to foreign investment enterprises in Wuhu of 15%.

NET INCOME

Net income increased by RMB28,502,000 (US\$3,654,000) or 65% to RMB72,548,000 (US\$9,301,000) for the year ended December 31, 2006 from RMB44,046,000 (US\$5,647,000) for the year ended December 31, 2005. The increase was primarily attributable to the increase in gross profit by 79% in 2006 compared to 2005, partly offset by the increase in selling, general and administrative expenses and the loss on disposal of discontinued operations of RMB11,901,000 (US\$1,526,000).

Net income increased by RMB2,042,000 (US\$262,000) or 5% to RMB44,046,000 (US\$5,647,000) for the year ended December 31, 2005 from RMB42,004,000 (US\$5,385,000) for the year ended December 31, 2004. The increase was primarily attributable to the increase in gross profit by 30% in 2005 compared to 2004, partly offset by the increase in selling, general and administrative expenses and the income taxes at 15% after the 2 year tax-free period.

B. LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity needs are to fund operating expenses and, to a lesser extent, fund capital expenditures. The Company has financed its working capital requirements and capital expenditures through internally generated cash.

Net cash provided by operating activities was RMB43,747,000 (US\$5,609,000), RMB44,901,000 (US\$5,757,000) and RMB103,175,000 (US\$13,228,000), in fiscal 2004, 2005 and 2006, 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 principal sources of cash in fiscal 2006 were derived from early repayment of trade receivables and delayed payment of trade payables.

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

	AT DECEMBER 31,	
	2005	2006
Current ratio	1.29x	2.85x
Working capital	16,009,000	93,096,000
Ratio of long-term debt to total shareholders' equity	0x	0x

18

Net cash provided by/(used in) investing activities was (RMB34,619,000) (US\$4,438,000), (RMB23,586,000) (US\$3,024,000) and RMB12,004,000 (US\$1,539,000), in fiscal 2004, 2005 and 2006, respectively. Net cash used in Company's investing activities in 2004 and 2005 was mainly attributable to advances to related companies. Net cash provided by investing activities in 2006 was mainly attributable to net proceeds from the disposal of subsidiaries, partly offset by repayments to a director and to related companies. Following the reverse acquisition in February 2006, the non-core businesses were disposed of in fiscal 2006 and advances received from a director and from related companies in prior years were repaid. These investing activities are non-recurring.

Net cash used in financing activities was nil, nil and RMB18,010,000 (US\$2,309,000) in fiscal 2004, 2005 and 2006, respectively. Net cash used in Company's financing activities in 2006 were mainly attributable to dividends paid of RMB18,000,000 (US\$2,308,000).

The Company has no capital expenditure commitments as of December 31, 2006. We do not anticipate significant capital expenditures during 2007. However, in order to expand our revenue base, we are seeking to acquire additional active mining operations in the PRC. We have no agreements or understandings to acquire any mining operations at this time, although we are evaluating several prospects, and continue to do so on a routine basis. We expect to fund acquisitions with cash-on-hand, the issuance of our debt or equity securities, or a combination of both, and we may use our securities to raise capital to be used to fund operations. The use of our securities in this manner may be dilutive to shareholders.

Except as disclosed above, there have been no significant changes in the financial condition and liquidity during the years ended December 31, 2004, 2005 and 2006. 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.

### 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

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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.

### 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:

- o Any obligation under certain guarantee contracts;
- o 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;
- o 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
- o 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, 2006, 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.

19

### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The Company has no contractual obligations and commercial commitments as at December 31, 2006.

### G. SAFE HARBOR

No disclosure is required in response to this item.

### 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.

### DEFERRED TAX ASSETS

The Company is required to assess the ultimate realization of deferred tax assets generated from net operating loss carryforwards. This assessment takes into consideration the availability and character of future taxable income. As management estimates that there will be no taxable income generated for the foreseeable future, no deferred tax assets are recognized in the financial statements.

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### REVENUE RECOGNITION

Revenue from product sales is recognized when title passes to the customer in accordance with the sales agreement, generally upon product acceptance by the customer.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Expenditures for routine repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life.

The Company has determined that its mining rights are mineral rights, and accordingly they are classified as property and equipment.

Mining rights are stated at cost less accumulated amortization and any impairment losses. The mining rights are amortized based on actual units of production over the estimated reserves of the mines, not to exceed 20 years. The weighted average remaining amortization period for these reserves is 16 years as of December 31, 2006. The Company's rights to extract minerals are contractually limited by time. However, the Company believes that it will be able to extend licenses, as it has in the past, and therefore, believes that assigned lives are appropriate.

Management assesses the carrying values of its long-lived assets for impairment when circumstances warrant such a review. Generally, long-lived assets are considered impaired if the estimated fair value is less than the assets' carrying values. If an impairment is indicated, the loss is measured based on the amounts by which the carrying values of the assets exceed their fair values.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

During June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes"-- an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. Management is

20

assessing the impact this interpretation will have on the Company's consolidated operating results, cash flows or financial position upon adoption.

During October 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement does not require any new fair value measurements but provides guidance on how to measure fair value and clarifies the definition of fair value under accounting principles generally accepted in the United States of America. The statement also requires new disclosures about the extent to which fair value measurements in financial statements are based on quoted market prices, market-corroborated inputs, or unobservable inputs that are based on management's judgments and estimates. The statement is effective for fiscal years beginning after November 15, 2007. The statement will be

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applied prospectively by the Company for any fair value measurements that arise after the date of adoption.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure eligible items at fair value at specified election dates. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 although early adoption is permitted provided that an entity also adopts SFAS 157. Management has not determined the impact this standard will have on the Company's consolidated operating results or financial position upon adoption.

[Item 6] DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

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

NAME	AGE	POSITION
----	---	-----
Li Feilie	40	Chairman of the Board of Directors, President and Chief Executive Officer
Tam Cheuk Ho	44	Director and Chief Financial Officer
Wong Wah On Edward	43	Director, Secretary and Financial Controller
Lam Kwan Sing	37	Non-employee Director
Ng Kin Sing	44	Non-employee Director
Yip Wing Hang	40	Non-employee Director

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

Mr. Tam Cheuk Ho has served as a director of CNRI since December 23, 1993, and as its Chief Financial Officer since November 22, 2004. He served as

the Chief Financial Officer and a director of China Resources from December 2, 1994 until completion of the Redomicile Merger. From July 1984 through January 1992, he worked as Audit Manager at Ernst & Young, Hong Kong, and from February 1992 through September 1992, as Financial Controller at Tack Hsin Holdings Limited, a listed company in Hong Kong, where he was responsible for accounting and financial functions. From October 1992, through December, 1994, Mr. Tam was

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Finance Director of Hong Wah (Holdings) Limited. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a certified public accountant (practicing) in Hong Kong. He holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong.

Mr. Wong Wah On Edward has been a director of CNRI since January 25, 1999, as its Secretary since February 1, 1999 and as Financial Controller since November 22, 2004. He served as Financial Secretary, Financial Controller and a director of China Resources from December 30, 1997 until completion of the Redomicile Merger. He is responsible for assisting the Chief Financial Officer with the Company's treasury, accounting and secretarial functions. From October 1992 through December 1994, Mr. Wong was the Deputy Finance Director of Hong Wah (Holdings) Limited. From July 1988 through October 1992, he was an audit supervisor at Ernst & Young, Hong Kong. Mr. Wong is also a director of Anka Capital Limited, a privately-held corporation, through which he is a principal shareholder of the Company. He received a professional diploma in Company Secretaryship and Administration from the Hong Kong Polytechnic University. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate of the Hong Kong Institute of Chartered Secretaries. He is also a certified public accountant (practicing) in Hong Kong.

Mr. Lam Kwan Sing has been a director and a member of CNRI's audit committee since November 22, 2004. He served as a director and a member of the Audit Committee of China Resources from March 20, 2003 until completion of the Redomicile Merger. Mr. Lam has been the executive director of New Times Group Holdings Limited, a Hong Kong listed company, where he is responsible for the overall corporate finance and accounting operations. 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 director and a member of CNRI's audit committee since November 22, 2004. He served as a director and a member of the Audit Committee of China Resources from February 1, 1999 until completion of the Redomicile Merger. From April 1998 to the present, Mr. Ng has been the managing director of Action Plan Limited, a 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 director and a member of CNRI's audit committee since June 26, 2006. From February 2002 to present, Mr. Yip has been the marketing director of Hantec Investment Consultant Limited responsible for the wealth management business. 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.

The following table sets forth the senior management of FMH and Wuhu, and their ages and positions with FMH and Wuhu:

NAME	AGE	POSITION
----	---	-----
Chan Him Alfred	43	Chief Financial Officer of FMH

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Tang Mian

43

Director and General Manager of Wuhu

Mr. Chan Him Alfred has been the Chief Financial Officer of FMH since September 2004. He is responsible for the finance, accounting and secretarial functions of FMH and its subsidiary Wuhu. From January 2004 through June 2004, he was the financial controller and company secretary of Beijing Beida Jade Bird

22

Universal Sci-Tech Company Limited, a PRC based company listed on the Hong Kong Stock Exchange. From July 2001 through January 2004, Mr. Chan was the financial controller and company secretary of Loulan Holdings Limited, a PRC based company listed on the Hong Kong Stock Exchange. From November 2000 through June 2001, he was the deputy CEO of the Kingcomics.com Limited. From April 1999 through October 2000, he was the financial controller and company secretary of The Bigstoreasia.com. Limited. From January 1998 through October 1998, he was an audit manager at Moores Rowland. From October 1996 through December 1997, he was the financial controller and company secretary of Richman Group Limited. He joined Ernst & Young Hong Kong in July 1987 as a staff accountant, and worked with Ernst & Young until June 1996, at which time he served as an audit senior manager. Mr. Chan received a professional diploma in Accounting from the Hong Kong Polytechnic University. He is a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Tang Mian has been the Director and General Manager of Wuhu since its incorporation in June 2002. From September 1996 to June 2002, he was the manager of Anhui Fanchang Zinc and Iron Mine, the predecessor of Wuhu. Mr. Tang holds a master's degree in business administration.

### B. COMPENSATION

The following table sets forth the amount of compensation that was paid, earned and/or accrued during the fiscal year ended December 31, 2006, to each of the individuals identified in Item 6(A) above.

NAME ----	COMPENSATION (US\$)* -----
Li Feilie	--
Ching Lung Po**	\$2,564
Tam Cheuk Ho	141,026
Wong Wah On Edward	102,564
Lam Kwan Sing	3,846
Ng Kin Sing	3,846
Yip Wing Hang	3,846
Chan Him Alfred	--
Tang Mian	14,487

\* Each of the named individuals is eligible to participate in the Company's equity compensation plan; however, no awards were made under the plan during the year ended December 31, 2006.

\*\* Mr. Ching resigned from the Company in February 2006. Upon his resignation, the prior Service Agreement with Mr. Ching terminated.

On February 1, 1999, the Company entered into an Employment Agreement with Tam Cheuk Ho. In accordance with the terms of the Employment Agreement, Mr. Tam has been employed by the Company as the Chief Financial Officer and to perform such duties as the Board of Directors shall from time to time determine. Mr. Tam shall receive a base salary of HK\$1,800,000 (US\$230,769) annually, which

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base salary shall be adjusted on each anniversary of the Employment Agreement to reflect a change in the applicable consumer price index or such greater amount as the Company's Board of Directors may determine. The initial two year term of Employment Agreement has expired, and the term of the Agreement continues to automatically renew each year, until terminated as provided therein. On March 1, 2006, the Company entered into a Supplemental Employment Agreement with Tam Cheuk Ho, reducing his base salary to HK\$960,000 (US\$123,077) per annum with all other terms of the Employment Agreement remained in full force and effect.

On February 1, 1999, the Company entered into an Employment Agreement with Wong Wah On Edward. In accordance with the terms of the Employment Agreement, Mr. Wong has been employed by the Company as the Financial Controller and Corporate Secretary and to perform such duties as the Board of Directors shall from time to time determine. Mr. Wong shall receive a base salary of

23

HK\$1,200,000 (US\$153,846) annually, which base salary shall be adjusted on each anniversary of the Employment Agreement to reflect a change in the applicable consumer price index or such greater amount as the Company's Board of Directors may determine. The initial two year term of the Employment Agreement has expired, and the Agreement continues to automatically renew each year, until terminated as provided therein. On March 1, 2006, the Company entered into a Supplemental Employment Agreement with Wong Wah On Edward, reducing his base salary to HK\$720,000 (US\$92,308) per annum with all other terms of the Employment Agreement remained in full force and effect.

The Company has no other employment contracts with any of its officers or directors and maintains no retirement, fringe benefit or similar plans for the benefit of its 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, 2006:

	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----
Equity Compensation Plan Approved by Security Holders		
2003 Equity Compensation Plan	0 -----	N/A -----
Equity Compensation Plans Not Approved by Security Holders		
	0 -----	0 -----



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Total 0  
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### STOCK OPTION PLAN

We have adopted the 2003 Equity Compensation Plan. The purposes of the plan are to:

- o Encourage ownership of our common stock by our officers, directors, employees and advisors;
- o Provide additional incentive for them to promote our success and our business; and
- o Encourage them to remain in our employ by providing them with the opportunity to benefit from any appreciation of our common shares.

A brief description of plan is as follows:

On December 18, 2003, our members approved and adopted the 2003 Equity Compensation Plan (the "2003 Plan"). The 2003 Plan allows the Board 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 stock of the Company, from time-to-time, for issuance pursuant to options granted ("Plan Options") or for restricted stock awarded ("Stock Grants") under the 2003 Plan. Stock Appreciation Rights may be granted as a means of allowing participants to pay the exercise price of Plan Options. Stock Grants may be made upon such terms and conditions as the Board or Committee designated by the Board determines. Stock Grants may include deferred stock awards under which receipt

24

of Stock Grants is deferred, with vesting to occur upon such terms and conditions as the Board or Committee determines.

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

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

During the years ended December 31, 2006 and 2005, no awards were made under the 2003 Plan. During the year ended December 31, 2004, the board of directors granted options to certain employees and officers to purchase 104,000 shares of the Company's Common Stock, of which 24,000 shares were under the 1995 Plan and 80,000 shares were under the 2003 Plan. A total of 2,807,104 shares were available for grant as of December 31, 2006. The 2003 Plan terminates on

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December 18, 2013.

### C. BOARD PRACTICES

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

At the annual meeting of members in 2006, Messrs. Lam Kwan Sing and Yip Wing Hang were elected to serve as Class II Directors until the annual meeting held in 2009 and until their successors were duly elected and qualified; Messrs. Li Feilie and Ng Kin Sing serve as Class I Directors until the annual meeting to be held in 2008 and until their successors have been duly elected and qualified; and Messrs. Tam Cheuk Ho and Wong Wah On Edward serve as Class III Directors until the annual meeting to be held in 2007 and until their successors have been duly elected and qualified.

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

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, 2006, no long-term incentive plans or pension plans were in effect with respect to any of the Company's officers, directors or employees.

### Audit Committee

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:

25

- o appointing and supervising our independent registered public accounting firm;
- o assessing the organization and scope of the company's interim audit function;
- o reviewing the scope of audits to be conducted, as well as the results thereof;
- o approving audit and non-audit services provided to us by our independent registered public accounting firm; and
- o 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 (a) Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended ("Exchange Act"), (b) Section 10A-3(m)(3) of the Exchange Act, and (c) Nasdaq Marketplace Rule 4200(a)(15).

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### Nominating and Corporate Governance Committee; Member 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 Section 10A-3(m) (3) of the Exchange Act and Nasdaq Marketplace Rule 4200(a) (15).

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:

- o identifying individuals qualified to become members of the Board of Directors;
- o determining the slate of nominees to be recommended for election to the Board of Directors;
- o reviewing corporate governance principles applicable to us, including recommending corporate governance principles to the Board of Directors and administering our Code of Ethics;
- o assuring that at least one Audit Committee member is an "audit committee financial expert" within the meaning of regulatory requirements; and
- o 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 members, 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 members 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 member'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.

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### Compensation Committee

We do not have a formal compensation committee. The Board of Directors, acting as a compensation committee, periodically meets to discuss and deliberate on issues surrounding the terms and conditions of executive officer compensation, including base salaries, bonuses, equity awards and reimbursement of certain business related costs and expenses. Three of the members of our Board of Directors are officers, of which two are employees of our company, and those board members participate in decisions of the board concerning compensation arrangements with our executive officers.

### 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 4350 to impose various corporate governance requirements on listed securities. Section (a)(1) of Marketplace Rule 4350 provides that foreign private issuers such as our company are required to comply with certain specific requirements of Marketplace Rule 4350, but, as to the balance of Marketplace Rule 4350, foreign private issuers are not required to comply if the laws of their home jurisdiction do not otherwise require compliance.

We currently comply with the specifically mandated provisions of Marketplace Rule 4350. In addition, we have elected to voluntarily comply with certain other requirements of Marketplace Rule 4350, notwithstanding that our home jurisdiction does not mandate compliance; although we may in the future determine to cease voluntary compliance with those provisions of Marketplace Rule 4350. However, we have determined not to comply with the following provisions of Marketplace Rule 4350 since the laws of the British Virgin Islands do not require compliance:

- o a majority of our Directors are not independent as defined by NASDAQ rules;
- o our independent directors do not hold regularly scheduled meetings in executive session;
- o 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;
- o 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;
- o we are not required to hold an in-person annual meeting to elect directors and transact other business customarily conducted at an annual meeting; and
- o 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 of Marketplace Rule 4350.

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D. EMPLOYEES

The following table sets out the number of employees and consultants with contracts at the end of each of the past three financial years, including their main category of activity and geographic location.

		YEARS ENDED DECEMBER	
		2006	2005
		----	----
Hong Kong	Accounting, administration and management	5	4
	Advertising and promotion	---	2
	Others	1	1
		---	--
		6	7
The PRC	Accounting, administration and management	14	2
	Sales and quality inspection	27	--
	Purchasing and supplies	14	--
	Production	294	--
	Cashier	1	1
	Others	27	2
		---	--
	377	5	
	---	--	
Total		383	12
		===	==

E. SHARE OWNERSHIP

The following table sets forth, as of March 31, 2007, the share ownership of the Company's Common Shares by each of our directors and executive officers.

As of March 31, 2007, there were 11,548,416 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. A person is deemed to be the beneficial owner of securities that the person has the right to acquire within 60 days upon exercise of options, warrants or convertible securities.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
-----	-----	-----
Li Feilie	14,480,593 (1)	90.2%
Tam Cheuk Ho	80,000	*
Wong Wah On Edward	80,000	*
Lam Kwan Sing	--	--

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Ng Kin Sing	--	--
Yip Wing Hang	--	--
Chan Him Alfred	--	--
Tang Mian	--	--
Officers and directors as a group (6 persons)	14,640,593	91.2%

\* Less than 1%.

- (1) Shares are held in the name of Feishang Group Limited, a British Virgin Islands corporation that is wholly owned by Mr. Li. Includes 9,980,593 outstanding common shares and 4,500,000 common shares issuable upon exercise of the outstanding warrants.

28

[Item 7] MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth, as of March 31, 2007, 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 March 31, 2007, there were 11,548,416 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. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days upon exercise of options, warrants or convertible securities.

The Company's major shareholders do not have different voting rights than other shareholders of the Company.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Li Feilie	14,480,593 (1)	90.2%

- (1) Shares are held in the name of Feishang Group Limited, a British Virgin Islands corporation that is wholly owned by Mr. Li. Includes 9,980,593 outstanding common shares and 4,500,000 common shares issuable upon exercise of the outstanding warrants.

As of March 27, 2007, our Common Shares were held of record by a total of 183 persons, of which 1,227,896 Common Shares were held of record by Cede & Co.

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To our knowledge, there are no arrangements the operations of which may, at a subsequent date, result in a change in control of the Company.

### B. RELATED PARTY TRANSACTIONS

On September 1, 2000, the Company and Anka Consultants Limited ("Anka"), a private Hong Kong company that is owned by certain directors of the Company, entered into an office sharing agreement, based upon which the Company's head office in Hong Kong is shared on an equal basis between the two parties. The office sharing agreement also provides that the Company and Anka shall share certain costs and expenses in connection with its use of the office. For the years ended December 31, 2004, 2005 and 2006, the Company paid rental expenses to Anka Consultants Limited amounted to RMB232,000 (US\$30,000), RMB211,000 (US\$27,000) and RMB226,000 (US\$29,000), respectively.

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. The terms of the acquisition are described under Item 4(a), above.

Other transactions with related companies are summarized as follows:

	YEAR ENDED DEC	
	2004	2005
	RMB	RMB
Sales of finished goods to Wuhu Feishang Non-Metal Material Co. Ltd. ("WFNM")	428,000	-
Sales of finished goods to Pingxiang Iron and Steel Co. Ltd. ("Pingxiang")	57,000	-
Purchases of raw materials from WFNM	82,000	-
Sale of property and equipment to WFNM	8,050,000	-
Expenses paid on behalf of WFNM	2,670,000	1,809,000
Interest income earned from Anhui Xinke New Material Co. Ltd. ("Xinke")	-	503,000
Interest income received from Xinke		447,000

29

- (a) On February 23, 2005, the Company advanced RMB20,000,000 to Xinke. The balance increased to RMB20,503,000 at December 31, 2005 due to the accrual of interest income. On January 27, 2006, the balance was offset against dividends payable to Mr. Li Feilie.
- (b) At December 31, 2004, WFNM owed WFM RMB11,122,000, and through November 30, 2005, WFM made additional advances of RMB8,140,000 (including expenses paid on behalf of WFNM of RMB1,810,000) to WFNM and WFNM paid expenses of RMB623,000 on behalf of WFM. Also at December 31, 2004, WFM owed WFE RMB25,115,000. WFNM's obligation to WFM was assumed by WFE. On November 30, 2005, WFM and WFE agreed to offset RMB25,182,000, resulting in WFM, owing WFNM RMB6,476,000 at December 31, 2005. During the year ended December 31, 2006, WFNM paid expenses of RMB2,032,000 on behalf of WFM and advanced RMB1,000,000, resulting in WFM owing WFNM RMB3,444,000 at December 31,

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2006. These advances are interest free, unsecured and are due on demand.

- (c) The amount due to a director represents advances made by Mr. Li Feilie to the Company and expenses he paid on behalf of the Company of RMB431,000 and RMB11,213,000 in 2004 and 2005, respectively. During the year ended December 31, 2006, RMB14,899,000 was repaid and an additional advance of RMB759,000 was made.

Xinke, WFNM and Pingxiang are controlled by Mr. Li Feilie who is also a director and beneficial shareholder of the Company.

The balance with Xinke is unsecured, bears interest at 5.22% per annum and was repaid in March 2006 by offset against dividends payable to Mr. Li Feilie. The balances with the other related companies and director are unsecured, interest-free and are repayable on demand.

### 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, 2004, 2005 and 2006 are included herewith as Appendix A and are incorporated herein by reference.

There are no legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar procedures and those involving any third party, which may have, or have had in the recent past, significant effects on our financial position or profitability. We are not aware of any governmental proceedings pending or known to be contemplated.

We have no direct business operations, other than through the ownership of our subsidiaries. While we have no current intention of paying dividends, should we, as a holding company, decide in the future to do so, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. 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.

### B. SIGNIFICANT CHANGES

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

30

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 under Item 4(A).

## [Item 9] THE OFFER AND LISTING



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### 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, and do not necessarily reflect actual transactions.

PERIOD -----	HIGH ----	LOW ---
Fiscal Year ended:		
December 31, 2006	\$18.02	\$3.50
December 31, 2005	7.49	2.88
December 31, 2004	13.37	3.30
December 31, 2003	13.30	1.70
December 31, 2002	2.99	1.20

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 2005 and 2006. The prices are inter-dealer prices, without retail markup, markdown or commission, and do not necessarily reflect actual transactions.

PERIOD -----	HIGH ----	LOW ---
2006 Fiscal Year, quarter ended:		
March 31, 2006	\$18.02	\$3.50
June 30, 2006	11.79	7.12
September 30, 2006	8.03	5.12
December 31, 2006	12.00	7.75
2005 Fiscal Year, quarter ended:		
March 31, 2005	\$7.49	\$3.90
June 30, 2005	5.46	3.81
September 30, 2005	4.71	3.90
December 31, 2005	5.98	2.88

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

PERIOD -----	HIGH ----	LOW ---
Month ended:		
March 31, 2007	7.78	6.50
February 28, 2007	8.84	7.56
January 31, 2007	10.51	8.76
December 31, 2006	10.67	8.21
November 30, 2006	12.00	10.00
October 31, 2006	\$10.90	7.75

31

### B. PLAN OF DISTRIBUTION

No disclosure is required in response to this Item.

### C. MARKETS

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Our Common Shares have been listed on the Nasdaq SmallCap market since November 22, 2004, under the symbol "CHNR." From August 7, 1995 until November 22, 2004, our Common Stock was listed under the symbol "CHRB."

D. SELLING SHAREHOLDERS

No disclosure is required in response to this Item.

E. DILUTION

No disclosure is required in response to this Item.

F. EXPENSES OF THE ISSUE

No disclosure is required in response to this Item.

[Item 10] ADDITIONAL INFORMATION

A. SHARE CAPITAL

No disclosure is required in response to this Item.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

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

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

elected will hold office for a one-year term, and the Class II directors so elected will hold office for a two-year term.

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

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

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

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

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

Shareholder Meetings. The directors may convene meetings of our members 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

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request of members holding 30 percent or more of our outstanding voting shares. At least seven days' notice of the meeting shall be given to the members whose names appear on the share register. A majority of our outstanding shares entitled to vote must be present at a meeting of shareholders in order to constitute a quorum and the affirmative vote of a majority of those present and entitled to vote shall be required in order to approve action by members. However, in the event a meeting of shareholders is adjourned due to the absence of a quorum, the minimum number of shares that must be present in order to constitute a quorum shall be reduced to one-third. Notwithstanding the foregoing, our Memorandum of Association provides that any action that may be

33

taken at a meeting of members may be taken without a meeting if the action is approved by written consent of a majority of members.

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 have operate only with respect to a merger, acquisition or corporate restructuring involving us.

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

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

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

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

Our directors have the power to take certain actions without shareholder approval, including an amendment of our Memorandum of Association or Articles of Association (unless such amendment varies the rights attached to shares) or an increase or reduction in our authorized capital, which would require shareholder approval under the laws of most US jurisdictions. In

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

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

As in most US jurisdictions, the board of directors of a British Virgin Islands company is charged with the management of the affairs of the company. In most US jurisdictions, directors owe a fiduciary duty to the corporation and its shareholders, including a duty of care, under which directors must properly

34

apprise themselves of all reasonably available information, and a duty of loyalty, under which they must protect the interests of the corporation and refrain from conduct that injures the corporation or its shareholders or that deprives the corporation or its shareholders of any profit or advantage. Many US jurisdictions have enacted various statutory provisions which permit the monetary liability of directors to be eliminated or limited.

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

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

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

C. MATERIAL CONTRACTS

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Other than contracts disclosed elsewhere in this annual report or entered into the ordinary course of business, the Company has not entered into any contracts during the two preceding fiscal years, which can reasonably be determined as being material to the Company.

### D. EXCHANGE CONTROLS

There are no material British Virgin Islands laws, decrees, regulations or other legislation that impose foreign exchange controls on us or that affect our payment of dividends, interest or other payments to non-resident holders of our capital stock. British Virgin Islands law and our Memorandum of Association and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold or vote our common shares. However, we operate through subsidiaries 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.

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996) as amended. Under these rules, the Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loans or investments in securities outside the PRC without the prior approval of the State Administration of Foreign Exchange of the PRC ("SAFE").

Pursuant to the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of 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 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. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside the PRC remain subject to limitations and require approvals from SAFE.

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

- o The Sino-foreign Equity Joint Venture Law (1979), as amended;
- o The Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (1983) as amended;

35

- o The Foreign Investment Enterprise Law (1986) as amended; and
- o 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. Our affiliated PRC entities are required to allocate at least 5% of their

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respective after-tax profits to their respective statutory welfare funds. 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 does not deal with all possible tax consequences relating to an investment in our common shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which, such as dealers in securities, insurance companies and tax-exempt entities, may be subject to special rules. In particular, the discussion does not address the tax consequences under state, local and other non-U.S. and non-British Virgin Islands tax laws. Accordingly, each prospective investor should consult its own tax advisor regarding the particular tax consequences to it of an investment in the common shares. The discussion below is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

#### United States Federal Income Taxation

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

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

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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:

- o is a corporation or comes within other exempt categories; or
- o provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding and otherwise complies with the backup withholding rules.

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

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

### British Virgin Islands Taxation

Under the International Business Companies Act of the British Virgin Islands as currently in effect, a holder of common shares who is not a resident of British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common shares and all holders of Common Shares are not liable for British Virgin Islands income tax on gains realized during that year on sale or disposal of such shares; British Virgin Islands does not currently impose a withholding tax on dividends paid by a company incorporated under the International Business Companies Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated under the International Business Companies Act. In addition, the common shares are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands.

### F. DIVIDENDS AND PAYING AGENTS

No disclosure is required in response to this Item.

### G. STATEMENT BY EXPERTS

No disclosure is required in response to this Item.

### H. DOCUMENTS ON DISPLAY

The documents concerning the Company that are referred to in this annual report may be inspected at the Company's principal executive offices at Room 2105, West Tower, Shun Tak Centre, 200 Connaught Road C., Sheung Wan, Hong



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Kong. Certain documents described in response to Item 19 of this annual report are incorporated by reference to documents filed by the Company with the United States Securities and Exchange Commission. The documents that are incorporated by reference can be viewed on the SEC's web site at [www.sec.gov](http://www.sec.gov).

37

### I. SUBSIDIARY INFORMATION

No disclosure is required in response to this Item.

#### [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.

##### INTEREST RATE RISK

The Company's interest income is sensitive to changes in the general level of Renminbi and Hong Kong dollars interest rates. In this regard, changes in interest rates affect the interest earned on the Company's cash equivalents. As of December 31, 2006, the Company's cash equivalents are mainly Renminbi and Hong Kong Dollar deposits with financial institutions, bearing market interest rates partly without fixed term and partly with one-month term.

##### COMMODITY PRICE RISK

The Company is exposed to fluctuation in the prices of zinc and iron which we produce. As at December 31, 2006, the Company's inventories amounted to RMB5,231,000 (US\$671,000), consisted of zinc and iron. These commodity prices can fluctuate widely and are affected by factors beyond our control which affect our earnings and cashflow. We have not engaged in hedging transactions or alternative measures to manage possible price fluctuations.

#### [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

No disclosure is required in response to this Item.

#### [Item 14] MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

No disclosure is required in response to this Item.

#### [Item 15] CONTROLS AND PROCEDURES

As of December 31, 2006, the Company's management has concluded its

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evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (the evaluation date). Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Annual Report, is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

38

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls 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.

As of the evaluation date, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company maintains disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date.

### [Item 16A] AUDIT COMMITTEE FINANCIAL EXPERT

In general, an "audit committee financial expert" within the meaning of Item 401(e) of Regulation S-K of the Securities Act of 1933, as amended (the "Securities Act"), is an individual member of the Audit Committee who:

- o understands generally accepted accounting principles and financial statements,
- o is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves,
- o has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to the our financial statements,
- o understands internal controls over financial reporting, and

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- o understands audit committee functions.

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

- o education and experience as a principal financial officer, principal accounting officer, controller, public accountant, auditor or person serving similar functions;
- o 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
- o 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 401(e) of Regulation S-B. Each of our "audit committee financial experts" are independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

39

### [Item 16B] CODE OF ETHICS

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

- o honest and ethical conduct,
- o full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements,
- o compliance with applicable laws, rules and regulations,
- o the prompt reporting violation of the code, and
- o accountability for adherence to the Code of Ethics.

We have adopted the Code of Ethics of China Development. The Code of Ethics 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 filed as Exhibit 11 to this annual report.

40

### [Item 16C] PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows the fees that we paid or expect to pay for the audit and other services provided by GHP Horwath, P.C. for the fiscal years 2005 and 2006.

	FISCAL 2005	FISCAL 2006
	-----	-----
Audit Fees	\$70,000	\$135,000
Audit-Related Fees	--	--
Tax Fees	--	--
All Other Fees	--	--
	-----	-----
Total	\$70,000	\$135,000
	=====	=====

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Audit Fees -- This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

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 services for the fees disclosed under this category include consultation regarding our correspondence with the SEC and other accounting consulting.

Tax Fees -- This category consists of professional services rendered by GHP Horwath, P.C. 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 GHP Horwath, P.C., 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 GHP Horwath, P.C. with respect to fiscal year 2006 were pre-approved by the Audit Committee.

[Item 16D] EXEMPTION FROM THE LISTING STANDARDS FOR THE AUDIT COMMITTEE

No disclosure is required in response to this Item.

[Item 16E] PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

No disclosure is required in response to this Item.

41

### PART III

[Item 17] FINANCIAL STATEMENTS

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

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

- a. Consolidated statements of operations for the years ended December 31, 2004, 2005 and 2006
- b. Consolidated balance sheets as of December 31, 2005 and 2006
- c. Consolidated statements of shareholders' equity for the years ended December 31, 2004, 2005 and 2006

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- d. Consolidated statements of cash flows for the years ended December 31, 2004, 2005 and 2006
- e. Notes to consolidated financial statements.

### [Item 18] FINANCIAL STATEMENTS

No disclosure is required in response to this Item.

### [Item 19] EXHIBITS

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

EXHIBIT NO.	EXHIBIT DESCRIPTION
-----	-----
1.1	Articles of Association Incorporation of the Registrant (Filed as Annex B to Form S-4 filed September 24, 2004, and incorporated herein by reference.)
1.2	Amended and Restated Memorandum of Association of the Registrant (Filed as Annex A to Form S-4 filed September 24, 2004, and incorporated herein by reference.)
1.3	Board of Directors Resolutions Designating Series B Preferred Stock and Establishing Rights, Preferences and Limitations (Filed as Exhibit 1.3 to Annual Report on Form 20-F for the fiscal year ended December 31, 2004, and incorporated herein by reference.)
4.1	China Resources Development, Inc., Amended and Restated 1995 Stock Option Plan, as amended on December 30, 1996 (Filed as Exhibit 10.34 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.) *
4.2	China Resources Development, Inc., 2003 Equity Compensation Plan (Filed as Appendix B to Schedule 14A, filed November 20, 2003,, and incorporated herein by reference.) *
4.3	Employment Agreement between the Company and Tam Cheuk Ho, dated February 1, 1999 (Filed as Exhibit 10.43 to Annual Report on Form 10-K for the fiscal year ended December 31, 1998, and incorporated herein by reference.) *

42

EXHIBIT NO.	EXHIBIT DESCRIPTION
-----	-----
4.4	Employment Agreement between the Company and Wong Wah On, dated February 1, 1999 (Filed as Exhibit 10.44 to Annual Report on Form 10-K for the fiscal year ended December 31, 1998, and incorporated herein by reference.) *
4.5	Service Agreement between the Company and Ching Lung Po, dated February 1, 1999 (Filed as Exhibit 10.45 to Annual Report on Form 10-K for the fiscal year ended December 31, 1998, and incorporated herein by reference.) *
4.6	Agreement for the Sale and Purchase of Shares in Shenzhen Xubu

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Investment Co. Ltd. by and between HARC and Su Wei Min dated February 10, 2004 (Certified English translation of original Chinese version filed as Exhibit 10.18 to Current Report on Form 8-K filed February 25, 2004, and incorporated herein by reference.)

- 4.7 Agreement for the Sale and Purchase of Shares in Shenzhen Xubu Investment Co. Ltd. by and between Li Fei Lie, as nominee for HARC and Su Wei Min dated February 10, 2004 (Certified English translation of original Chinese version filed as Exhibit 10.19 to Current Report on Form 8-K filed February 25, 2004, and incorporated herein by reference.)
- 4.8 Acquisition Agreement dated January 24, 2006 by and between China Natural Resources, Inc., Feishang Mining Holdings Limited and Feishang Group Limited (Filed as Exhibit 10.1 to the Current Report on Form 6-K filed January 25, 2006, and incorporated herein by reference.)
- 4.9 Sale and Purchase Agreement of HARC dated July 5, 2006 by and between China Natural Resources, Inc. and Allied Clear Investments Limited (Filed as Exhibit 10.1 to the Current Report on Form 6-K filed July 11, 2006, and incorporated herein by reference.)
- 4.10 Agreement for Sale and Purchase of Shares of iSense Limited dated July 31, 2006 among China Natural Resources, Inc., Ngan Chiu Wai Jenny and iSense Limited (Filed as Exhibit 4.10 herewith)
- 6 Computation of Earnings Per Share for Fiscal Year ended December 31, 2006 (Contained in Financial Statements filed herewith.)
- 8 Subsidiaries of the Registrant (Filed herewith.)
- 11 Code of Ethics (Filed as Exhibit 14 to Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, and incorporated herein by reference.)
- 12.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)
- 12.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)
- 13.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)
- 13.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)

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\* Compensatory plan.

### SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

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CHINA NATURAL RESOURCES, INC.

Date: April 30, 2007

By: /s/ Li Feilie

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Li Feilie, President

44

## APPENDIX A

### FINANCIAL STATEMENTS

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

- a. Consolidated statements of operations for the years ended December 31, 2004, 2005 and 2006
- b. Consolidated balance sheets as of December 31, 2005 and 2006
- c. Consolidated statements of shareholders' equity for the years ended December 31, 2004, 2005 and 2006
- d. Consolidated statements of cash flows for the years ended December 31, 2004, 2005 and 2006
- e. Notes to consolidated financial statements.

CHINA NATURAL RESOURCES, INC.

### CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

CHINA NATURAL RESOURCES, INC.

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

	PAGES
	-----
Report of independent registered public accounting firm	F-1
Consolidated statements of operations	F-2 - F-3
Consolidated balance sheets	F-4 - F-5
Consolidated statements of shareholders' equity	F-6
Consolidated statements of cash flows	F-7 - F-8

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Notes to consolidated financial statements

F-9 - F-28

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

China Natural Resources, Inc.

We have audited the accompanying consolidated balance sheets of China Natural Resources, Inc. and subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Natural Resources, Inc. and subsidiaries at December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment".

As discussed in Note 3 to the consolidated financial statements, on February 3, 2006, the Company acquired Feishang Mining Holdings Limited in a transaction recorded as a reverse merger.

GHP Horwath, P.C.  
Denver, Colorado

April 25, 2007

F-1

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)



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	Notes	YEAR ENDED	
		2004	2005
		RMB	RMB
NET SALES		77,939	98,962
COST OF SALES		(31,518)	(38,402)
GROSS PROFIT		46,421	60,560
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		(4,597)	(9,172)
INCOME FROM OPERATIONS		41,824	51,388
INTEREST INCOME		162	1,216
OTHER INCOME (EXPENSE), NET	5	6	(223)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		41,992	52,381
INCOME TAXES	6	--	(8,335)
INCOME FROM CONTINUING OPERATIONS		41,992	44,046
DISCONTINUED OPERATIONS			
Income from discontinued bleaching earth segment	4	12	--
Loss from discontinued advertising and HARC operations, net of taxes of nil	4	--	--
Loss on disposal of discontinued operations, net of taxes of nil	4	--	--
INCOME/(LOSS) FROM DISCONTINUED OPERATIONS		12	--
NET INCOME		42,004	44,046

(Continued)

F-2

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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	Notes	YEAR ENDED	
		2004	2005
		RMB	RMB
INCOME PER SHARE:			
Basic			
Income from continuing operations		4.21	4.41
Loss from discontinued operations		--	--
		-----	-----
		4.21	4.41
		=====	=====
INCOME PER SHARE:			
Diluted			
Income from continuing operations		3.74	4.36
Loss from discontinued operations		--	--
		-----	-----
		3.74	4.36
		=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING			
Basic			
		9,980,593	9,980,593
		=====	=====
Diluted			
		11,245,975	10,110,036
		=====	=====

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

F-3

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2006

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	Notes	2005		2006	
		RMB		RMB	
		2005	2006	2005	2006
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		41,202	136,991		
Trade receivables, net of allowance of RMB307 and RMB311, respectively		4,622	504		
Bills receivable		450	--		
Other receivables, deposits and prepayments		422	604		
Amount due from a related company	10	20,503	--		
Inventories	7	3,788	5,231		

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TOTAL CURRENT ASSETS		70,987	143,330
PROPERTY AND EQUIPMENT, NET	8	33,656	37,435
TOTAL ASSETS		104,643	180,765
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		934	1,231
Other payables	9	18,881	28,509
Advances from customers		1,174	2,650
Accrued liabilities		1,319	2,371
Amount due to a director	10	23,644	8,594
Amount due to a related company	10	6,476	3,444
Dividends payable		5	170
Taxes payable		2,545	3,265
TOTAL LIABILITIES - ALL CURRENT		54,978	50,234

(Continued)

F-4

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2005 AND 2006

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	Notes	2005	2006
	-----	-----	-----
		RMB	RMB
SHAREHOLDERS' EQUITY Common shares, no par:			
Authorized - 200,000,000 shares;			
Issued and outstanding - 11,548,416 shares in 2006		--	47,250
Reserves		3,912	7,331
Retained earnings		45,513	76,180
Other comprehensive income/(loss)		240	(230)
TOTAL SHAREHOLDERS' EQUITY		49,665	130,531
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		104,643	180,765

The accompanying notes are an integral part of

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these consolidated financial statements.

F-5

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	SHARE CAPITAL ----- SHARES	SHARE CAPITAL ----- RMB	RESERVES ----- RMB	RETAINED EARNINGS ----- RMB	COMPREHE INCOME/
Balances at January 1, 2004	9,980,593	--	--	7,380	
Net income for the year	--	--	--	42,004	
	-----	-----	-----	-----	
Balances at December 31, 2004	9,980,593	--	--	49,384	
Transfer to reserves	--	--	3,912	(3,912)	
Dividends declared	--	--	--	(44,005)	
Net income for the year	--	--	--	44,046	
Currency translation adjustments	--	--	--	--	
Comprehensive income	-----	-----	-----	-----	
Balances at December 31, 2005	9,980,593	--	3,912	45,513	
Acquisition of the Company by FMH	1,567,823	19,222	28,028	--	
Dividends	--	--	--	(38,462)	
Appropriation of reserves -	--	--	3,419	(3,419)	
Elimination of reserves relating to discontinued operations	--	28,028	(28,028)	--	
Net income for the year	--	--	--	72,548	
Currency translation adjustments	--	--	--	--	
Comprehensive income	-----	-----	-----	-----	
Balances at December 31, 2006	11,548,416 =====	47,250 =====	7,331 =====	76,180 =====	
Balances at December 31, 2006 (US\$)	11,548,416	6,058	940	9,767	

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

F-6

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
	RMB	RMB	RMB
<b>OPERATING ACTIVITIES</b>			
Net income	42,004	44,046	72,548
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,715	2,414	2,350
Amortization of mining rights	312	370	803
Loss on disposal of subsidiaries	--	--	11,901
Loss on disposal of property and equipment	255	92	25
Interest accrued on loan to related company	--	(503)	--
Changes in operating assets and liabilities, net of business acquisition:			
Trading securities	--	--	1,587
Trade receivables	2,705	(3,910)	4,118
Bills receivable	(697)	597	450
Inventories	767	(270)	(1,443)
Other receivables, deposits and prepayments	426	(3)	(181)
Accounts payable	(472)	(416)	297
Other payables	724	3,302	6,814
Advances from customers	(5,911)	(1,026)	1,476
Accrued liabilities	131	(187)	1,660
Taxes payable	902	395	720
Discontinued operations *	886	--	50
Net cash provided by operating activities	43,747	44,901	103,175
<b>INVESTING ACTIVITIES</b>			
Advances to related companies	(33,069)	(83,140)	--
Repayment from related companies	--	50,623	206
Repayment to related companies	--	--	(3,032)
Advances from a director	431	11,213	759
Repayment to a director	--	--	(14,899)
Purchases of property and equipment	(1,981)	(2,304)	(5,032)
Proceeds from disposal of property and equipment	--	22	--
Cash received on acquisition of subsidiaries	--	--	1,207
Net proceeds from disposal of subsidiaries	--	--	32,795

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Net cash (used in)/provided by investing activities	(34,619)	(23,586)	12,004
FINANCING ACTIVITIES			
Proceeds from bank loan	--	10,000	--
Repayment of bank loan	--	(10,000)	--
Dividends paid	--	--	(18,000)
Net cash used in financing activities of discontinued operations	--	--	(10,000)
Net cash used in financing activities	--	--	(18,010)

(Continued)

F-7

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(AMOUNTS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
	RMB	RMB	RMB
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,128	21,315	97,169
EFFECT OF EXCHANGE RATES ON CASH	--	240	(1,380)
CASH AND CASH EQUIVALENTS, BEGINNING	10,519	19,647	41,202
CASH AND CASH EQUIVALENTS, ENDING	19,647	41,202	136,991
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	--	7,145	14,901
Supplemental disclosure of non-cash investing and financing activities:			
Business acquisition			
Fair value of assets acquired	--	--	50,558
Liabilities assumed	--	--	(3,308)
Common shares issued	--	--	47,250



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MEDI-CHINA a Hong Kong company	WUHU a PRC company
--------------------------------------	-----------------------

China Natural Resources, Inc. ("CNRI"), (formerly know as Billion Luck Company Limited ("Billion Luck")) is a British Virgin Islands ("BVI") holding company incorporated in 1993. China Resources Development, Inc. ("CRDI") was a U.S. holding company, incorporated in Nevada in 1986. CRDI owned all the outstanding capital stock of Billion Luck. On December 9, 2004, CRDI completed a merger (the "Merger") with and into Billion Luck. The Merger was effected by an exchange of shares of CRDI into shares of Billion Luck on a one-for-one basis. As a result of the Merger, CRDI became domiciled in the British Virgin Islands and its name was changed to China Natural Resources, Inc. All assets, liabilities, contracts and obligations of CRDI became the assets, liabilities, contracts and obligations of CNRI. References to the Company are to CNRI as successor to CRDI and its subsidiaries.

On February 3, 2006 (the "Acquisition Date"), the Company consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining Holdings Limited ("FMH"), (the "Acquisition"). FMH is a BVI company incorporated in 2004, and through its wholly owned subsidiary, Wuhu Feishang Mining Development Co. Ltd. ("WFM"), is principally engaged in the mining of zinc, iron and other minerals for distribution in the PRC. The Acquisition was accounted for using the purchase method of accounting and is treated as a reverse acquisition, with FMH being the accounting acquirer. Accordingly, the accompanying financial statements represent the operations of FMH through February 2, 2006 and the consolidated operations of FMH and the Company subsequent to February 2, 2006. We have retroactively restated issued share capital to reflect the acquisition of FMH. (See Note 3)

Sunwide Capital Limited ("Sunwide") is a BVI company incorporated in 2001 and engaged in the investment in US-listed securities. Sunwide is a wholly-owned subsidiary of CNRI and is currently inactive.

F-9

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

Silver Moon Technologies Limited ("Silver Moon") is a BVI company incorporated in 2002 with its primary operations to be the provision of online internet healthcare information. Zhongwei Medi-China.com Limited ("Medi-China") is a Hong Kong company incorporated in 1999 to conduct the business of Silver Moon. Neither Silver Moon nor Medi-China is currently engaged in active business operations. Silver Moon is 80% owned by CNRI and Medi-China is 100% owned by Silver Moon.

WFM was established as a Sino-foreign joint venture company in the PRC with the venturers being Wuhu Feishang Enterprise Development Limited ("WFE") ("50%") and Feishang International Holdings Ltd. ("FIH") ("50%") on June 21, 2002 with a tenure of 20 years from the date of the 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 WFM is RMB12,000 (US\$1,538), of which RMB6,000 (US\$769) was each contributed by WFE and FIH. WFM commenced operations in May 2003 upon its acquisition of Anhui



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Fanchang Zinc and Iron Mine ("Anhui"), a PRC state-owned entity.

In April 2005, WFE and FIH transferred their interests in WFM to FMH at cost (RMB12,000). WFE, FIH and FMH are all controlled by the same individual, Mr. Li Feilie. FMH recorded the transfer of WFE's and FIH's interests in WFM at historical net book value and has accounted for the transfer as a transfer of assets between entities under common control in a manner similar to the pooling of interests; accordingly, all prior year consolidated financial statements of FMH have been restated to include the results of operations, financial position, and cash flows of WFM.

WFM owns the mining rights to two mines: Yang-chong Mine contains iron and zinc minerals and Zao-yun Mine contains mainly iron minerals. The cash flows and profitability of WFM's current operations are significantly affected by the market price of zinc and iron. These commodity prices can fluctuate widely and are affected by factors beyond WFM's control.

Through October 3, 2006, the date of disposition, the Company owned 100% of Hainan Cihui Industrial Company Limited ("HARC"), a PRC company incorporated in 1994 which performed limited commodity trading.

Through July 31, 2006, the date of disposition, the Company owned 100% of iSense Limited ("iSense"), a Hong Kong company incorporated in 2000 and a provider of promotion and public relations services in Hong Kong and mainland China to both local and international customers.

F-10

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of consolidation

The consolidated financial statements of CNRI and its subsidiaries (the "Company" or the "Group") are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), and include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated on consolidation.

#### (b) Use of estimates

The preparation of the financial statements in conformity with US 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

#### (c) Cash and cash equivalents

The Group considers all highly liquid investments and cash deposits with financial institutions with original maturities of three months or less to be cash equivalents.

#### (d) Inventories

Inventories are stated at the lower of average cost or net

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realizable value. For products, the Group determines net realizable value by estimating value based on current metals prices, less cost to convert stockpiled and in-process inventories to finished products. Major types of inventories include:

Raw materials consists of raw ore extracted and auxiliary material - costs are limited to those directly related to mining.

Work in progress consists of semi-finished iron and zinc ore - valued at the cost of production through the point at which inventory has been processed.

Finished goods - valued at the lower of full cost of production or net realizable value based on current metal prices.

F-11

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for routine repairs and maintenance are expensed as incurred.

Depreciation is calculated on the straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life.

In April 2004, the FASB issued FASB Staff Position ("FSP") FAS 141-1 and FAS 142-1 "Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and Emerging Issues Task Force ("EITF") Issue 04-2, "Whether Mineral Rights are Tangible or Intangible Assets". This FSP amends SFAS Nos. 141 and 142 and requires mineral rights to be accounted for as tangible assets based on the consensus reached in EITF 04-2.

The Company has determined that its mining rights are mineral rights, and accordingly they are classified as property and equipment.

Mining rights are stated at cost less accumulated amortization and any impairment losses. The mining rights are amortized based on actual units of production over the estimated reserves of the mines, not to exceed 20 years. The weighted average remaining amortization period for these reserves is 16 years as of December 31, 2006. The Company's rights to extract minerals are contractually limited by time. However, the Company believes that it will be able to extend licenses, as it has in the past, and therefore, believes that assigned lives are appropriate.

Estimated useful lives are as follows:

Buildings and mine development	15 - 35 years
Machinery and equipment	5 - 15 years
Motor vehicles	5 - 8 years

Mining rights

5-16 years

Management assesses the carrying values of its long-lived assets for impairment when circumstances warrant such a review. Generally, long-lived assets are considered impaired if the estimated fair value is less than the assets' carrying values. If an impairment is indicated, the loss is measured based on the amounts by which the carrying values of the assets exceed their fair values.

F-12

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue from product sales is recognized when title passes to the customer in accordance with the sales agreement, generally upon product acceptance by the customer.

Freight and handling costs paid to third party carriers are recorded as cost of sales.

(g) Income taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

(h) Earnings per share

Basic earnings per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes the conversion, exercise or issuance of all potential common stock instruments, such as options or warrants (including the warrants issued in connection with the Acquisition - Note 3), unless the effect is to reduce a loss or increase earnings per share and is calculated using the treasury stock method. The basic weighted average shares outstanding during each of the years ended December 31, 2004, 2005 and 2006 were 9,980,593, 9,980,593 and 11,402,372 respectively. The diluted weighted average shares outstanding during each of the years ended December 31, 2004, 2005 and 2006 were 11,245,975, 10,110,036 and 13,798,731, respectively.

(i) Foreign currency translation

The functional currency of substantially all the operations of the Group is Renminbi ("RMB"), the national currency of the PRC. The financial statements of subsidiary operations with a functional currency other than the RMB have been translated into RMB using the closing rate method and all balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date and the statements of operations amounts have been translated using the weighted

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average exchange rate for the year. Resulting translation adjustments are reported as a separate component of comprehensive income.

Transactions denominated in currencies other than the RMB are translated into RMB at the applicable rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies have been translated into RMB at the rate of exchange at the balance sheet date. The resulting exchange gains or losses are credited or charged to the consolidated statements of operations.

F-13

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Foreign currency translation (continued)

The financial statements are stated in RMB. The translation of amounts from RMB into US\$ is included solely for the convenience of the reader and has been made at the rate of exchange quoted by the People's Bank of China on December 31, 2006 of US\$1.00 = RMB7.80. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2006 or at any other date.

#### (j) Interest income

Interest on bank balances is recorded when earned.

#### (k) Stock-based compensation

On January 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with Statement of Financial Accounting Standard ("SFAS") No. 123-revised 2004 ("SFAS 123R"), Share-Based Payment, which replaced SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board Opinion No 25, Accounting for Stock Issued to Employees ("APB 25").

Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding at the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 proforma disclosure.

At December 31, 2004, 2005 and 2006, the Company had no outstanding options. Proforma income and income per share for fully vested options granted and exercised in 2004, and reflecting the retroactive restatement of issued share capital as a result of the acquisition of FMH is as follow:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (k) Stock-based compensation (continued)

	YEAR ENDED DECEMBER 31, 2004
	-----
	RMB
Net income, as reported	42,004
Less: Total stock-based employee compensation expense determined under fair value based method	(946)
	-----
	41,058
	=====
Income per share:	
Basic- as reported	4.21
	=====
Diluted - as reported	3.74
	=====
Basic - pro forma	4.11
	=====
Diluted - pro forma	3.65
	=====

The fair value of the options granted in 2004 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.96%; no dividend yield; volatility factor of the expected market price of the Company's common stock of 109.10%; and the life of the options of 2 months.

## (l) Recently issued accounting pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes"-- an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. Management is assessing the impact this interpretation will have on the Company's consolidated operating results, cash flows or financial position upon adoption.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (l) Recently issued accounting pronouncements (continued)

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During October 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement does not require any new fair value measurements but provides guidance on how to measure fair value and clarifies the definition of fair value under accounting principles generally accepted in the United States of America. The statement also requires new disclosures about the extent to which fair value measurements in financial statements are based on quoted market prices, market-corroborated inputs, or unobservable inputs that are based on management's judgments and estimates. The statement is effective for fiscal years beginning after November 15, 2007. The statement will be applied prospectively by the Company for any fair value measurements that arise after the date of adoption.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure eligible items at fair value at specified election dates. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 although early adoption is permitted provided that an entity also adopts SFAS 157. Management has not determined the impact this standard will have on the Company's consolidated operating results or financial position upon adoption.

(m) Reclassifications

Certain comparative balances have been reclassified to conform to the current year presentation.

F-16

### 3. ACQUISITION

On February 3, 2006, the Company acquired all of the issued and outstanding capital stock of FMH. The Acquisition of FMH by the Company was accounted for using the purchase method of accounting and is treated as a reverse acquisition because on a post-merger basis, the former FMH shareholder holds 86.4% of the outstanding common shares of the Company. As a result, FMH is deemed to be the acquirer for accounting purposes. Accordingly, the consolidated financial statements included herein present the financial information of FMH for all periods prior to the Acquisition Date and the financial information of the consolidated companies from the Acquisition Date forward. Historical share and per share amounts for the periods prior to the Acquisition have been retroactively restated to reflect the exchange ratio established in the transaction, in a manner similar to a reverse stock split. The consolidated retained earnings of FMH have been carried forward after the Acquisition.

As consideration for the Acquisition, the Company issued to the former FMH shareholder 9,980,593 of the Company's common shares, as well as warrants (the "Warrants") to purchase an additional 4,500,000 of the Company's common shares. In connection with the Acquisition, 320,000 series B preferred shares were converted into 320,000 common shares. The Warrants entitle the holder to purchase: 2,000,000 common shares of the Company at an exercise price of US\$4.00 per share for a period of two years from the Acquisition Date; 1,500,000 common shares at an exercise price of US\$4.50 per share for a period of three years from

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the Acquisition Date; and 1,000,000 common shares at an exercise price of US\$5.00 per share for a period of four years from the Acquisition Date. Other than the exercise price and exercise period, all other terms and conditions of the Warrants are identical.

The following table summarizes the fair values of the Company's assets and liabilities acquired by FMH at the Acquisition Date. The purchase price was determined by multiplying the number of outstanding shares immediately prior to consummating the acquisition of 1,567,823 by the closing price of our common shares the day prior to the public announcement of the Acquisition Agreement between the Company and FMH.

	RMB	RMB
	-----	-----
Purchase price (including direct costs)		47,250
Current assets	3,074	
Property and equipment	869	
Investments	24,700	
	-----	
Total assets	28,643	
Total liabilities assumed	(3,308)	
	-----	
Net assets acquired		25,335
		-----
Goodwill resulting from the acquisition		21,915
		=====

During the year ended December 31, 2006, the goodwill of RMB21,915 (US\$2,810) was eliminated upon the disposal of the reporting units to which the goodwill had been assigned (Note 4).

F-17

### 3. ACQUISITION (Continued)

At the Acquisition Date, the Company had appropriated retained earnings to statutory reserves in accordance with PRC regulations of RMB28,028 (US\$3,593). These statutory reserves primarily related to HARC. During the year ended December 31, 2006, these reserves were eliminated upon the disposal of HARC (Note 4).

The following unaudited proforma financial information presents results of operations as if the above acquisitions had occurred at the beginning of the respective three years in the period ended December 31, 2006:

	YEARS ENDED DEC	
	2004	2005
	RMB	RMB
Net sales	77,939	98,962
Income from continuing operations	33,065	36,936
Loss from discontinued operations	(13,501)	(6,754)
Net income	19,564	30,182

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Basic income per share	1.69	2.61
Diluted income per share	1.53	2.59

F-18

#### 4. DISPOSITION OF ASSETS

Pursuant to a January 1, 2004 agreement, WFM disposed of its interest in the mining of activated bleaching earth operations to a related party, Wuhu Feishang Non-Metal Material Co. Ltd. ("WFNM"), for total consideration of RMB8,050 (US\$1,032), which was paid in November 2005. Inventories of the bleaching earth segment with a carrying value of RMB796 (US\$102) were not sold to WFNM and were sold by WFM to unrelated third parties in 2004. The sale price of the bleaching earth segment equaled its carrying value and accordingly there was no gain or loss on the sale. As a result of the disposition, WFM ceased its activated bleaching earth operations and its results have been retroactively presented as discontinued operations. Revenues from the discontinued activated bleaching earth segment were RMB808 (US\$104) for the year ended December 31, 2004. Income before income taxes from the discontinued activated bleaching earth segment was RMB12 (US\$1) for the year ended December 31, 2004. Cash flows from discontinued operations of RMB886 (US\$114) are from operating activities. There were no cash flows from discontinued operations from investing or financing activities.

On July 31, 2006, the Company disposed of its 100% equity interest in iSense to the director and former shareholder of iSense for consideration of RMB2,060 (US\$264). On October 3, 2006, the Company consummated the sale of its 100% equity interest in Hainan Cihui Industrial Co. Ltd. ("HARC") to an unaffiliated third party for total consideration of RMB30,900 (US\$3,962). The Company recognized a loss of approximately RMB11,901 (US\$1,526) from the dispositions including goodwill written off of RMB21,915 (US\$2,809) which was recorded in 2006. As a result of the dispositions, the Company ceased its advertising operation effective July 31, 2006 and its commodity trading operation effective October 3, 2006 and their results have been retroactively restated as discontinued operations. Revenues from discontinued iSense operations was RMB189 (US\$24) for the year ended December 31, 2006. Revenues from discontinued HARC operations was RMB117 (US\$15) for the year ended December 31 2006. Loss before income taxes for discontinued iSense operations was RMB266 (US\$34) for the year ended December 31, 2006. Loss before income taxes from discontinued HARC operations was RMB393 (US\$50) for the year ended December 31, 2006.

#### 5. OTHER INCOME (EXPENSE), NET

Other income (expense), net represents:

	YEARS ENDED DECEMBER 31,		
	2004	2005	2006
	-----	-----	-----
	RMB	RMB	RMB
Net gain on sale of marketable securities	--	--	5,013
Loss on disposal of property & equipment	--	(92)	(25)
Other	6	(131)	(59)



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----	----	-----
6	(223)	4,929
====	====	=====

F-19

6. INCOME TAXES

Pre-tax income from continuing operations for the years ended December 31, 2004, 2005 and 2006 was taxable in the following jurisdictions:

	YEARS ENDED DECEMBER 31,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US\$
PRC	42,005	53,673	114,807	14,718
BVI	(13)	(1,292)	(14,542)	(1,864)
	-----	-----	-----	-----
	41,992	52,381	100,265	12,854
	=====	=====	=====	=====

Prior to the Merger, it was management's intention to reinvest all the income attributable to the Group earned by its operations outside the United States of America (the "U.S."). Accordingly, no U.S. corporate income taxes were provided in these consolidated financial statements. After the Merger, management believes that the Company is no longer subject to US taxes.

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 by the Company.

The reconciliation of income taxes/(tax benefit) for income tax computed at the PRC federal statutory tax rate applicable to foreign investment enterprises operating in Anhui Province in the PRC, to income tax expense is as follows:

	YEAR ENDED DECEMBER 31,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US\$
PRC Federal statutory tax rate	30%	30%	30%	30%
Computed expected income tax expense	(12,598)	(15,714)	(30,080)	(3,856)
Non-deductible expenses	--	(956)	(117)	(15)
Preferential tax treatment	12,598	8,335	15,040	1,928
	-----	-----	-----	-----
Income tax expense, all current	--	(8,335)	(15,157)	(1,943)
	=====	=====	=====	=====

WFM is governed by the Income Tax Laws of the PRC. Being a Sino-foreign joint venture, the Company is exempt from income taxes for a period of

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two years commencing from its first profitable year (2003) and is entitled to a preferential income tax rate of 15% for three consecutive years commencing from its third profitable year (2005). Beginning in 2008, income will be taxed at the full rate of 30%.

F-20

### 7. INVENTORIES

Inventories consisted of:

	DECEMBER 31,		
	2005	2006	2006
	RMB	RMB	US\$
Raw materials	2,425	3,088	396
Work in progress	392	1,132	145
Finished goods	971	1,011	130
	-----	-----	---
	3,788	5,231	671
	=====	=====	===

### 8. PROPERTY AND EQUIPMENT

Property and equipment consisted of:

	DECEMBER 31,		
	2005	2006	2006
	RMB	RMB	US\$
At cost:			
Buildings and mine development	24,009	25,771	3,304
Machinery and equipment	4,860	6,119	784
Motor vehicles	1,473	2,631	337
Mining rights	9,229	12,586	1,614
	-----	-----	-----
	39,571	47,107	6,039
Accumulated depreciation and depletion	(5,915)	(9,672)	(1,240)
	-----	-----	-----
	33,656	37,435	4,799
	=====	=====	=====

At December 31, 2005 and 2006, accumulated depreciation and depletion included accumulated depletion of mining rights of RMB889 and RMB1,693, respectively.

F-21

### 9. OTHER PAYABLES

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Other payables consisted of:

	2005
	RMB
Fanchang County Economic Development Department (a)	2,257
Natural resources fee (b)	4,508
Staff compensation fund (c)	4,110
Provision for production maintenance (d)	4,274
Safety management fee (e)	1,788
Provision for staff bonus and welfare (f)	947
Provision for renewal of mining rights (g)	-
Other	997
	18,881
	=====

- (a) This balance represents a liability assumed by WFM upon its May 2003 acquisition of its mining business from Anhui. The liability is for financing the working capital of Anhui.
- (b) Natural resources fee represents fees payable to the PRC Government and is calculated as a percentage of sales. WFM has no asset retirement obligations in connection with its mining operations.
- (c) The staff compensation fund represents a PRC government required contribution to a fund established to compensate employees for the loss of their state-sponsored pension and post employment benefits upon the acquisition of Anhui by WFM in May 2003. The fund will be distributed to employees at the termination of their employment with WFM. WFM is not required to make any additional contributions to the fund.
- (d) The provision for production maintenance represents a PRC government required contribution for future mine maintenance and production. It is calculated based on tons of ore extracted.
- (e) The safety management fee represents a PRC required contribution for accident prevention programs and accident related costs. The safety management fee is calculated as a percentage of sales.
- (f) The provision for staff bonus and welfare represents a PRC government required contribution and is calculated as a percentage of PRC net income.
- (g) The provision for renewal of mining rights represents fees payable to The Ministry of Land and Resources of Anhui Province for renewal of mining rights to Yang Chong Mine. Total fees for the renewal of the mining rights was RMB3 million. RMB1.5 million was paid in January 2006 with RMB500,000 and RMB1 million payable in November 2007 and November 2008, respectively.

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F-22

10. RELATED PARTY BALANCES AND TRANSACTIONS

Amounts due from related companies and to and from a shareholder comprise:

	----- 2005 ----- RMB
Due from a related company Anhui Xinke New Materials Co. Ltd. ("Xinke") (a)	20,503 =====
Due to a related company: Wuhu Feishang Non-Metal Material Co. Ltd. ("WFNM") (b)	6,476 =====
Due to a director Mr. Li Feilie (c)	23,644 =====

Transactions with related companies are summarized as follows:

	YEAR ENDED -----	
	2004	2005
	----- RMB	----- RMB
Sales of finished goods to WFNM	428	--
Sales of finished goods to Pingxiang Iron and Steel Co. Ltd. ("Pingxiang")	57	--
Purchases of raw materials from WFNM	82	--
Sale of property and equipment to WFNM	8,050	--
Expenses paid on behalf of WFNM	2,670	1,809
Interest income earned from Xinke	--	503
Interest income received from Xinke		447

(a) On February 23, 2005, the Company advanced RMB20,000 to Xinke. The balance increased to RMB20,503 at December 31, 2005 due to the accrual of interest income. On January 27, 2006, the balance was offset against dividends payable to Mr. Li Feilie.

(b) At December 31, 2004, WFNM owed WFM RMB11,122, and through November 30, 2005, WFM made additional advances of RMB8,140 (including expenses paid on behalf of WFNM of RMB1,810) to WFNM and WFNM paid expenses of RMB623 on behalf of WFM. Also at December 31, 2004, WFM owed WFE RMB25,115. WFNM's obligation to WFM was assumed by WFE. On November 30, 2005, WFM and WFE agreed to offset RMB25,182, resulting in WFM, owing WFNM RMB6,476 at

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December 31, 2005. During the year ended December 31, 2006, WFNM paid expenses of RMB2,032 on behalf of WFM and advanced RMB1,000, resulting in WFM owing WFNM RMB3,444 at December 31, 2006. These advances are interest free, unsecured and are due on demand.

F-23

### 10. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

- (c) The amount due to a director represents advances made by Mr. Li Feilie to the Company and expenses he paid on behalf of the Company of RMB431 and RMB11,213 in 2004 and 2005, respectively. During the year ended December 31, 2006, RMB14,899 was repaid and an additional advance of RMB759 was made.

Xinke, WFNM and Pingxiang are controlled by Mr. Li Feilie who is also a director and beneficial shareholder of the Company.

The balance with Xinke was unsecured, bore interest at 5.22% per annum and was repaid in March 2006 by offset against dividends payable to Mr. Li Feilie. The balances with the other related companies and director are unsecured, interest-free and are repayable on demand.

In addition, the Company leases Hong Kong office space from a company controlled by certain directors of the Company on a month to month basis with monthly rent expense of approximately RMB17 (US\$2). For the years ended December 31, 2004, 2005 and 2006, rental expenses paid to related parties amounted to RMB232 (US\$30), RMB211 (US\$27) and RMB226 (US\$29), respectively.

F-24

### 11. STOCK OPTIONS

CNRI adopted a stock option plan (the "1995 Plan") as of March 31, 1995. The 1995 Plan allows the Board of Directors, or a committee thereof at the Board's discretion, to grant stock options up to 20% of the Company's then-outstanding common stock to officers, directors, key employees, consultants and affiliates of the Group. Such shares may represent authorized but unissued shares as well as repurchased or forfeited shares for any grant under the 1995 Plan that was expired or unexercised. The Board of Directors has the ability to set a holding period of less than one year for non-qualified stock options.

On December 18, 2003, the shareholders of the Company approved and adopted the 2003 Equity Compensation Plan (the "2003 Plan"). The 2003 Plan allows the Board to grant various incentive equity awards not limited to stock options. The Company has reserved a number of shares of common stock equal to 20% of the issued and outstanding common stock of the Company, from time-to-time, for issuance pursuant to options granted ("Plan Options") or for restricted stock awarded ("Stock Grants") under the 2003 Plan. Stock Appreciation Rights may be granted as a means of allowing participants to pay the exercise price of Plan Options.

On January 1, 2004, there were 3,000 options outstanding, with a weighted average exercise price of US\$2.95. These options expired unexercised in 2004.

During the year ended December 31, 2004, the board of directors granted

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options to certain employees and officers to purchase 104,000 shares of the Company's Common Stock, of which 24,000 shares are under the 1995 Plan and 80,000 shares are under the 2003 Plan, at an exercise price of US\$5.68, exercisable through May, 2007. In May 2004, the options to purchase the 104,000 shares of the Company's Common Stock for US\$5.68 per share were exercised and the Company issued the shares for US\$591. The 1995 Plan terminated on March 31, 2005. There are no options outstanding at December 31, 2005 and 2006. The weighted average grant date fair value of options issued during the year ended December 31, 2004 was RMB946 (US\$121). The total intrinsic value of options exercised and vested during the year ended December 31, 2004 was nil.

F-25

### 12. CONCENTRATION OF RISK

Concentration of credit risk:

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash deposits, trade receivables and bills receivable.

(i) Cash and cash deposits

The Company maintains its cash and cash deposits primarily with various PRC State-owned banks and Hong Kong based financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions.

(ii) Trade receivables

The Company sells zinc and iron products to companies in the PRC. Management considers that the Company's current customers are generally creditworthy and credit is extended based on an evaluation of the customers' financial conditions and, therefore, generally collateral is not required. The Company maintains reserves for potential credit losses based on its loss history and aging analysis. Such losses have been within management's expectations. At December 31, 2005 and 2006, the largest five customers accounted for 99% and 100%, respectively, of trade receivables. During the year ended December 31, 2004, three customers accounted 47%, 24% and 10%, respectively, of the Company's sales. During the year ended December 31, 2005, three customers accounted 65%, 12% and 8%, respectively, of the Company's sales. During the year ended December 31, 2006, three customers accounted for 85%, 5% and 5%, respectively, of the Company's sales.

The Company's entire production of zinc for the years ended December 31, 2004, 2005 and 2006 was sold to a single customer, Huludao Zinc Industry Co. Ltd. ("Huludao"). WFM is a party to a one-year non-binding sales contract with Huludao, subject to renewal every year. While the sales contract has been renewed on an annual basis in the past in the event WFM and Huludao are unable to agree upon renewal terms or if WFM's sales contract with Huludao is not renewed for any other reason, WFM will have to identify one or more alternative outlets for its mineral production.

(iii) Bills receivable

Bills receivable represent letters of credit obtained by the customers of the Group to finance purchases which have been presented to banks for payment after delivery of goods to customers. As of December 31, 2005 and 2006, bills receivable amounted to RMB450 and nil, respectively, and their collectability was guaranteed by banks. The bills receivable have normal terms of maturity of six months.

F-26

12. CONCENTRATION OF RISK (continued)

In addition, the Company sub-contracts its ore extraction work to a third party. To some extent, the Company's operations are affected by the performance of the contractor, whose activities are not within the Company'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 the Company, the agreement may be terminated by the Company; however, termination of the relationship could adversely affect the Company's operating results.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Group in estimating the fair value of its financial instruments:

(i) Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate their fair value.

(ii) Trade receivables, bills receivable, other receivables, accounts payable and other payables

The carrying amounts reported in the consolidated balance sheet for trade receivables, bills receivable, other receivables, accounts payable and other payables approximate their fair values due to their short maturities.

(iii) Amounts due from/to related parties

The fair values of amounts due from/to the related parties cannot be determined due to the related party nature of those balances.

F-27

14. RESERVES AND DISTRIBUTION OF PROFITS

In accordance with the relevant PRC regulations and the Articles of Association of WFM (the "Articles of Association"), appropriations of net income as reflected in its PRC statutory financial statements are to be allocated to each of the general reserve and enterprise expansion reserve, respectively, as determined by the resolution of the Board of Directors annually.

On February 28, 2005, the Board of Directors of WFM approved appropriations of RMB1,956 and RMB1,956 to the general reserve and the

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enterprise expansion reserve, respectively. The Board of Directors also declared dividends of RMB44,005.

On January 27, 2006, the Board of Directors of WFM approved appropriations of RMB1,709 and RMB1,709 to the general reserve and the enterprise expansive reserve, respectively. The Board of Directors also declared dividends of RMB38,462. The dividends were based on PRC profits for 2005, prior to the Acquisition.

### 15. FOREIGN CURRENCY EXCHANGE

The RMB is not freely convertible into foreign currencies.

From January 1, 1994 through July 2, 2005, a single rate of exchange was quoted daily by the People's Bank of China (the "Unified Exchange Rate"). Beginning July 23, 2005, the rate of exchange was revalued by 2.1% and the RMB is now to fluctuate according to the value of a group of currencies (the "managed float"). However, the unification or managed float of the exchange rates does not imply convertibility of RMB into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the People's 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.

F-28