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## **CHINA ASEAN RESOURCES LIMITED**

### **神州東盟資源有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 08186)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

## INTERIM RESULTS (UNAUDITED)

The board of directors (the “Board”) of China Asean Resources Limited (the “Company”) herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for each of the three months and six months ended 30 June 2012, together with the comparative unaudited figures for the corresponding periods in 2011, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
<b>Turnover</b>	2	<b>1,331</b>	80	<b>1,441</b>	80
Cost of sales		<u>(222)</u>	—	<u>(280)</u>	—
Gross profit		<b>1,109</b>	80	<b>1,161</b>	80
Other income	4	<b>1,736</b>	61	<b>5,486</b>	63
Selling and distribution expenses		<b>(92)</b>	(141)	<b>(287)</b>	(336)
Administrative expenses		<b>(8,268)</b>	(8,679)	<b>(18,288)</b>	(21,826)
Finance costs		—	(4,371)	—	(8,743)
Gain on disposal of subsidiary	7	—	—	<b>182</b>	—
Share of profit of associates		<b>3,822</b>	—	<b>4,864</b>	—
<b>Loss before taxation</b>	5	<b>(1,693)</b>	(13,050)	<b>(6,882)</b>	(30,762)
Taxation	8	—	—	—	—
<b>LOSS FOR THE PERIOD</b>		<u><b>(1,693)</b></u>	<u>(13,050)</u>	<u><b>(6,882)</b></u>	<u>(30,762)</u>
<b>Other comprehensive income for the period</b>					
Exchange differences on translation of financial statements of overseas subsidiaries		<u><b>(36)</b></u>	195	<u><b>(36)</b></u>	195
<b>Other comprehensive income for the period, net of tax</b>		<u><b>(36)</b></u>	195	<u><b>(36)</b></u>	195
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><b>(1,729)</b></u>	<u>(12,855)</u>	<u><b>(6,918)</b></u>	<u>(30,567)</u>
		<b>2012</b>	2011	<b>2012</b>	2011
		<b>HK Cents</b>	<b>HK Cents</b>	<b>HK Cents</b>	<b>HK Cents</b>
<b>Basic loss per share</b>	9	<u><b>(0.06)</b></u>	<u>(0.85)</u>	<u><b>(0.26)</b></u>	<u>(2.13)</u>
		<u><b>(0.06)</b></u>	<u>(0.85)</u>	<u><b>(0.26)</b></u>	<u>(2.13)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2012 <i>HK\$'000</i> (Unaudited)	At 31 December 2011 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment	<i>11</i>	42,209	42,793
Biological assets		25,510	21,295
Intangible assets	<i>12</i>	852,185	853,091
Goodwill	<i>6</i>	18,579	18,579
Interest in associates		125,832	120,968
		<b>1,064,315</b>	1,056,726
<b>Current assets</b>			
Inventories	<i>13</i>	8,019	4,733
Trade and other receivables	<i>14</i>	15,722	23,378
Cash at bank and on hand		694	2,503
		<b>24,435</b>	30,614
Assets of disposal group classified as held for sale		—	38
		<b>24,435</b>	30,652
<b>Current liabilities</b>			
Other payables	<i>15</i>	54,430	43,703
Tax payable		—	1,899
		<b>54,430</b>	45,602
Liabilities of disposal group classified as held for sale		—	538
		<b>54,430</b>	46,140
<b>Net current liabilities</b>		<b>(29,995)</b>	(15,488)
<b>Total assets less current liabilities</b>		<b>1,034,320</b>	1,041,238
<b>NET ASSETS</b>		<b>1,034,320</b>	1,041,238
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>16</i>	131,198	131,198
Reserves		903,125	910,043
		<b>1,034,323</b>	1,041,241
Total equity attributable to: Equity holders of the Company		<b>1,034,323</b>	1,041,241
Non-controlling interests		(3)	(3)
<b>TOTAL EQUITY</b>		<b>1,034,320</b>	1,041,238

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity share holders of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits/ (Acc- umulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2011 (audited)	38,927	604,213	5,265	104,407	8,243	2,043	(29,843)	733,255	—	733,255
<b>Transactions with owners</b>										
Issue of placing share	5,334	58,674	—	—	—	—	—	64,008	—	64,008
Conversion of convertible bonds	61,152	207,917	—	(101,759)	—	—	—	167,310	—	167,310
Recognition of equity-settled share based payments	—	—	—	—	696	—	—	696	—	696
<b>Total transactions with owners</b>	<b>66,486</b>	<b>266,591</b>	<b>—</b>	<b>(101,759)</b>	<b>696</b>	<b>—</b>	<b>—</b>	<b>232,014</b>	<b>—</b>	<b>232,014</b>
<b>Comprehensive income</b>										
Loss for the period	—	—	—	—	—	—	(30,762)	(30,762)	—	(30,762)
Other comprehensive income for the period	—	—	—	—	—	195	—	195	—	195
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>195</b>	<b>(30,762)</b>	<b>(30,567)</b>	<b>—</b>	<b>(30,567)</b>
Balance at 30 June 2011 (unaudited)	<u>105,413</u>	<u>870,804</u>	<u>5,265</u>	<u>2,648</u>	<u>8,939</u>	<u>2,238</u>	<u>(60,605)</u>	<u>934,702</u>	<u>—</u>	<u>(934,702)</u>
Balance at 1 January 2012 (audited)	131,198	972,987	5,265	—	3,482	2,118	(73,809)	1,041,241	(3)	1,041,238
<b>Transactions with owners</b>										
Lapse of share options	—	—	—	—	(1,903)	—	1,903	—	—	—
Recognition of equity-settled share based payments	—	—	—	—	—	—	—	—	—	—
<b>Total transactions with owners</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,903)</b>	<b>—</b>	<b>1,903</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Comprehensive income</b>										
Loss for the period	—	—	—	—	—	—	(6,882)	(6,882)	—	(6,882)
Other comprehensive income for the period	—	—	—	—	—	(36)	—	(36)	—	(36)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(36)</b>	<b>(6,882)</b>	<b>(6,918)</b>	<b>—</b>	<b>(6,918)</b>
<b>Balance at 30 June 2012 (unaudited)</b>	<u><b>131,198</b></u>	<u><b>972,987</b></u>	<u><b>5,265</b></u>	<u><b>—</b></u>	<u><b>1,579</b></u>	<u><b>2,082</b></u>	<u><b>(78,788)</b></u>	<u><b>1,034,323</b></u>	<u><b>(3)</b></u>	<u><b>1,034,320</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	4,689	(23,605)
NET CASH USED IN INVESTING ACTIVITIES	(6,479)	(47,777)
NET CASH FROM FINANCING ACTIVITIES	—	64,004
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,790)	(7,378)
Cash and cash equivalents at beginning of the period	2,503	15,441
Effect of foreign exchange rate changes	(19)	—
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>694</u>	<u>8,063</u>
Analysis of cash and cash equivalents		
Cash at bank and on hand	<u>694</u>	<u>8,063</u>

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

#### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Rules”) and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRSs”); Hong Kong Accounting Standards (“HKASs”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs will have a material impact on its results of operations and financial position.

## 2. TURNOVER

Turnover recognised during the period is analysed as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Sales of wood and agriculture products	<u>1,331</u>	<u>80</u>	<u>1,441</u>	<u>80</u>
	<u><u>1,331</u></u>	<u><u>80</u></u>	<u><u>1,441</u></u>	<u><u>80</u></u>

## 3. SEGMENT INFORMATION

The Group determines its operating segments based on reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has three reportable segments as follows:

- Natural resources — Wood products manufacturing and plantation
- Logistics — Coal logistics and trading
- Manufacturing — Design and manufacture of plastic and wooden household products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profits or losses do not include corporate income and expenses, finance costs and deferred tax expense arising from withholding tax on dividends.

The segments information is as follows:

	For the six months ended 30 June 2012				For the six months ended 30 June 2011		
	Natural resources <i>HK\$'000</i>	Logistics <i>HK\$'000</i>	Manufacturing <i>HK\$'000</i>	Total <i>HK\$'000</i>	Natural resources <i>HK\$'000</i>	Logistics <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	1,441	—	—	<u>1,441</u>	80	—	<u>80</u>
Segment results	(11,095)	(1,285)	—	(12,380)	(13,245)	(38)	(13,283)
Share of profit of associates	—	—	4,864	4,864	—	—	—
Unallocated corporate revenue				5,497			55
Unallocated corporate expenses				(4,863)			(8,791)
Finance costs				<u>—</u>			<u>(8,743)</u>
Loss before taxation				<u>(6,882)</u>			<u>(30,762)</u>

#### 4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Interest income	—	6	—	8
Written back on provision	<b>50</b>	—	<b>3,656</b>	—
Compensation for an acquisition	<b>1,616</b>	—	<b>1,616</b>	—
Miscellaneous	<b>70</b>	1	<b>214</b>	1
Gain on disposal of property, plant and equipment	—	54	—	54
	<u><b>1,736</b></u>	<u>61</u>	<u><b>5,486</b></u>	<u>63</u>

## 5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Finance costs</b>				
Interest on bonds	—	4,371	—	8,743
<b>Staff costs</b>				
Wages and salaries	1,764	2,661	3,124	6,634
Share based payments	—	289	—	696
Staff retirement benefits	16	17	32	36
<b>Other items</b>				
Depreciation	1,702	988	2,920	1,472
Auditors' remuneration	110	57	221	57
Operating lease charges in respect of office premises	274	261	543	506
Amortisation of forest exploitation rights	3,183	3,183	6,366	6,366

## 6. ACQUISITION OF SUBSIDIARY

On 15 June 2011, Linkbest System Development Limited, a wholly-owned subsidiary of the Company, obtained the control of Inner Mongolia Huayue Mining Company Limited (“Inner Mongolia Mining”), for a total consideration of HK\$25,000,000. As at the date of this announcement, the Group still in the process to obtain the approval from the relevant PRC authorities for the transfer of ownership of the equity interest of Inner Mongolia Mining.

### (a) Assets acquired and liabilities recognised at the date of acquisition

	HK\$'000
Property, plant and machinery — Net Book Value ( <i>note 11</i> )	9,717
Deposit, other receivable, prepayment	1,205
Tax recoverable	76
Cash at bank	20
Other payable	(615)
Amount due to related parties	(3,982)
	<u>6,421</u>
Goodwill acquired on acquisition	18,579
	<u>25,000</u>
Satisfied by:	
Cash	<u>25,000</u>

HK\$25,000,000 cash outflow was recorded for the acquisition of the subsidiary as all the consideration was paid in cash by the Group.



## 7. DISPOSAL OF SUBSIDIARY

On 31 January 2012, the Group disposed of the entire registered capital of Guilin Simei and Biotechnology Limited for a consideration of HK\$220,000.

Details of the net assets disposed of and the gain on disposal are as follows:

	<b>2012</b> <i>HK\$'000</i>
Property, plant and equipment	36
Cash at bank and on hand	<u>2</u>
Net assets disposed of	38
Cash consideration	<u>220</u>
Gain on disposal of subsidiary	<u><u>182</u></u>

## 8. TAXATION

### (a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2012 (2011: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax for the periods.

### (b) PRC Income Tax

No provision for PRC income tax has been made as the Group did not have any assessable profits for the three months and six months ended 30 June 2012 (2011: HK\$Nil) determined in accordance with the relevant income tax rules and regulations in the PRC.

### (c) Cambodia Tax on Profits

No provision for Cambodia Tax on Profits has been made as the Group did not have any assessable profits for the three months and six months ended 30 June 2012 (2011: HK\$Nil) determined in accordance with the relevant tax rules and regulations in Cambodia.

### (d) Deferred Taxation

No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the three months and six months ended 30 June 2012 (2011: HK\$Nil).

## **9. LOSS PER SHARE**

The calculations of the basic and diluted loss per share for the three months and six months ended 30 June 2012 are based on the loss attributable to the owners of the Company being HK\$1,693,000 (2011: HK\$13,050,000) and HK\$6,882,000 (2011: HK\$30,762,000), respectively, divided by the weighted average number of 2,623,950,965 and 2,623,950,965 ordinary Shares for the three months and six months ended 30 June 2012 (2011: 1,538,218,884 and 1,447,248,079 respectively) ordinary shares in issue during the relevant periods.

No diluted loss per share has been presented for the three months and six months ended 30 June 2012 and 30 June 2011 as the exercise of the share options and the conversion of outstanding convertible bonds could result in an anti-dilutive effect.

## **10. DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: HK\$Nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Constructed roads <i>HK\$'000</i>	Medical equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>							
At 1 January 2011	5,403	24,169	426	2,297	883	—	33,178
Additions							
— through acquisition of subsidiaries	—	—	—	—	13,953	—	13,953
— by the Group	1,597	1,807	—	195	9,727	43	13,369
Asset held for sale	(58)			(302)	(12)		(372)
Transfer to biological assets		(4,737)					(4,737)
Disposals	—	—	—	(535)	(91)	—	(626)
Written-off	(79)						(79)
Exchange adjustments	2	—	4	22	273	—	301
	<u>6,865</u>	<u>21,239</u>	<u>430</u>	<u>1,677</u>	<u>24,733</u>	<u>43</u>	<u>54,987</u>
At 31 December 2011							
At 1 January 2012	6,865	21,239	430	1,677	24,733	43	54,987
Additions	2,484	—	—	—	—	—	2,484
Disposals	—	—	—	—	(334)	—	(334)
Exchange adjustments	—	—	—	—	(29)	—	(29)
Transfer	—	—	—	(437)	437	—	—
	<u>9,349</u>	<u>21,239</u>	<u>430</u>	<u>1,240</u>	<u>24,807</u>	<u>43</u>	<u>57,108</u>
At 30 June 2012							
<b>Aggregate depreciation</b>							
At 1 January 2011	786	815	399	1,187	477	—	3,664
Charge for the year	840	692	27	333	3,087	6	4,985
Write-back on disposals	—	—	—	(414)	(86)	—	(500)
Assets held for sale	(22)			(302)	(11)		(335)
Through acquisition of subsidiary					4,236		4,236
Exchange adjustments	5	—	4	23	112	—	144
	<u>1,609</u>	<u>1,507</u>	<u>430</u>	<u>827</u>	<u>7,815</u>	<u>6</u>	<u>12,194</u>
At 31 December 2011							
At 1 January 2012	1,609	1,507	430	827	7,815	6	12,194
Charge for the period	460	356	—	123	1,977	4	2,920
Write-back on disposals	—	—	—	—	(218)	—	(218)
Exchange adjustments	—	—	—	—	3	—	3
Transfer	—	—	—	(314)	314	—	—
	<u>2,069</u>	<u>1,863</u>	<u>430</u>	<u>636</u>	<u>9,891</u>	<u>10</u>	<u>14,899</u>
At 30 June 2012							
<b>Net book value</b>							
At 30 June 2012	<u>7,280</u>	<u>19,376</u>	<u>—</u>	<u>604</u>	<u>14,916</u>	<u>33</u>	<u>42,209</u>
At 31 December 2011	<u>5,256</u>	<u>19,732</u>	<u>—</u>	<u>850</u>	<u>16,918</u>	<u>37</u>	<u>42,793</u>

## 12. INTANGIBLE ASSETS

**Forest  
exploitation  
rights**  
*HK\$'000*

**Cost**

At 1 January 2011	891,472
Additions	—

At 31 December 2011	891,472
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At 1 January 2012	891,472
Additions	5,460

<b>At 30 June 2012</b>	<b>896,932</b>
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**Accumulated amortisation**

At 1 January 2011	25,647
Charge for the year	12,734

At 31 December 2011	38,381
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At 1 January 2012	38,381
Charge for the period	6,366

<b>At 30 June 2012</b>	<b>44,747</b>
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**Carrying value**

<b>At 30 June 2012</b>	<b>852,185</b>
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At 31 December 2011	853,091
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## 13. INVENTORIES

	<b>At 30 June 2012 HK\$'000</b>	<b>At 31 December 2011 HK\$'000</b>
Raw materials	395	146
Work in progress	2,800	2,269
Finished goods	4,824	2,318
	<b>8,019</b>	4,733

#### 14. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
Trade debtors	—	2,001
<i>Less:</i> Allowance for doubtful debts	—	(2,001)
	—	—
Other receivables and prepayments	12,212	25,435
<i>Less:</i> Allowance for doubtful debts	—	(6,084)
Amount due from related parties	2,499	2,245
Deposits paid	1,011	1,782
	<u>15,722</u>	<u>23,378</u>

#### 15. OTHER PAYABLES

	At 30 June 2012 <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
Other payables and accrued liabilities	26,392	20,626
Amounts due to related parties	28,038	23,077
	<u>54,430</u>	<u>43,703</u>

All of the other payables are expected to be settled within one year.

## 16. SHARE CAPITAL

	At 30 June 2012			At 31 December 2011		
	No. of shares '000	Amount per share HK\$	Amount HK\$'000	No. of shares '000	Amount per share HK\$	Amount HK\$'000
<b>Authorised</b>						
At beginning and at the end of the year/period	<b>4,000,000</b>	<b>0.05</b>	<b>200,000</b>	4,000,000	0.05	200,000
<b>Issued and fully paid</b>						
At beginning of the year	<b>2,623,951</b>	<b>0.05</b>	<b>131,198</b>	778,540	0.05	38,927
Issue of shares (i)	—	—	—	483,871	0.05	24,194
Placing of shares (ii)	—	—	—	106,680	0.05	5,334
Conversion of shares (iii)	—	—	—	1,254,860	0.05	62,743
At end of the year/period	<b>2,623,951</b>	<b>0.05</b>	<b>131,198</b>	2,623,951	0.05	131,198

Note:

- (i) On 12 October 2011, the Company increased its issued share capital by HK\$24,194,000 by issuing approximately 483,871,000 consideration shares for the acquisition of 30% of the issued share capital of Live Rise Technology Limited and its subsidiaries.
- (ii) On 7 January 2011, the Company completed a placing of new shares under its general mandate. Issued share capital increased by HK\$5,334,000 by issuing 106,680,000 placing shares.
- (iii) During the year ended 31 December 2011, the holders of the convertible bonds exercised their conversion rights and converted 1,254,860,000 conversion shares in total. The amount of share capital of the Company was further increased by HK\$62,743,000 as a result of the issue of conversion shares.

## 17. COMMITMENTS

### (a) Capital commitments

Capital commitments contracted but not provided for were as follows:

	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Plantation and clearing of forests	<b>19,480</b>	13,969
Property, plant and equipment	—	311
	<b>19,480</b>	<b>14,280</b>

## (b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At <b>30 June</b> <b>2012</b> <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
Within 1 year	<b>396</b>	397
After 1 year but within 5 years	—	—
After 5 years	—	—
	<u><b>396</b></u>	<u>397</u>

The Group leases a number of properties under operating leases which typically run for an initial period of one or two years, with options to renew, at which time all key terms are renegotiated. The leases do not include contingent rentals.

## 18. MATERIAL RELATED PARTY TRANSACTIONS

### Transactions and balances

The Group had the following significant business transactions and balances with connected parties and related companies during the year:

		At <b>30 June</b> <b>2012</b> <i>HK'000</i>	At 31 December 2011 <i>HK'000</i>
	<i>Note</i>		
Acquisition of subsidiaries	<i>(i)</i>	—	25,000
Amounts due to related parties	<i>(ii)</i>	<b>4,990</b>	4,784
Amount due to a key management employee	<i>(iii)</i>	<u><b>23,048</b></u>	<u>19,771</u>

*Notes:*

- (i) On 28 January 2011, the Group entered into an acquisition agreement with the vendors to acquire the entire registered capital of Inner Mongolia Mining, of which a substantial shareholder and director of the Company, Mr. Gong Ting was also a shareholder and director for a consideration of HK\$25,000,000.
- (ii) An amount of approximately HK\$4,784,000 and HK\$4,990,000 represented a general advance from a related party of which Mr. Gong Ting is a director and has an equity interest in during the year ended 31 December 2011 and 30 June 2012, respectively.
- (iii) An amount of approximately HK\$19,771,000 and HK\$23,048,000 represented a general advance from a related party of which a key management employee, Mr. Zhang Zheng Zhong, is a director and has equity interest during the year ended 31 December 2011 and the six months ended 30 June 2012 respectively.

Apart from the above, there were no other material related party transactions entered into by the Group during the period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The unaudited consolidated financial result of the Group for the six months ended 30 June 2012 is analysed below.

The Group's turnover for the six months ended 30 June 2012 amounted to approximately HK\$1,441,000 (2011: HK\$80,000) from sales of wood products in Cambodia.

Other income for the six months ended 30 June 2012 amounted to approximately HK\$5,486,000 (2011: HK\$63,000). The increase was mainly due to a non-recurring gain of HK\$3,655,000 from the write-back of certain liabilities upon deregistration of a subsidiary in the PRC and the compensation of approximately HK\$1,616,000 to the Company pursuant to the profit guarantee under the sale purchase agreement for the Group's acquisition of the first forest in 2007.

The loss attributable to the owners of the Company for the six months ended 30 June 2012 amounted to approximately HK\$6,882,000 (2011: HK\$30,762,000). The reduction of the losses over the prior period was mainly resulted from decreases in administrative expenses and finance costs.

The basic loss per share for the six months ended 30 June 2012 was 0.26 Hong Kong cents (2011: 2.13 Hong Kong cents).

At 30 June 2012, the Group had no outstanding bank loans (2011: Nil) nor outstanding hedging instruments (2011: Nil).

### **CAPITAL MANAGEMENT**

The Group's primary objectives in managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal equity structure to reduce its cost of capital.

The Group monitors capital on the basis of the gearing ratio which is calculated as total liabilities divided by total assets. The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue of new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

The gearing ratio was 5.00% and 4.24% as at 30 June 2012 and 31 December 2011, respectively. The increase in gearing ratio in the past six months under review was due to the general funding from a key management employee as stated in Note 18. The Group has no outstanding bank loans or facilities as at 30 June 2012.



## **FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY**

As at 30 June 2012, the Group had total assets of approximately HK\$1,088,750,000 (2011: HK\$972,675,000) which were financed by current liabilities of approximately HK\$54,430,000 (2011: HK\$21,732,000) and equity attributable to the owners of the Company of approximately HK\$1,034,323,000 (2011: HK\$934,702,000).

The current assets of the Group amounted to approximately HK\$24,435,000 (2011: HK\$32,494,000) of which approximately HK\$694,000 (2011: HK\$8,063,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$54,430,000 (2011: HK\$21,732,000) of which approximately HK\$54,430,000 (2011: HK\$21,409,000) were trade and other payables and HK\$Nil (2011: HK\$323,000) was in respect of income tax. There were no outstanding bank borrowings at 30 June 2012 (2011: Nil).

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus funds with banks on short-term deposits.

The net asset value per share as at 30 June 2012 was HK\$0.39 (2011: HK\$0.64).

## **CAPITAL COMMITMENT, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS**

The Group expects to receive the economic benefit derived from the initial clearing of its forest areas and the subsequent cultivation of a rubber tree plantation during the 70 year concession period.

As at 30 June 2012, the Group had outstanding capital commitments of approximately HK\$19,480,000. (2011: HK\$14,280,000).

## **CHARGE ON ASSETS OF THE GROUP**

During the period under review, there were no charges on the assets of the Group.

## **RISK MANAGEMENT**

Risk management is an integral part of the operations management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in mineral resources as well as the forest exploitation business, the Group faces a wide spectrum of risks, the most important types being credit, liquidity, market and operational risks. The Group's risk management framework includes the establishment of policies and procedures to identify and analyse risks and to set appropriate risk control limits. The risk management policies and major control limits are approved by the Board. Risk limits are monitored and controlled continually by the internal control department by means of reliable and up-to-date management information systems. The management of various types of risks is well coordinated at the Board level.

## **Credit risk**

Credit risk is the risk that financial losses arise from the failure of customers or counterparties to meet their obligations under contracts. It arises principally from merger and acquisition transactions as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risks from all such activities.

The internal control department function is mandated to provide centralized management of credit risks through:

- formulating credit policies on the approval process, post-disbursement monitoring and collection processes;
- issuing guidelines on setting of credit payment terms to customers and acceptability of warranties and undertakings or deposits from customers;
- reviewing the repayment of accounts receivable by aging analyse;
- monitoring the largest exposures by customers; and
- providing advice and guidance to business units on various credit-related issues.

The Group undertakes ongoing credit analysis and monitoring at several levels. Special attention is paid to long-outstanding trade receivables. Provisions for impairment loss as are made semi-annually. Collection and recovery units are established by the Group to provide customers with support in order to maximize recoveries of long-outstanding trade receivables. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting detailed reviews of the aging analyse and, comparing performance and past due statistics against historical trends.

## **Liquidity risks**

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is Group policy to properly manage the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met.

The Group has established policies and procedures to monitor and control its liquidity position on a monthly basis by adopting a cash flow management approach. The approach seeks to forecast committed cash inflows and outflows of the business which indicates the financing needs for any period within the scope of the forecast conditions.

## **Market risks**

Market risk is the risk that foreign exchange rates, interest rates and equity indices will move and result in profits or losses for the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize returns on risk.

### ***Foreign exchange risk***

The Group exposures to market risk primarily arise from ensuring effective foreign currency risk management. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks in respect of the RMB. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

The Group does not hedge its foreign currency risks in respect of the US dollar as the rate of exchange between the Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on the consolidated financial statements.

As at 30 June 2012, the Group had no outstanding hedging instruments (2011: HK\$Nil).

### ***Interest rate risk***

The Group's interest rate risk arises primarily from bank loans chargeable at variable rates that expose the group to uncertainty on interest expenses and bonds chargeable at a fixed rate that provide a comfort zone in controlling overall interest expenses. The Group's policy is to minimize the borrowings at variable interest rates in its interest rate profile.

### ***Equity risk***

The Group's equity exposure was mainly in respect of long-term equity investments. All equities held are more than 50% controlled and are for long term investment purposes. They are not subject to volatility arising from short term fluctuations.

## **Operational risks**

Operational risks are the risk of losses arising through fraud, unauthorized activities, errors, omissions, inefficiencies, systems failure or from external events. Such risks are inherent to every business organization and cover a wide spectrum of issues. The terms 'errors', 'omissions' and 'inefficiencies' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risks in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance levels as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining acceptable levels of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

## **CONTINGENT LIABILITIES**

As at 30 June 2012, the Group and the Company did not have any material outstanding contingent liabilities.

## **BUSINESS REVIEW**

### **Forestry, wood product manufacturing and plantation business**

Sales of HK\$1,441,000 for the six months ended 30 June 2012 were mainly derived from the export sale of wooden flooring materials to China.

Our rubber plantation schedule for the year 2012 is 1,000 hectares. However, in light of the Company's current cash flow challenges, the Group has revised the plantation schedule downwards to 300 hectares. Based on the Group's past experience in its application for reducing the plantation plan, the official request to the Cambodia government will be made in or around October 2012.

### **Coal logistics and trading**

The performance of coal logistics and trading business of the Group was unsatisfactory for the six months ended 30 June 2012 and the Group did not record any revenue for the coal logistics and trading business. As such, the Group has entered into a letter of intent with Mr. Gong Ting, an executive director, for sale of the entire interest in Inner Mongolia Mining to Mr. Gong or a buyer procured by Mr. Gong at a consideration of not less than HK\$25 million. The Group expects a formal agreement for the said sale will be entered into on or before 31 August 2012.

### **Plastics and wood products manufacturing**

The Group shared profit from Live Rise Technology Limited ("LRT") of approximately HK\$4.9 million for the six months ended 30 June 2012.

## **BUSINESS OUTLOOK**

### **Forestry, wood product manufacturing and plantation business**

Due to the Group's limited capacity to fund the building up of timber inventory and the processing of export permit applications in advance, the sales potential of its forestry, wood product manufacturing and plantation business has been limited. However, it is the intention of the Group to continue to grow this business as one of its principal businesses through different operation modes such as co-operation or introduction of strategic investors. It is expected that production and export sales of wood products will increase in the second half of this year, for example, in order to minimise the potential capital requirement for the Group's rubber plantation, the Group is in discussions with certain plantation partners (including state-owned companies in China) for business co-operation.

### **Coal logistics and trading**

As discussed above, the Group expects a formal agreement for the sale of the entire interest in Inner Mongolia Mining to be entered into on or before 31 August 2012 and, following such sale, the Group will no longer be engaged in the coal logistics and trading business.

### **Plastics and wood products manufacturing**

With the continuous business development of LRT and the intention of the Group to continue to gain further interest in LRT, the Group will be able to gain a greater interest in the plastics and wood products manufacturing business of LRT to capture the growth potential of the plastics and wooden products industry in China.

## **EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES**

As at 30 June 2012, the Group had 116 (2011: 218) employees. Number of employees is based on headcount at period end. The total employee remuneration, including that of directors, for the six months ended 30 June 2012 amounted to HK\$3,124,000 (2011: HK\$6,634,000).

In addition to the adoption of a new Share Option Scheme by the Company on 10 June 2011, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance and pays into a retirement fund to its employees in the PRC according to the relevant regulations of in China.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organized by the municipal government whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of eligible employees. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefit payments beyond the contributions to the Scheme.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

#### (a) Long positions in the shares of the Company

Name	Capacity Interest	Number of Ordinary Shares held	Number of underlying Shares held	Approximate Percentage of shareholding in the Company
Better Day International Limited (“Better Day”) <i>(note 1)</i>	Beneficial Owner	446,370,967	—	17.01%
Mr. Gong Ting	Beneficial Owner	415,000,000	—	15.82%
Mr. Leung Sze Yuen, Alan	Beneficial Owner	10,950,917	—	0.42%
		—	5,000,000 <i>(note 2)</i>	0.19%
Mr. Zhang ZhenZhong	Beneficial Owner	27,328,000	—	1.04%
		—	5,000,000 <i>(note 3)</i>	0.19%

Notes:

1. Better Day is wholly and beneficially owned by Ms. Yu Xiao Min.
2. Mr. Leung Sze Yuan, Alan granted 5,000,000 share option not yet exercised.
3. Mr. Zhang Zhenzhong granted 5,000,000 share option not yet exercised.

#### (b) Short positions in the shares and underlying shares of equity derivatives of the Company

Save as disclosed herein, as at 30 June 2012, none of Directors or chief executives of the Company has short positions in the shares, underlying shares of equity derivatives of the Company or any of its associated corporations.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 10 June 2011, the Company approved and adopted a new share option scheme and terminated the prior share option scheme which was adopted on 14 December 2001, pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

The Company granted share option of 10,286,000 shares, 9,257,000 shares and 13,300,000 shares to directors and employees of the Group on 12 October 2007, 31 March 2008 and 4 June 2010 at exercise prices of HK\$1.75, HK\$0.815 and HK\$0.365 per shares, respectively. Subsequently, approximately 1,029,000 shares options granted to a former director and approximately 7,557,000 shares options granted to senior employees have been cancelled after their resignations. On 12 October 2011 and 31 March 2012, approximately 6,173,000 and 5,787,000 shares options lapsed respectively.

As at 30 June 2012, details of the outstanding options were as follows:

Date of grant	Exercise period	Number of share options				Outstanding as at 30 June 2012
		Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
31/03/2008	31/03/2010 to 31/03/2012	5,787,000	—	—	(5,787,000)	—
04/06/2010	04/06/2011 to 03/06/2014	12,300,000	—	—	—	12,300,000
		<u>18,087,000</u>	<u>—</u>	<u>—</u>	<u>(5,787,000)</u>	<u>12,300,000</u>

Save as disclosed above, as at 30 June 2012, none of the directors or the chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

## **DIRECTORS' INTEREST IN CONTRACTS**

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the six months ended 30 June 2012.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **COMPETING INTERESTS**

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or have any other conflicts of interests with the Group.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding directors' transactions in securities throughout the six months ended 30 June 2012. The Company's directors confirmed that they complied with such code of conduct and required standards for dealings throughout the six months ended 30 June 2012.

## **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

During the six months ended 30 June 2012, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deal with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the directors.



As at 30 June 2012, the Committee was composed of the three independent non-executive directors, namely, Messrs. Zhang Ying, Tam Wai Leung, Joseph and Wen Huiying. During the six months ended 30 June 2012, the Committee held two meetings for the purpose of reviewing the Company's reports and financial statements, and providing advice and recommendations to the board of directors.

The Committee members have reviewed the Company's unaudited interim financial report for the six months ended 30 June 2012 and are of the opinion that the preparation of such results complied with applicable accounting standards.

By order of the Board

**Zeng Lingchen**

*Executive Director*

Hong Kong, 10 August 2012

*As at the date of this announcement, the board of Directors of the Company comprises five executive directors, namely, Ms. Yu Xiao Min, Mr. Chultemsuren Gankhuyag, Mr. Gong Ting, Mr. Leung Sze Yuan, Alan and Mr. Zeng Lingchen; and three independent non-executive directors, namely Mr. Tam Wai Leung, Joseph, Ms. Wen Huiying and Mr. Zhang Ying.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, have made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this announcement misleading.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven days from its date of publication and on the Company's website at [www.chinaaseanresources.com](http://www.chinaaseanresources.com).*