



China Asean Resources Limited

神州东盟资源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)



Interim Report **2011**

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This report, for which the directors (the “Directors”) of China Asean Resources Limited 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 Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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 2011, together with the comparative unaudited figures for the corresponding periods in 2010, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2011	2010	2011	2010
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
CONTINUING OPERATIONS					
Turnover	2	80	557	80	690
Cost of sales		—	(310)	—	(372)
Gross profit		80	247	80	318
Other income	4	61	38	63	39
Selling and distribution expenses		(141)	(37)	(336)	(75)
Administrative expenses		(8,679)	(6,540)	(21,826)	(14,452)
Finance costs	5	(4,371)	—	(8,743)	—
Gain on disposal of subsidiaries	7	—	12,260	—	12,260
Profit/(loss) before taxation	5	(13,050)	5,968	(30,762)	(1,910)
Taxation	8	—	—	—	—
Profit/(loss) for the period from continuing operations		(13,050)	5,968	(30,762)	(1,910)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
DISCONTINUED OPERATIONS					
Loss for the period from discontinued operations	7	—	(218)	—	(3,800)
PROFIT/(LOSS) FOR THE PERIOD		(13,050)	5,750	(30,762)	(5,710)
Other comprehensive income for the period					
Exchange differences on translation of financial statements of overseas subsidiaries		195	(439)	195	(551)
Other comprehensive income for the period, net of tax		195	(439)	195	(551)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(12,855)	5,311	(30,567)	(6,261)
		2011 HK Cents	2010 HK Cents (Restated)	2011 HK Cents	2010 HK Cents (Restated)
Basic earnings/(loss) per share					
From continuing operations	9	(0.85)	1.19	(2.13)	(0.43)
From discontinued operations		—	(0.04)	—	(0.86)
		(0.85)	1.15	(2.13)	(1.29)
Diluted earnings/(loss) per share					
From continuing operations	9	N/A	1.19	N/A	(0.43)
From discontinued operations		N/A	(0.04)	N/A	(0.86)
		N/A	1.15	N/A	(1.29)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	62,143	29,514
Intangible assets	12	859,459	865,825
Goodwill	6	18,579	—
		940,181	895,339
Current assets			
Inventories	13	4,162	1,637
Trade and other receivables	14	20,269	17,205
Cash at bank and on hand		8,063	15,441
		32,494	34,283
Current liabilities			
Trade and other payables	15	21,409	21,246
Tax payable		323	313
		21,732	21,559
Net current assets		10,762	12,724
Total assets less current liabilities		950,943	908,063
Non-current liabilities			
Convertible bonds	16	16,241	174,808
NET ASSETS		934,702	733,255
CAPITAL AND RESERVES			
Share capital	17	105,413	38,927
Reserves		829,289	694,328
TOTAL EQUITY		934,702	733,255

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	
Balance at 1 January 2010 (audited)	19,050	497,783	5,265	—	9,197	12,069	1,994	545,358
Transactions with owners								
Issue of share	7,620	7,620	—	—	—	—	—	15,240
Recognition of equity-settled share based payments	—	—	—	—	355	—	—	355
Total transactions with owners	7,620	7,620	—	—	355	—	—	15,595
Comprehensive income								
Loss for the period	—	—	—	—	—	—	(5,710)	(5,710)
Other comprehensive income for the period	—	—	—	—	—	(551)	—	(551)
Total comprehensive income	—	—	—	—	—	(551)	(5,710)	(6,261)
Exchange reserve realised upon disposal of subsidiaries	—	—	—	—	—	(9,974)	—	(9,974)
Balance at 30 June 2010 (unaudited)	26,670	505,403	5,265	—	9,552	1,544	(3,716)	544,718
Balance at 1 January 2011 (audited)	38,927	604,213	5,265	104,407	8,243	2,043	(29,843)	733,255
Transactions with owners								
Issue of placing share	5,334	58,674	—	—	—	—	—	64,008
Conversion of convertible bonds	61,152	207,917	—	(101,759)	—	—	—	167,310
Recognition of equity-settled share based payments	—	—	—	—	696	—	—	696
Total transactions with owners	66,486	266,591	—	(101,759)	696	—	—	232,014
Comprehensive income								
Loss for the period	—	—	—	—	—	—	(30,762)	(30,762)
Other comprehensive income for the period	—	—	—	—	—	195	—	195
Total comprehensive income	—	—	—	—	—	195	(30,762)	(30,567)
Balance at 30 June 2011 (unaudited)	105,413	870,804	5,265	2,648	8,939	2,238	(60,605)	934,702

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(23,605)	(12,937)
NET CASH USED IN INVESTING ACTIVITIES	(47,777)	(162)
NET CASH FROM FINANCING ACTIVITIES	64,004	11,540
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,378)	(1,559)
Cash and cash equivalents at beginning of the period	15,441	9,436
Effect of foreign exchange rate changes	—	(541)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	8,063	7,336
Analysis of cash and cash equivalents		
Cash at bank and on hand	8,063	7,336

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2010 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:

	Continuing operations				Discontinued operations			
	For the three months ended 30 June		For the six months ended 30 June		For the three months ended 30 June		For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Sales of wood and agriculture products	80	557	80	690	—	—	—	—
Research and development services fees	—	—	—	—	—	1,193	—	1,193
	80	557	80	690	—	1,193	—	1,193

3. SEGMENT INFORMATION

The Board considers that presentation of segment disclosure would not be meaningful as the Group only operated in a single business segment, that is, the natural resources business in the Kingdom of Cambodia (“Cambodia”). Accordingly, no segmental analysis is presented.

4. OTHER INCOME

	Continuing operations				Discontinued operations			
	For the three months ended 30 June		For the six months ended 30 June		For the three months ended 30 June		For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Interest income	6	1	8	2	—	3	—	8
Miscellaneous	1	—	1	—	—	—	—	—
Gain on disposal of property, plant and equipment	54	37	54	37	—	—	—	—
	61	38	63	39	—	3	—	8

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Continuing operations				Discontinued operations			
	For the three months ended 30 June		For the six months ended 30 June		For the three months ended 30 June		For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Finance costs								
Interest on bonds	4,371	—	8,743	—	—	—	—	—
Staff costs								
Wages and salaries	2,661	1,059	6,634	3,760	—	107	—	1,197
Share based payments	289	—	696	355	—	—	—	—
Staff retirement benefits	17	13	36	26	—	—	—	—
Other items								
Depreciation	988	239	1,472	533	—	41	—	59
Auditors' remuneration	57	511	57	665	—	4	—	4
Operating lease charges in respect of office premises	261	169	506	295	—	122	—	143
Amortisation of prepaid lease payments	—	—	—	—	—	55	—	69
Amortisation of forest exploitation rights	3,183	1,810	6,366	3,619	—	—	—	—

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 report, 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

	<i>HK\$'000</i>
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)
	6,421
Goodwill acquired on acquisition	18,579
	25,000
Satisfied by:	
Cash	25,000

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 SUBSIDIARIES

On 24 June 2010, the Group disposed of the entire registered capital of China Best Pharmaceutical (Nanjing) Co. Ltd. and 75% of the issued share capital of Medical China Technology at a consideration of HK\$12,000,000.

Details of the net assets disposed of are as follows:

	2010 <i>HK\$'000</i>
Property, plant and equipment	174
Construction in progress	12,130
Prepaid lease payments	1,365
Intangible assets – medical research projects	16,734
Inventories	12
Trade and other receivables	4,284
Cash at bank and on hand	4,766
Trade and other payables	(28,394)
Amount due to Innova	(2,272)
Non-controlling interest	915
	9,714
Exchange reserve realised upon disposal	(9,974)
	(260)
Gain on disposal of subsidiaries	12,260
Consideration	12,000
Consideration satisfied by:	
Cash consideration	12,000

The subsidiaries that were disposed of on 24 June 2010 contributed a loss of approximately HK\$3,800,000 to the Group from operating activities for the six months ended 30 June 2010.

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 2011 (2010: 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 2011 (2010: 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 2011 (2010: 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 2011 (2010: HK\$Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculations of the basic and diluted earnings/(loss) per share for the three months and six months ended 30 June 2011 are based on the profit/(loss) attributable to the owners of the Company being a loss of HK\$13,050,000 (2010: profit of HK\$5,750,000) and a loss of HK\$30,762,000 (2010: loss of HK\$5,710,000), respectively, divided by the weighted average number of 1,538,218,884 and 1,447,248,079 ordinary Shares for the three months and six months ended 30 June 2011 (2010: 501,580,220 and 441,623,204 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 2011 as the exercise of share options and the conversion of outstanding convertible bonds would result in an anti-dilutive effect.

The diluted earnings/(loss) per share for the three months and six months ended 30 June 2010 were the same as basic earnings/(loss) per share because the exercise prices of the Company's share options were higher than the average market price of the shares.

The basic earning/(loss) per share and diluted loss per share for the three months and six months ended 30 June 2010 have been restated as a result of the share consolidation by the company disclosed in note 17.

10. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: HK\$Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Constructed roads HK\$'000	Medical equipment HK\$'000	Motor vehicles HK\$'000	Plant, machinery and equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
Cost							
At 1 January 2010	5,559	15,825	424	1,856	851	—	24,515
Additions							
— through acquisition of subsidiaries	—	3,565	—	—	—	—	3,565
— by the Group	697	3,923	—	552	27	—	5,199
Disposals	—	—	—	(135)	—	—	(135)
Reclassifications	(856)	856	—	—	—	—	—
Exchange adjustments	3	—	2	24	5	—	34
At 31 December 2010	5,403	24,169	426	2,297	883	—	33,178
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	2,786	13,333	—	—	8,087	43	24,449
Disposals	—	—	—	(373)	—	—	(373)
Exchange adjustments	—	—	—	(9)	(22)	—	(31)
At 30 June 2011	8,189	37,702	426	1,915	22,901	43	71,176
Aggregate depreciation							
At 1 January 2010	168	275	389	892	337	—	2,061
Charge for the year	618	540	7	327	136	—	1,628
Write-back on disposals	—	—	—	(54)	—	—	(54)
Exchange adjustments	—	—	3	22	4	—	29
At 31 December 2010	786	815	399	1,187	477	—	3,664
At 1 January 2011	786	815	399	1,187	477	—	3,664
Additions							
— through acquisition of subsidiaries	—	—	—	—	4,236	—	4,236
Charge for the period	465	546	5	105	349	2	1,472
Write-back on disposals	—	—	—	(331)	—	—	(331)
Exchange adjustments	1	—	—	(9)	—	—	(8)
At 30 June 2011	1,252	1,361	404	952	5,062	2	9,033
Net book value							
At 30 June 2011	6,937	36,341	22	963	17,839	41	62,143
At 31 December 2010	4,617	23,354	27	1,110	406	—	29,514

12. INTANGIBLE ASSETS

	Forest exploitation rights
	<i>HK\$'000</i>
<hr/>	
Cost	
At 1 January 2010	506,758
Addition through acquisition of subsidiaries	384,714
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At 31 December 2010	891,472
	<hr/>
At 1 January 2011	891,472
Additions	—
	<hr/>
At 30 June 2011	891,472
	<hr/>
Accumulated amortisation	
At 1 January 2010	17,951
Charge for the year	7,696
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At 31 December 2010	25,647
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At 1 January 2011	25,647
Charge for the period	6,366
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At 30 June 2011	32,013
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Carrying value	
At 30 June 2011	859,459
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At 31 December 2010	865,825
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13. INVENTORIES

	At 30 June 2011 <i>HK\$'000</i>	At 31 December 2010 <i>HK\$'000</i>
Raw materials	1,576	—
Work in progress	688	—
Finished goods	1,898	1,637
	4,162	1,637

14. TRADE AND OTHER RECEIVABLES

	At 30 June 2011 <i>HK\$'000</i>	At 31 December 2010 <i>HK\$'000</i>
Trade debtors	1,832	2,001
Less: Allowance for doubtful debts	(916)	(1,085)
	916	916
Other receivables, deposits and prepayments	19,325	13,850
Deposits paid	28	2,439
Loans and receivables	20,269	17,205

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

15. TRADE AND OTHER PAYABLES

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Trade payables	2,056	—
Other payables and accrued liabilities	12,825	21,246
Amounts due to related parties	6,528	—
	21,409	21,246

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

Included in trade and other payables are trade payables with the following ageing analysis:

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Due within 3 months or on demand	2,056	—

16. CONVERTIBLE BONDS

On 26 November 2010, the Company issued zero coupon convertible bonds in the principal amount of approximately HK\$282,070,000 as part of the consideration for the acquisition of Richking Development Limited and its subsidiaries. The Convertible bonds did not bear interest and were repayable after five years from the date of issuance or convertible into shares of the Company at a conversion price of HK\$0.22 per share at any time after the issue date. The movements in the liability component and equity components of the convertible bonds for the period are set out below:

	Liability component	Equity component	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK'000</i>
At the date of issue on 26 November 2010	175,394	106,676	282,070
Conversion to shares of the Company	(2,043)	(2,269)	(4,312)
Imputed interest expenses charge during the period	1,457	—	1,457
At 31 December 2010 and 1 January 2011	174,808	104,407	279,215
Conversion to shares of the Company	(167,310)	(101,759)	(269,069)
Imputed interest expenses charge during the period	8,743	—	8,743
At 30 June 2011	16,241	2,648	18,889

Imputed interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.97% per annum to the liability component.

17. SHARE CAPITAL

	At 30 June 2011			At 31 December 2010		
	No. of shares '000	Amount per share HK\$	Amount HK\$'000	No. of shares '000	Amount per share HK\$	Amount HK\$'000
Authorised						
At beginning of the year	4,000,000	0.05	200,000	5,000,000	0.01	50,000
Increase during the year (ii)	—	—	—	15,000,000	0.01	150,000
Share consolidation (iii)	—	—	—	(16,000,000)	—	—
At the end of the year/period	4,000,000	0.05	200,000	4,000,000	0.05	200,000
Issued and fully paid						
At beginning of the year	778,540	0.05	38,927	1,905,000	0.01	19,050
Open offer of shares (i)	—	—	—	762,000	0.01	7,620
Share consolidation	—	—	—	(2,133,600)	—	—
Issue of shares (iv)	—	—	—	217,867	0.05	10,893
Placing of shares (v)	106,680	0.05	5,334	—	—	—
Conversion of shares (vi)	1,223,041	0.05	61,152	27,273	0.05	1,364
At end of the year/period	2,108,261	0.05	105,413	778,540	0.05	38,927

Note:

- (i) On 20 April 2010, the share capital of the Company was increased to HK\$26,670,000 following the open offer of 762,000,000 new shares.
- (ii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$200,000,000 by the creation of an additional 15,000,000,000 ordinary shares of HK\$0.01 each.
- (iii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the share capital of the Company was consolidated on the basis that every five issued and unissued shares of HK\$0.01 each into one consolidated share of HK\$0.05 each.
- (iv) On 26 November 2010, the Company increased its share capital by HK\$10,893,000 by issuing approximately 217,867,000 consideration shares for the acquisition of Richking Development Limited and its subsidiaries.
- (v) On 29 December 2010, the Company entered into an agreement for the placing of 106,680,000 shares to not less than 6 independent institutional, corporate and/or individual investors at the subscription price of HK\$0.60 per share. The placing was completed on 7 January 2011, and the Company raised net proceeds of approximately HK\$62 million.

17. SHARE CAPITAL (Continued)

- (vi) For the year ended 31 December 2010 and six months ended 30 June 2011, the holders of the convertible bonds exercised their conversion rights and converted 27,273,000 and 1,223,041,000 conversion shares respectively. The amount of share capital of the Company further increased by HK\$61,152,000 to a total of HK\$105,413,000.

18. COMMITMENTS

(a) Capital commitments

Capital commitments contracted but not provided for were as follows:

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Plantation and clearing of forests	13,657	3,394

(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 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Within 1 year	180	407
After 1 year but within 5 years	—	36
After 5 years	—	179
	180	622

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.

19. MATERIAL RELATED PARTY TRANSACTIONS**Transactions and balances**

The Group had the following significant business transactions and balances with connected parties and related companies which are subject to common control during the period:

	<i>Note</i>	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Salary paid to a former director	<i>(i)</i>	—	34
Management fees paid to a related company	<i>(i)</i>	—	17
Rentals paid to a related company	<i>(i)</i>	216	179
Acquisition of subsidiary	<i>(ii)</i>	25,000	—

Note: (i) The Group paid a salary of approximately HK\$340,000 to a former director, Mr. Li Wo Hing, who is also a substantial shareholder of the Company, during the year ended 31 December 2010. The Group also paid rentals and building management fees to a Company of which Mr. Li Wo Hing is a director and has an equity interest, during the period/year.

(ii) 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, is a director, for a consideration of HK\$25,000,000 (note 6).

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

20. SUBSEQUENT EVENTS

Reference is made to the announcement of the Company dated 10 July 2011 in relation to the signing of an acquisition agreement to acquire 50% of the issued share capital of a coal sourcing and distribution company for a consideration of HK\$650,000,000. Unless otherwise stated herein, capitalised terms used herein shall have the same meanings as those defined in the announcement.

Reference is made to the announcement of the Company dated 28 July 2011 in relation to the acquisition of 30% of the issued share capital of a company that will be principally engaged in the design and manufacture of plastic household and related products for a consideration of HK\$150,000,000. Unless otherwise stated herein, capitalised terms used herein shall have the same meanings as those defined in the announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The unaudited consolidated financial result of the Group for the six months ended 30 June 2011 is analysed below.

The Group's turnover for the six months ended 30 June 2011 amounted to approximately HK\$80,000 (2010: HK\$690,000). For the six months ended 30 June 2011, the Group recorded a loss attributable to the owners of the Company of approximately HK\$30,762,000 (2010: HK\$5,710,000).

The increase in loss attributable to owners of the Company primarily resulted from:

- i) an increase in overheads in the head office as well as in the operations in Cambodia;
- ii) finance costs of HK\$8.7 million associated with the imputed interest expense charge on the convertible bonds outstanding; and
- iii) a non-recurring gain of HK\$12.3 million recorded last year on the disposal of PRC subsidiaries.

The basic and diluted loss per share for the six months ended 30 June 2011 was 2.13 Hong Kong cents (2010: 1.29 Hong Kong cents (restated)).

At 30 June 2011, the Group had no bank borrowings outstanding (2010: Nil).

On 29 December 2010, the Company entered into an agreement for the placing of 106,680,000 shares to not less than 6 independent institutional, corporate and/or individual investors at the subscription price of HK\$0.60 per share. The placing, completed on 7 January 2011, raised net proceeds of approximately HK\$62 million.

CAPITAL MANAGEMENT

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

Consistent with industry practice, the Group monitors its capital structure on the basis of its gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness by equity attributable to the owners of the Group. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest-bearing securities. Equity attributable to owners comprises issued share capital, reserves and accumulated profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of the prior six months. In order to maintain the ratio, the Group will balance its overall capital structure through the payment of dividends, issue of new shares, repurchases of shares, raise new debt financing or repayment of existing debts.

The gearing ratio was 3.9% and 21.1% as at 30 June 2011 and 31 December 2010, respectively. The decrease in gearing ratio in the past six months under review was due to the conversion of most of the Convertible Bonds outstanding into shares of the Company. The Group has no outstanding bank loans or facilities as at 30 June 2011.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 30 June 2011, the Group had total assets of approximately HK\$972,675,000 (2010: HK\$929,622,000) which were financed by current liabilities of approximately HK\$21,732,000 (2010: HK\$21,559,000) and equity attributable to the owners of the Company of approximately HK\$934,702,000 (2010: HK\$733,255,000).

The current assets of the Group amounted to approximately HK\$32,494,000 (2010: HK\$34,283,000) of which approximately HK\$8,063,000 (2010: HK\$15,441,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$21,732,000 (2010: HK\$21,559,000) of which approximately HK\$21,409,000 (2010: HK\$21,246,000) were trade and other payables and HK\$323,000 (2010: HK\$313,000) was in respect of income tax. There were no outstanding bank borrowings at 30 June 2011 (2010: 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 2011 was HK\$0.64 (2010: HK\$1.66).

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 announced on 23 January 2011, the Company entered into a Strategic Investment Agreement with Beijing Poly-LongMa Asset Management Co Ltd (“Poly Longma”), for Poly Longma’s exclusive cooperation with the Company to jointly invest in forest and /or mineral resource projects.

On 28 January 2011, the Company announced the acquisition of Inner Mongolia Huayue Mining Company Limited (“Inner Mongolia Mining”) which is principally engaged in the provision of coal related logistics services. The date of obtaining control of Inner Mongolia Mining was on 15 June 2011.

As at 30 June 2011, the Group had outstanding capital commitments of approximately HK\$13,657,000. (2010: HK\$3,394,000).

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 of Directors. 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 maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably 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 2011, the Group had no outstanding hedging instruments (2010: 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 2011, the Group and the Company did not have any material outstanding contingent liabilities.

BUSINESS REVIEW

Forestry, wood product manufacturing and plantation business

The export wood flooring factory was completed in May and is now in commercial production; with a designed capacity of 10,000 cubic metres per annum. We currently have orders on hand for US\$2.5 million and expect to ship products for these orders beginning in September 2011.

Sales of HK\$80,000 for the six months ended 30 June 2011 were derived from the domestic sale of low-grade sawn timber inventory carried forward from 2010. We have discontinued the domestic sawn timber business as it is not profitable in comparison with the export wood flooring products. Where possible, the processing equipment from the domestic sawn timber business have been redeployed in the export wood flooring factory.

In compliance with the contractual requirements of our land concessions with the Government of Cambodia, we have cleared 1,300 hectares of forest land since the beginning of the year, and began the field planting of rubber seedlings in June. We are contractually obliged to plant a total of 1,500 hectares this year.

As we do not have sufficient wood processing and wood drying capacity to deal with the salvage logs, our land clearing contractors have carried out open burning of some of the uprooted logs. While this has resulted in a loss of potential income from the sale of wood products, this was necessary in order to clear land and meet our plantation obligations. Subject to procuring additional equity or debt financing, we plan to increase the production capacity of the export wood flooring factory.

Mineral Resources

After the completion of the placing of new shares in January 2011, we planned to diversify our income stream and business into the natural resources business. As disclosed in the announcement dated 23 January 2011, we entered into a strategic investment agreement with Poly Longma to identify investment opportunities in mineral projects.

On 28 January 2011, we also announced the acquisition of Inner Mongolia Mining to establish a foothold in the coal and mineral industry in the PRC and obtained the control on 15 June 2011.

BUSINESS OUTLOOK

Forestry, wood product manufacturing and plantation business

Production and export sale of wood flooring products are expected to increase for the rest of the year. Subject to procuring additional financing, we plan to increase the production capacity of the factory.

Planting of rubber seedlings is underway and we expect to complete this year's plantation obligation of 1,500 hectares by the end of September. As rubber trees take up to 6 years to mature and generate revenue, we are inter-cropping the plantation with cassava, which can be harvested within one year, and can also reduce soil erosion and the cost of weeding.

Mineral Resources

In order to speed up the process of developing our mineral resources business, we entered into an acquisition agreement to acquire 50% of the issued share capital of Global Trade Enterprises Group Limited ("Global Trade Enterprises"), which will be engaged in the business of sourcing and distribution of coal in the PRC, as disclosed in the announcements dated 10 July 2011. Upon completion of the acquisition, Global Trade Enterprises will be accounted for as a jointly controlled entity of the Company.

We expect the acquisitions of Inner Mongolia Mining, a company engaged in the provision of coal related logistics services including storage, processing and transportation, and Global Trade Enterprises, a coal sourcing and distribution company, will generate operational synergies from vertical integration and enable us to provide one-stop coal supply chain management for coal consumers. This will enhance our competitive advantages over other industry players to capture the growth opportunities in the coal industry in the PRC.

EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES

As at 30 June 2011, the Group had 218 (2010: 104) 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 2011 amounted to HK\$6,634,000 (2010: HK\$4,957,000).

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 2011, 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
Mr. Gong Ting	Beneficial Owner	465,000,000	—	22.05%
Mr. Leung Sze Yuen, Alan	Beneficial Owner	10,950,917	—	0.52%
		—	9,371,428 (note 1)	0.44%
Mr. Zhang ZhenZhong	Beneficial Owner	27,328,000	—	1.29%
		—	9,371,428 (note 2)	0.44%

Notes:

1. Mr. Leung Sze Yuan, Alan granted 9,371,428 share option not yet exercised.
2. Mr. Zhang Zhenzhong granted 9,371,428 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 2011, 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 2010, 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 10,285,714 shares, 9,257,143 shares and 13,300,000 shares to 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, 1,028,572 shares granted to a former director and 7,557,143 shares granted to senior employees have been cancelled after their resignations.

As at 30 June 2011, details of the outstanding options were as follows:

Date of grant	Exercise period	Number of share options				Outstanding as at 30 June 2011
		Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
12/10/2007	12/10/2009 to 12/10/2011	6,171,428	—	—	—	6,171,428
31/03/2008	31/03/2010 to 31/03/2012	5,785,914	—	—	—	5,785,914
04/06/2010	04/06/2011 to 03/06/2014	12,300,000	—	—	—	12,300,000
		24,257,342	—	—	—	24,257,342

Save as disclosed above, as at 30 June 2011, 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 2011, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity Interest	Number of Ordinary Shares held	Number of underlying Shares held	Approximate Percentage of shareholding in the Company
Mr. Gong Ting	Beneficial Owner	465,000,000	—	22.05%
Mr. Ding Yin Fei	Beneficial Owner	254,545,454	—	12.07%

Save as disclosed above, as at 30 June 2011, 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 reported separately above) had any interest or short term 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 2011 (2010: 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 2011.

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

During the six months ended 30 June 2011, 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 2011. 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 2011.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the six months ended 30 June 2011, 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 2011, 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 2011, 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 2011 and are of the opinion that the preparation of such results complied with applicable accounting standards.

FORMATION OF SPECIAL REVIEW COMMITTEE

Reference is made to the Company's announcement dated 3 June 2011 in relation to the proceedings commenced by the SFC to seek disqualification orders and compensation orders against Mr. Li Wo Hing and Mr. James Li, former executive directors of the Company.

The Board resolved to establish a special review committee (the "Special Review Committee") for the purpose of reviewing the transactions referred to in the proceedings to consider, inter alia, whether any legal actions should be initiated against the former directors involved in the proceedings. The Special Review Committee comprises Mr. Leung Sze Yuan, Alan, an executive Director, Mr. Zhang Ying, an independent non-executive director and Mr. Lam Kam Ming, the joint company secretary of the Company.

In light of the fact that the Special Review Committee has been established to review the transactions referred to in the proceedings, the directors consider it to be premature at this stage to form a view as to whether any legal actions should be initiated against the former directors involved in the proceedings. The Board will seriously consider the matter further upon receipt of the findings of the Special Review Committee and the results of the proceedings.

By order of the Board
Leung Sze Yuan Alan
Chairman

Hong Kong, 10 August 2011