



# SOUTH CHINA RESOURCES, INC.

Unit 1203, 12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City  
Metro Manila, Philippines

May 15, 2006

## **PHILIPPINE STOCK EXCHANGE**

Disclosure Department  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

Attention: **JURISITA M. QUINTOS**  
Senior Vice President – Operations Group

Gentlemen:

Please find herewith the 1<sup>st</sup> Quarter Report (on SEC Form 17-Q) for year 2006 of South China Resources, Inc.

We hope that you may find the above in order.

Thank you.

Truly yours,

(SIGNED)

**DAVID R. BALADAD**

VP-Operations/ Corporate Information Officer

SEC Number : ASO92-06441

File Number : \_\_\_\_\_

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**SOUTH CHINA RESOURCES, INC.**

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**(Company's Full Name)**

Unit 1203, 12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City

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**(Company's Address)**

(632) 812-2383 / 892-2049

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**(Telephone Number)**

December 31

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**Fiscal Year Ending (Month & Day)**

17 - Q

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**Form Type**

Not Applicable

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**Amendment Designation (if applicable)**

March 31, 2006

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**Period Ended Date**

Not Applicable

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**(Secondary License Type and File Number)**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **March 31, 2006**
2. SEC Identification Number **ASO92-06441** 3. BIR Tax Identification No. **001-945-016**
4. Exact name of issuer as specified in its charter **SOUTH CHINA RESOURCES, INC.**
5. **Not Applicable** 6.  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. **Unit 1203, 12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor.**  
**Makati Ave., Makati City** **1200**  
Address of principal office Postal Code
8. **(632) 812-2383 / 892-2049**  
Issuer's telephone number, including area code
9. **Not Applicable**  
Former name, former address and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sec. 4 and 8 of the RSA
- | Title of Each Class  | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|----------------------|--|
| <b>Common Shares</b> | <b>906,559,568</b>   |

11. Are any or all of these securities listed on a Stock Exchange?

Yes [ **X** ] No [ ]

If yes, state the name of such stock exchange and the class/es of securities listed therein:

Name of Stock Exchange  
**Philippine Stock Exchange**

Class of Securities listed  
**U**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period the issuer was required to file such reports);

Yes [ **X** ]                      No [   ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ **X** ]                      No [   ]

## **PART 1 – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

#### **Financial Report**

- a) The accompanying interim financial statements are prepared in accordance with the generally accepted accounting principles.
- b) There were no changes made in the accounting policies and methods of computation as compared with the last annual financial statements.
- c) Quarterly financial statements are prepared for the interim operations for the updated information of the stockholders and basis for the decision making of the management.
- d) For this interim period, the Company has no unusual transactions or had encountered events that affect materially its assets, liabilities, equity, net income or cash flows.
- e) The Company did not report in its financial statements any estimates of amount of a given transactions for this interim period and in prior interim periods.
- f) There were no issuances, repurchases, and repayments of debt and equity securities for this interim period.
- g) There are no changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
- h) The Company has no contingent assets or liabilities since the last annual balance sheet date.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Financial Position**

(In comparison with prior year Restated Interim Financial Statement)

The Company's current ratio as of March 31, 2006 was ₱0.097 for every peso liability – a minimal decrease from last year's current ratio of ₱0.001. The decrease was caused mainly by the advances from the officers. Current ratio for the year 2005 decreased by ₱0.475 compared to 2004 due to the reclassification of Marketable Securities from

Current Assets to Noncurrent Assets Available for Sale (AFS) investments amounting to ₱0.579 million

The Company's total assets which stood at ₱763 million in 2006, was lower than last year by about ₱28 million due to the decrease in investments in associates which resulted also to the decrease in total assets of ₱37 million in 2005 compared to 2004.

Cash and cash equivalents increased in 2006 compared to prior year by ₱0.475 million due to the increase in advances from the Company's officers. For the year 2005, the decrease is ₱0.189 million compared to 2004.

Upon the adoption of PAS 39, *Financial Instruments – Recognition and Measurement*, the 2004 classification of Current Marketable Securities, Marketable Equity Securities, and Investment in Shares of Stocks having an aggregate total of ₱5.662 million was changed to "Available for sale" beginning January 1, 2005. As of March 31, 2006, the aggregate carrying amount is ₱8.631 million or an increase of ₱1.069 million due to the recovery of unrealized losses on AFS investments compared to 2005.

Accounts receivable decreased in 2006 by ₱0.036 million as compared prior year due to liquidation of advances and an increase of ₱0.044 million in 2005 compared to 2004 due to advances subject for liquidation.

Prepayments and other currents assets increased in 2006 compared to prior year by ₱0.154 million due to payment of annual listing fees and also an increase of ₱0.034 million in 2005 compared to 2004 due to payment of annual dues and amortization of unexpired portion.

Investments in associates decreased by ₱33.627 million in 2006 compared to last year due to share in net losses of associates and a decrease of ₱44.212 million in 2005 compared to 2004.

Other assets refer to rental of deposit and other noncurrent assets subject to amortization. For the year 2006 the decrease is ₱0.152 million compared to 2005 and ₱1.059 million due to the amortized portion of the noncurrent assets.

Accounts payable and accrued expenses for the period increased by ₱6.218 million in 2006 compared to 2005 and an increase of ₱9.390 million in 2005 compared to 2004 due to advances from officers.

Increased in deferred exploration cost is due to remittance of share in NE Palawan and Sulu block project. The increase of ₱3.923 million for the year 2006 compared to the first quarter of 2005 includes capitalization of general and administrative expenses validated by the Department of Energy in December 2005 for the exploration cost of NE Palawan amounting to ₱3.468 million and an increase of ₱3.761 million in 2005 compared to 2004.

Net loss for the year amounted to ₱8.780 million. The restatement due to the adoption of new accounting standards increased the deficit by P3.157 million as of December 31, 2004. The deficit as of March 31, 2006 amounted to P167.758 million. The Company has no earnings yet from commercial production. Therefore, there were no dividends declared for the period ended March 31, 2006.

The net loss incurred for the first quarter is a net increase of ₱0.153 million compared to 2005 and also an increase ₱0.697 million compared to 2004 due to increase in net losses of investee companies.

There are no material trends, events or uncertainties that are reasonably expected to occur in the next interim period that will have a material favorable or unfavorable impact on the results of the Company's liquidity or sales.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or accumulation of an obligation.

The material changes for this year in comparison with the prior year-end based on line items arose from: a) increase in available for sale investments of 14.14% due to increase in market value of listed shares of stocks; b) decrease in investments in associates of 15.89% due to net loss of the investee companies; c) increase in current liabilities of 0.49x due to advances from officers; d) increase in unrealized gain (losses) in marketable equity securities/AFS investments of 103.92% due to market recovery; e) decrease in share in unrealized losses on the decline in market value of noncurrent marketable securities of associate of 12.43% due to adjustment of associate's unrealized losses; and, f) increase in deficit of 27.52% due to net loss for the period.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.

The Company's cash requirement is provided by the management. There is no foreseen increase in funds for the next twelve months however should the needs arises, the management will satisfy such cash requirements.

There is no expected purchase or sale of plant and significant equipment in the next twelve months.

The Company has no plans of changing the number of employees for the next twelve months.

For the period ended March 31, 2006, the Company is still in exploration stage, and therefore, no commercial production yet for the performance indicators analysis. It has no majority-owned subsidiaries.

There are no material trends, events or uncertainties that are reasonably expected to occur in the next twelve months that will have a material favorable or unfavorable impact on the results of the Company's liquidity. Should there be material changes in working capital it would be advances from the management to support the Company's operation or a sale of non-current assets.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

The Company has no material commitments for capital expenditures within the next twelve months.

## **Results and Plans of Operation**

### **SC-41 Offshore Sulu Sea Sandakan Basin**

After the withdrawal in of the foreign partners in SC-41, the Filipino contingent of the consortium proceeded forward with the exploration of the block by conducting a geological and geophysical review of the area and formulated a new geological concept to firm up the petroleum potential of the block. The consortium will also seek new farminees. The operator Basic Petroleum was later on acquired by London based Forum Energy Plc. With the authority of its partners, the operator is currently negotiating with a potential farminee for entry into the block. The anniversary of the Service Contract is on May 10, 2006.

South China's participating interest in the block has been increased to 5.3260% after the withdrawal and redistribution of Petroenergy Resources' interest.

### **SC-60 (GSEC-99 Offshore NE Palawan)**

As a background, the Department of Energy (DOE) extended the term of the GSEC-99 to March 15, 2005. On March 9, 2005 South China, and SPEX, and the Kuwait Foreign Petroleum Exploration Company ksc. (KUFPEC) filed with the DOE an application to convert GSEC-99 into a Service Contract (SC). KUFPEC is a wholly owned subsidiary of the national oil company Kuwait Petroleum Company.

On January 27, 2006 South China and SPEX signed KUFPEC into the consortium and the consortium subsequently similarly signed with the DOE Service Contract No. 60. SC-60 converted from GSEC-99 and covers an area of one million eight thousand hectares in Northeast Palawan. It is one of the promising sites identified by a study done by the Norwegian Agency for Development Cooperation (NORAD) and the DOE.



During the seven year exploration period, the consortium is expected to spend a minimum of US\$24 million or about P1.2 billion. The consortium shall conduct seismic and exploration work to find petroleum within the first seven years. SC-60 also includes a 25 year production term in the event of a commercial discovery. SPEX is now operator of the project. To accommodate the entry of KUFPEC, South China reduced its participating interest in the block to 15%. The Company will be carried in the acquisition and processing of at least 1000 kms. 2D seismic and 450 sq kms. of 3D seismic and evaluation of the contract area (first sub-phase). Once a drilling decision has been made, South China will also be carried in the drilling of one deepwater exploration well (second sub-phase).

#### **Offshore Cuyo Platform (former GSEC-96), NW Palawan Block (former GSEC-83)**

South China still retains one of the biggest information libraries covering these areas. DOE's 1<sup>st</sup> Petroleum Competitive Bid Round PCR-1 resulted in only one (1) contract awarded. After the evaluation phase of the bid round, the DOE opened up the country for application.

Despite of a contract application pending over the NW Palawan area by the Swan Block consortium (of which the Company is a co-venturer), the DOE awarded the area to the Philippine National Oil Company-Exploration Corporation (PNOC-EC). Philodrill, deemed operator of the Swan block has informed the company that it is currently negotiating with PNOC-EC to jointly explore the Swan Block in conjunction with their SC-57/58 blocks.

The DOE declared a moratorium on applications for new contract areas prior to its launching of PCR-2 (Philippine Energy Contracting Round No. 2) in August 31, 2005 wherein four areas were put up for bid. The bid round ended last November 29, 2005. No new applications for exploration contracts have been accepted by the DOE outside PCR-2. To date, the DOE has yet to announce and award the winning bids and lift the application moratorium


In light of this development, the Company continues to actively seek strategic partners for the joint exploration of Offshore Cuyo in preparation for the lifting of the moratorium.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH CHINA RESOURCES, INC.

Issuer



Atty. **JAIME M. BLANCO, Jr.**  
Corporate Secretary

Date : May 15, 2006



**IMELDA D. OLALIA**  
Accounting Manager

Date : May 15, 2006

**SOUTH CHINA RESOURCES, INC**  
**BALANCE SHEETS**

	<b>2006 MARCH</b>	<b>2005 DECEMBER Audited</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	1,202,712	1,149,250
Accounts receivable	87,978	62,060
Prepayments and other current assets	548,647	325,149
<b>Total Current Assets</b>	<b>1,839,337</b>	<b>1,536,459</b>
<b>Noncurrent Assets</b>		
Available-for-sale	8,630,558	8,745,155
Investment in properties	486,980,479	486,980,479
Investments in associates - net	177,979,679	185,682,478
Deferred Exploration Costs - net of valuation allowance of P12,618,353 in 2001 and in 2000	87,258,415	87,208,046
Property and Equipment - net	111,397	126,551
Other assets	141,554	141,554
<b>Total Noncurrent Assets</b>	<b>761,102,082</b>	<b>768,884,263</b>
<b>TOTAL ASSETS</b>	<b>762,941,419</b>	<b>770,420,722</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	<b>18,992,686</b>	<b>17,577,444</b>
<b>Noncurrent liabilities</b>		
* Subscriptions payable	<b>171,720,000</b>	<b>171,720,000</b>
<b>Total Liabilities</b>	<b>190,712,686</b>	<b>189,297,444</b>
<b>Stockholders' Equity</b>		
Capital Stock - P1 par value		
Authorized - 1 billion shares		
Issued	586,639,569	586,639,569
Subscribed	319,920,000	319,920,000
** Subscriptions receivable	(239,940,000)	(239,940,000)
Additional paid in capital	72,272,140	72,272,140
Unrealized gains (losses) on marketable equity securities/ AFS investments	2,773,743	2,888,340
Share in unrealized losses on marketable equity securities/ AFS investments of an associate	(1,678,590)	(1,678,590)
Deficit	(167,758,129)	(158,978,181)
<b>Total Stockholders' Equity</b>	<b>572,228,733</b>	<b>581,123,278</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>762,941,419</b>	<b>770,420,722</b>

\*Subscription payable represents 53% unpaid subscribed capital stock of Bell Telecom(P171.72M)

\*\*Subscription receivable 75% unpaid balance of the stockholders for their subscribed shares of the Company's capital stock.

**SOUTH CHINA RESOURCES, INC**  
**BALANCE SHEETS**  
(In comparison with prior year)

	<b>2006 MARCH</b>	<b>2005 MARCH Previous Report Restated</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	1,202,712	727,504
Accounts receivable	87,978	123,667
Prepayments and other current assets	548,647	394,571
<b>Total Current Assets</b>	<b>1,839,337</b>	<b>1,245,742</b>
<b>Noncurrent Assets</b>		
Available-for-sale	8,630,558	7,561,534
Investment in properties	486,980,479	486,980,479
Investments in associates - net	177,979,679	211,606,321
Deferred Exploration Costs - net of valuation allowance of P12,618,353 in 2001 and in 2000	87,258,415	83,335,014
Property and Equipment - net	111,397	251,834
Other assets	141,554	293,657
<b>Total Noncurrent Assets</b>	<b>761,102,082</b>	<b>790,028,839</b>
<b>TOTAL ASSETS</b>	<b>762,941,419</b>	<b>791,274,581</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	18,992,686	12,774,759
<b>Noncurrent liabilities</b>		
* Subscriptions payable	171,720,000	171,720,000
<b>Total Liabilities</b>	<b>190,712,686</b>	<b>184,494,759</b>
<b>Stockholders' Equity</b>		
Capital Stock - P1 par value		
Authorized - 1 billion shares		
Issued	586,639,569	586,639,569
Subscribed	319,920,000	319,920,000
** Subscriptions receivable	(239,940,000)	(239,940,000)
Additional paid in capital	72,272,140	72,272,140
Unrealized gains (losses) on marketable equity securities/ AFS investments	2,773,743	1,360,469
Share in unrealized losses on marketable equity securities/ AFS investments of an associate	(1,678,590)	(1,916,810)
Deficit	(167,758,129)	(131,555,546)
<b>Total Stockholders' Equity</b>	<b>572,228,733</b>	<b>606,779,822</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>762,941,419</b>	<b>791,274,581</b>

\*Subscription payable represents 53% unpaid subscribed capital stock of Bell Telecom(P171.72M)

\*\*Subscription receivable 75% unpaid balance of the stockholders for their subscribed shares of the Company's capital stock.

**SOUTH CHINA RESOURCES, INC**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE QUARTER ENDED MARCH 31, 2006**  
(With comparison of prior year figures)

	2006	2005 Previous Report Restated
<b>INCOME</b>		
Unrealized foreign exchange loss	(38,848)	(17,956)
Net interest income	2,329	1,605
Dividend and miscellaneous income	-	350
Recovery(decline) in market value of marketable securities	-	344,250
	<b>(36,519)</b>	<b>328,249</b>
<b>EXPENSES</b>		
Equity in net earnings (losses) of investee company	(7,702,799)	(7,246,023)
General and administrative expenses	(1,040,630)	(1,709,564)
	<b>(8,743,429)</b>	<b>(8,955,587)</b>
<b>NET INCOME(LOSS) FOR THE PERIOD</b>	<b>(8,779,948)</b>	<b>(8,627,338)</b>
<b>ADD:RETAINED EARNINGS, BALANCE BEGINNING OF YEAR as previously reported</b>		<u>(119,771,502)</u>
Effect of change in accounting policy for investments in associates		189,606
Share in effect of adoption of new accounting standards by associates		(2,141,949)
Share in prior period adjustment by an associate		(1,204,363)
		<u>(3,156,706)</u>
<b>RETAINED EARNINGS, BALANCE BEGINNING OF YEAR AS RESTATED</b>	<b>(158,978,181)</b>	<b>(122,928,208)</b>
<b>RETAINED EARNINGS(DEFICIT), BALANCE END</b>	<b>(167,758,129)</b>	<b>(131,555,546)</b>
<b>*EARNINGS (LOSS) PER SHARE</b>	<b><u>-0.00968</u></b>	<b><u>-0.00952</u></b>

\*Computed as 
$$= \frac{\text{Net income(loss) for the period}}{\text{Weighted average number of shares (906,559,569)}}$$

SOUTH CHINA RESOURCES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE QUARTER ENDED MARCH 31, 2006  
(in comparison with prior year)

	Capital Stock		Subscriptions Receivable	Additional Paid-in Capital	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments	Share in Unrealized (Losses) on Marketable Equity Securities/AFS Investments of an Associate	Deficit	Total
	Issued	Subscribed						
Balance at December 31, 2003, as previously reported	586,639,569	319,920,000	(239,940,000)	72,272,140	(1,331,262)	(1,916,810)	(72,367,936)	663,275,701
Effect of change in accounting policy for investments in associates							772,010	772,010
Share in effect of adoption of new accounting standards by associates							(1,786,394)	(1,786,394)
Share in prior period adjustment by an associate							(802,909)	(802,909)
<b>Sub-total CY 2003 Adjustments</b>							<b>(1,817,293)</b>	<b>(1,817,293)</b>
<b>Balances at December 31, 2003 as restated</b>	<b>586,639,569</b>	<b>319,920,000</b>	<b>(239,940,000)</b>	<b>72,272,140</b>	<b>(1,331,262)</b>	<b>(1,916,810)</b>	<b>(74,185,229)</b>	<b>661,458,408</b>
Recovery of unrealized losses on marketable equity securities					1,136,025			1,136,025
Net loss for the year, as restated							(48,742,979)	(48,742,979)
Balances at December 31, 2004 as restated	586,639,569	319,920,000	(239,940,000)	72,272,140	(195,237)	(1,916,810)	(122,928,208)	613,851,454

(Forward)

SOUTH CHINA RESOURCES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE QUARTER ENDED MARCH 31, 2006  
(in comparison with prior year)

	Capital Stock		Subscriptions Receivable	Additional Paid-in Capital	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments	Share in Unrealized (Losses) on Marketable Equity Securities/AFS Investments of an Associate	Deficit	Total
	Issued	Subscribed						
Balance at December 31, 2004 as previously reported	586,639,569	319,920,000	(239,940,000)	72,272,140	(195,237)	(1,916,810)	(119,771,502)	617,008,160
Effect of change in accounting policy for investments in associates							189,606	189,606
Share in effect of adoption of new accounting standards by associates							(2,141,949)	(2,141,949)
Share in prior period adjustment by an associate							(1,204,363)	(1,204,363)
<b>Sub-total CY 2004 Adjustments</b>							<b>(3,156,706)</b>	<b>(3,156,706)</b>
<b>Balances at December 31, 2004 as restated</b>	<b>586,639,569</b>	<b>319,920,000</b>	<b>(239,940,000)</b>	<b>72,272,140</b>	<b>(195,237)</b>	<b>(1,916,810)</b>	<b>(122,928,208)</b>	<b>613,851,454</b>
Net loss for the year							(36,049,973)	(36,049,973)
Recovery from unrealized losses on AFS investments					3,083,577			3,083,577
Share in recovery of unrealized losses on AFS investments of associates						238,220		238,220
Balances at December 31, 2005	586,639,569	319,920,000	(239,940,000)	72,272,140	2,888,340	(1,678,590)	(158,978,181)	581,123,278
Net loss for the 1st quarter 2006							(8,779,948)	(8,779,948)
Net unrealized losses on AFS investments					(114,597)			(114,597)
Balances at March 31, 2006	586,639,569	319,920,000	(239,940,000)	72,272,140	2,773,743	(1,678,590)	(167,758,129)	572,228,733

SOUTH CHINA RESOURCES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE PERIOD ENDED MARCH 31, 2006  
(in comparison with prior year)

	Capital Stock		Subscriptions Receivable	Additional Paid-in Capital	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments	Share in Unrealized (Losses) on Marketable Equity Securities/AFS Investments of an Associate	Deficit	Total
	Issued	Subscribed						
Balance at March 31, 2004 as previously reported	586,639,569	319,920,000	(239,940,000)	72,272,140	(1,331,262)	(1,916,810)	(80,298,420)	655,345,217
<b>CY 2003 Adjustments</b>								
Effect of change in accounting policy for investments in associates							772,010	772,010
Share in effect of adoption of new accounting standards by associates							(1,786,394)	(1,786,394)
Share in prior period adjustment by an associate							(802,909)	(802,909)
<b>Sub-total CY 2003 Adjustments</b>							(1,817,293)	(1,817,293)
Recovery of unrealized losses on marketable equity securities					1,136,025			1,136,025
Previously recorded net loss for 1st qtr							7,930,484	7,930,484
Net loss for the year, as restated							(48,742,979)	(48,742,979)
<b>Sub-total CY 2004 Adjustments</b>					1,136,025		(40,812,495)	(39,676,470)
<b>Total Adjustments</b>					1,136,025		(42,629,788)	(41,493,763)
Balance at December 31, 2004 as restated	586,639,569	319,920,000	(239,940,000)	72,272,140	(195,237)	(1,916,810)	(122,928,208)	613,851,454
Net loss for the year 2005							(36,049,973)	(36,049,973)
Recovery from unrealized losses on AFS investments					3,083,577			3,083,577
Share in recovery of unrealized losses on AFS investments of associates						238,220		238,220
Net loss for the 1st quarter 2006							(8,779,948)	(8,779,948)
Net unrealized losses on AFS investments					(114,597)			(114,597)
<b>Balances at March 31, 2006</b>	<b>586,639,569</b>	<b>319,920,000</b>	<b>(239,940,000)</b>	<b>72,272,140</b>	<b>2,773,743</b>	<b>(1,678,590)</b>	<b>(167,758,129)</b>	<b>572,228,733</b>



**SOUTH CHINA RESOURCES, INC**  
**STATEMENT OF CASH FLOWS**

**FOR THE QUARTER ENDED**  
**MARCH 31**

	<b>2006</b>	<b>2005</b> <b>Previous Report</b> <b>Restated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income(loss) from operation	(8,779,948)	(8,627,338)
Adjustments for:		
Equity in net earnings(losses) of associates	7,702,799	7,246,023
Depreciation and amortization	19,440	24,140
Interest Income	(2,329)	(1,605)
Dividend and miscellaneous income	-	(350)
Provision for (recovery from) decline in market value of marketable securities	-	(344,250)
Unrealized foreign exchange loss	38,848	-
Operating loss before working capital	(1,021,190)	(1,703,381)
Decrease (increase) in:		
Accounts receivable	(25,918)	(34,215)
Prepayments and other current assets	(223,498)	(112,572)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,415,242	2,061,120
Cash Generated from Operations	144,636	210,952
Interest received	2,329	1,605
Dividend and miscellaneous income received	-	350
Net cash flows from operating activities	146,965	212,907
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to deferred exploration costs	(50,369)	(344,542)
Decrease (increase) in other assets	-	186,955
Acquisitions of property and equipment	(4,286)	-
Net cash flows used in investing activities	(54,655)	(157,587)
<b>NET INCREASE IN CASH</b>	<b>92,310</b>	<b>55,320</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(38,848)</b>	<b>-</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>1,149,250</b>	<b>672,184</b>
<b>CASH AT END OF THE PERIOD</b>	<b>1,202,712</b>	<b>727,504</b>

## Aging of Accounts Receivable

<b>South China Resources, Inc.</b> <b>Aging of Accounts Receivable</b> <b>As of March 31, 2006</b>									
Type of Accounts Receivable	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - Above	Past due accounts & Items in Litigation
a) Trade Receivables									
1) XXX									
2) XXX									
3) XXX	n/a								
Subtotal									
Less: Allow. For Doubtful Acct.									
Net Trade receivable	-								
b) Non-Trade Receivables									
1) Interest receivable									
2) A/R employees	20,000.00	20,000.00							
3) A/R Others	834,886.44		7,950.00		6,175.00	7,548.46	46,304.56	766,908.42	
Subtotal	854,886.44	20,000.00	7,950.00		6,175.00	7,548.46	46,304.56	766,908.42	
Less: Allow. For Doubtful Acct.	(766,908.42)							(766,908.42)	
Net Non-Trade receivable	87,978.02	20,000.00	7,950.00		6,175.00	7,548.46	46,304.56	-	
Net Receivables (a+b)	87,978.02								
<b>Notes:</b> If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.									

## Accounts Receivable Description

Type of Receivable	Nature/Description	Collection Period
1) Interest receivable	Interest arising from money market placements on a 30 days term.	monthly
2) A/R employees	Advances to employees for emergency purpose on a 1 year term payable monthly	monthly
3) A/R others	Receivable from third party for various chargeables	Immediate
<b>Notes :</b> Indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both for trade and non-trade accounts.		

Normal Operating Cycle: 1 (one) year