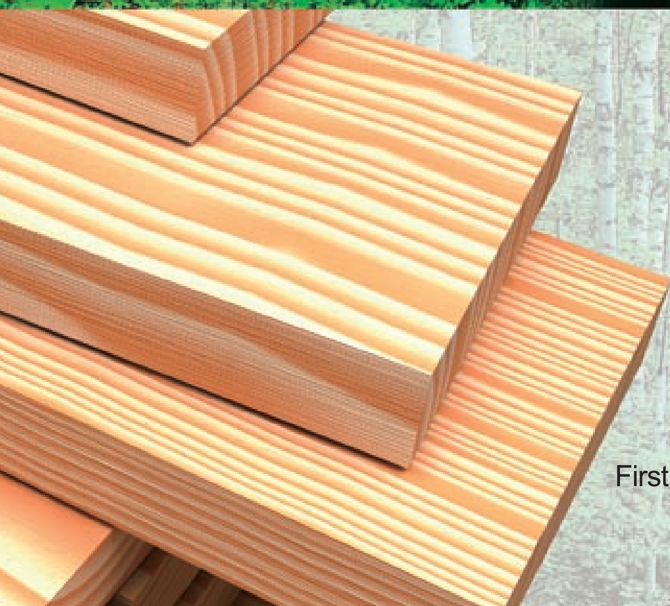
# China Asean Resources Limited

# 神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)



First Quarterly Report **2009**

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**



This report, for which the directors of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to China Asean Resources Limited. The directors of China Asean Resources Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived or after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

# HIGHLIGHTS

- Turnover for the three months ended 31 March 2009 amounted to approximately HK$10,000 representing a decrease of 99% as compared to that of the corresponding period in 2008.

- For the three months ended 31 March 2009, the Group's loss attributable to equity holders of the Company amounted to approximately HK$6,864,000 (2008: HK$6,301,000).

- For the three months ended 31 March 2009, loss per share is 0.36 Hong Kong cents (2008: loss per share of 0.37 Hong Kong cents).

- The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: HK$Nil).

  Reference is made to the Company's announcements in relation to the potential dispute over the Company's ownership in a subsidiary engaged in medical equipment business in China and deconsolidation of the result of the said subsidiary on 26 March 2009 and 4 May 2009 respectively. The financial impacts of deconsolidation of Medical Equipment Subsidiary are disclosed under note 7. Unless otherwise defined herein, terms used in this report shall have the same meanings as those defined in the announcement as referred.

  Turnover is down 99% in the three months ended 31 March 2009 due to deconsolidation of the results of the Medical Equipment Subsidiary. The Company has been unable to obtain financial statements of the Medical Equipment Subsidiary following discovery of the Unauthorised Disposal.

  In light of the uncertainties and for the sake of prudence, the Board made a full provision of approximately HK$15.65 million on the Medical Equipment Subsidiary in the consolidated financial statements for the year ended 31 December 2008.

## RESULTS (UNAUDITED)

The board of directors (the "Board") of China Asean Resources Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2009, together with the comparative unaudited figures for the corresponding period in 2008, as follows:

## CONSOLIDATED INCOME STATEMENT

| | | For the three months ended 31 March | |
|---|---|---|---|
| | | **2009** | 2008 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Turnover | *2* | **10** | 7,547 |
| Cost of sales | | **(124)** | (4,087) |
| Gross profit/(loss) | | **(114)** | 3,460 |
| Other income | | **23** | 376 |
| Net effect of deconsolidation of a subsidiary | *7* | **1,044** | – |
| Selling and distribution expenses | | **(40)** | (2,201) |
| Administrative expenses | | **(7,432)** | (7,298) |
| Other operating expenses | | **–** | (505) |
| Finance costs | *3* | **(345)** | (62) |
| Loss before taxation | | **(6,864)** | (6,230) |
| Taxation | *4* | **–** | – |
| Loss for the period | | **(6,864)** | (6,230) |
| Attributable to: | | | |
| Equity holders of the Company | | **(6,864)** | (6,301) |
| Minority interests | | **–** | 71 |
| | | **(6,864)** | (6,230) |
| Basic loss per share (in Hong Kong cents) | *5* | **(0.36)** | (0.37) |

*Notes:*

## 1. BASIS OF PREPARATION

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules").

The financial information has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the deconsolidation of Medical Equipment Subsidiary as explained in note 7.

## 2. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and sales of related accessories, net of respective taxes; the sale value of testing equipment, net of value-added tax; and, the sale value of agriculture product, net of value-added tax.

Turnover recognised during the respective periods is analysed as follows:

| | For the three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Medical equipment service fees and sales of related accessories | **–** | 40 |
| Sales of medical equipment | **–** | 7,507 |
| Sales of agricultural products | **10** | – |
| | **10** | 7,547 |

## 3. FINANCE COSTS

| | For the three months ended 31 March | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loan | **–** | 62 |
| Interest on bonds | **345** | – |

## 4. INCOME TAX

### (a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2009 (2008: HK$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax for the period.

### (b) PRC Income Tax

The Company's subsidiary, Tat Lung Medical Treatment (Shenzhen) Ltd. ("Tat Lung Treatment"), located in the Shenzhen Special Economic Zone ("SSEZ") in the PRC, is subject to PRC income tax at the reduced rate of 15% (2007: 15%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment obtained approval from the state tax bureau that is entitled to a 100% relief from PRC Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

No provision for PRC income tax has been made for the Company's other subsidiaries as they did not have any assessable profits for the three months ended 31 March 2009 determined in accordance with the relevant income tax rules and regulations in the PRC.

### (c) Cambodia Tax on Profit

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the three months ended 31 March 2009 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 ended 31 March 2009 (2008: HK$Nil).

## 5. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2009 is based on the loss attributable to equity holders of the Company at HK$6,864,000 (2008: loss of HK$6,301,000) divided by the weighted average number of 1,905,000,000 (2008: 1,705,000,000) ordinary shares in issue during the relevant periods.

No dilutive loss per share has been presented for the three months ended 31 March 2009 and 2008 because the exercise of share options would result in an anti-dilutive effect.

## 6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: HK$Nil).

## 7. DECONSOLIDATION OF MEDICAL EQUIPMENT SUBSIDIARY

As detailed in the Company's announcement on 26 March 2009 in relation to a potential dispute over the Company's ownership in the Medical Equipment Subsidiary, the Company has been unable to obtain the management financial statements of the Medical Equipment Subsidiary for the three months ended 31 March 2009.

Due to the above reason, the directors considered that the Group was unable to exercise its rights as major shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of the Medical Equipment Subsidiary. As such, the directors considered that it is inappropriate to consolidate the financial results of the Medical Equipment Subsidiary into the Group and therefore, the Medical Equipment Subsidiary was deconsolidated during the three months ended 31 March 2009.

| | *HK$'000* |
|---|---|
| *Aggregate assets deconsolidated* | |
| Property, plant and equipment | 16,339 |
| Prepaid lease payments | 1,132 |
| Intangible assets | 763 |
| Inventories | 12,452 |
| Trade and other receivables | 14,716 |
| Cash at bank and on hand | 9,775 |
| Amount due from minority interest | 5,840 |
| | 61,017 |
| *Aggregate liabilities, minority interests and reserves deconsolidated* | |
| Trade and other payables | 18,738 |
| Bank borrowings | 13,040 |
| Taxation | 1,665 |
| Minority interests | 9,651 |
| Exchange reserve | 3,312 |
| | 46,406 |
| Net amount deconsolidated | (14,611) |
| Write-back of provision for a potential loss of control of Medical Equipment Subsidiary at 31 December 2008 | 15,655 |
| Net effect of deconsolidation of Medical Equipment Subsidiary | 1,044 |

## 8. RESERVES

| | Share premium HK$'000 | Contributed surplus HK$'000 | Capital reserve HK$'000 | Exchange reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 379,783 | 5,265 | 1,875 | 12,277 | (17,985) | 381,215 | 6,875 | 388,090 |
| Exchange difference arising from translation of foreign operations | – | – | – | 3,152 | – | 3,152 | 264 | 3,416 |
| Recognition of equity-settled share based payments | – | – | 425 | – | – | 425 | – | 425 |
| Profit/(loss) for the period | – | – | – | – | (6,301) | (6,301) | 71 | (6,230) |
| At 31 March 2008 | 379,783 | 5,265 | 2,300 | 15,429 | (24,286) | 378,491 | 7,210 | 385,701 |
| At 1 January 2009 | 497,783 | 5,265 | 6,135 | 15,805 | 50,868 | 575,856 | 9,651 | 585,507 |
| Exchange difference arising from translation of foreign operations | – | – | – | (6) | – | (6) | – | (6) |
| Recognition of equity-settled share based payments | – | – | 1,158 | – | – | 1,158 | – | 1,158 |
| Deconsolidation of Medical Equipment Subsidiary | – | – | – | (3,312) | – | (3,312) | (9,651) | (12,963) |
| Loss for the period | – | – | – | – | (6,864) | (6,864) | – | (6,864) |
| At 31 March 2009 | 497,783 | 5,265 | 7,293 | 12,487 | 44,004 | 566,832 | – | 566,832 |

## FINANCIAL REVIEW

The unaudited consolidated financial results of the Group for the three months ended 31 March 2009 deconsolidated the financial results of the Medical Equipment Subsidiary. The Group's turnover for the three months ended 31 March 2009 amounted to approximately HK$10,000, representing a decrease of 99% as compared with the corresponding period last year, which included the turnover of the Medical Equipment Subsidiary.

The loss attributable to equity holders of the Company for the three months ended 31 March 2009 amounted to approximately HK$6,864,000, and a loss attributable to equity holders of approximately HK$6,301,000 was reported for the corresponding period last year. The loss per share was 0.36 Hong Kong cents (2008: loss per share of 0.37 Hong Kong cents).

The operating expenses for the three months ended 31 March 2009 decreased by 25% from HK$10,004,000 to HK$7,472,000 as compared with that of the corresponding period last year. The decrease is primarily the result of deconsolidation of the operating expenses of the Medical Equipment Subsidiary.

As at 31 March 2009, the Group had no bank loan outstanding (2008: HK$4,990,000).

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars and the Group has not entered into any hedging arrangements during the period under review.

As at 31 March 2009, the Group had no outstanding hedging instruments (2008: HK$Nil).

## BUSINESS REVIEW

### Forestry, wood product manufacturing and plantation

The Group started construction of a new wood flooring material factory, which will be completed in the second quarter. Logging continued in anticipation of increasing production.

### Research, development and sales of drugs

The Group is awaiting approval for its application to commence Phase I clinical trials for its anti-cancer drug candidate.

### Manufacturing and sales of drugs and medicines

We are analysing the market potential of a number of generic drugs, prior to submitting production applications.

## OUTLOOK

The Group plans to increase the pace of development of its forestry, wood manufacturing and plantation businesses in Cambodia. We plan to begin production of sawn timber and wood flooring materials in significant volume in the second half of 2009 through manufacturing subcontractors. The first sawn timber and flooring material factory built by subcontractors with an annual capacity of 15,000 cubic metres is expected to be ready for production in mid-2009, this factory is in addition to the Group's own wood flooring material factory. To facilitate the expected increase in sale of wood products, the Group plans to set up a sales office in Shanghai, the PRC. The Group expects to generate substantial wood product revenue from the second half of 2009.

As additional forest land is cleared, the Group will expand its rubber tree and jatropha curcas plantations, which are expected to generate sustainable income for the Group upon maturity.

The global financial turmoil and economic recession have restricted the fund raising options available to the Group. In light of this, the Board has reviewed the Group's portfolio of businesses and their development plans for the coming years. The Board has made a decision that it wishes to focus the Group's financial and management resources on developing its businesses in Cambodia. Consistent with this strategy, the Group is looking to dispose of its existing medical equipment and pharmaceutical businesses in the PRC if an appropriate opportunity arises.

## OTHER INFORMATION

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

As at 31 March 2009, 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:

| Name | Number of ordinary shares of HK$0.01 each (the "Shares") in the share capital of the Company held | Nature of interests | Percentage of interest |
|---|---|---|---|
| Mr. Leung Sze Yuan Alan | 39,000,000 | Personal | 2.94% |
| | 17,000,000 | Share options granted but not yet exercised | |
| Mr. Zhang Zhenzhong | 17,000,000 | Share options granted but not yet exercised | 0.89% |
| Dr. Li Nga Kuk, James | 32,800,000 | Personal | 1.72% |
| Mr. Li Tai To, Titus | 16,400,000 | Personal | 0.86% |

Save as disclosed above, as at 31 March 2009, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditionally approved and adopted a Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

Save as disclosed above, as at 31 March 2009, no other 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 DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2009, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had any interest 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 of substantial shareholder | Number of shares held | Capacity | Percentage of interest |
|---|---|---|---|
| Li Wo Hing | 37,470,000 | Personal | 1.96% |
| | 193,360,000 | Corporate *(Note)* | 10.15% |
| | 230,830,000 | | 12.11% |
| Zhang Jie | 222,666,667 | Personal | 11.68% |
| Greatest Luck International Limited | 200,000,000 | Beneficial owner | 10.49% |
| PMM *(Note)* | 193,360,000 | Beneficial owner | 10.15% |
| Pen Sophal | 107,333,333 | Personal | 5.63% |

*Note:* As at 31 March 2009, PMM owned 193,360,000 shares, representing approximately 10.15% of the issued share capital of the Company. The issued share capital of PMM is owned as to 70.58% by Mr. Li Wo Hing, as to 19.61% by Dr. Li Nga Kuk, James, as to 9.81% by Mr. Li Tai To, Titus. Accordingly, Mr. Li Wo Hing holds indirect interest in the 193,360,000 shares through PMM.

Save as disclosed above, as at 31 March 2009, 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.

## 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 three months ended 31 March 2009.

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

During the three months ended 31 March 2009, 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 has any other conflicts of interests with the Group.

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the three months ended 31 March 2009, 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 the 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 deals with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors.

The Committee comprises three independent non-executive directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel.

During the three months ended 31 March 2009, the Committee held one meeting 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 quarterly report for the three months ended 31 March 2009, which was of the opinion that the preparation of such results complied with applicable accounting standards.

The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the three months ended 31 March 2009. The Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the three months ended 31 March 2009.

## THE SPECIAL INVESTIGATION COMMITTEE

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership, 65% interest in Sinnowa Medical Science and Technology Co., Ltd. (南京英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary"). As at the date of this report, the Board has resolved to establish a special investigation committee, comprising Mr. Leung Sze Yuan, Alan, the chairman of the Board and an executive Director, Mr. Tam Wai Leung, Joseph, and Mr. Chan Kim Chung, Daniel, both independent non-executive Directors (the "Special Investigation Committee"), for the purpose of, inter alia, (i) investigating the Unauthorised Disposal and (ii) reviewing the internal control procedures and corporate governance policies of the Company.

The Special Investigation Committee has appointed Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control procedures.

**The Company will make further announcement(s) to keep the shareholders and potential investors informed of the development of above matters. Meanwhile, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

By order of the Board
**Leung Sze Yuan Alan**
*Chairman*

Hong Kong, 7 May 2009