



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 **2010**



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

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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.



SUMMARY

- Turnover for the three months ended 31 March 2010 amounted to approximately HK\$133,000 (2009: HK\$10,000).
- The Group's loss attributable to equity holders of the Company for the three months ended 31 March 2010 amounted to approximately HK\$11,460,000 (2009: HK\$6,864,000).
- The Group's basic and diluted loss per share is 0.60 Hong Kong cents (2009: loss per share of 0.36 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).
- Reference is made to the prospectus of the Company dated 25 March 2010 issued in connection with the Open Offer. The Open Offer was completed and the Company successfully raised gross proceeds of HK\$15,240,000 from the Open Offer.

FIRST QUARTERLY 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, the “Group”) for the three months ended 31 March 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 31 March	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
CONTINUING OPERATIONS			
Turnover	2	133	10
Cost of sales		(62)	(90)
Gross profit/(loss)		71	(80)
Other income		1	9
Net effect of deconsolidation of a subsidiary	3	–	1,044
Selling and distribution expenses		(38)	(40)
Administrative expenses		(7,912)	(7,020)
Finance costs	4	–	(345)
Loss before taxation		(7,878)	(6,432)
Taxation	5	–	–
Loss for the period from continuing operations		(7,878)	(6,432)
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	6	(3,582)	(432)
LOSS FOR THE PERIOD		(11,460)	(6,864)



	Note	For the three months ended 31 March	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Other comprehensive income for the period			
Exchange differences on translation of financial statements of overseas subsidiaries		(112)	(6)
Other comprehensive income for the period, net of tax		(112)	(6)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(11,572)	(6,870)
		2010 HK Cents	2009 HK Cents
Basic and diluted loss per share	7		
From continuing operations		(0.41)	(0.34)
From discontinued operations		(0.19)	(0.02)
		(0.60)	(0.36)

Note:

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 2009 annual financial statements.

This consolidated quarterly financial information has not been audited.

2. TURNOVER

Turnover recognised during the respective period is analysed as follows:

	For the three months ended 31 March	
	2010 HK\$'000	2009 HK\$'000
Continuing operations		
Sales of wood products	133	10

3. 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 since 31 December 2008.

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 year ended 31 December 2009.



	<i>HK\$'000</i>
<i>Aggregate assets deconsolidated</i>	
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
	<hr/> 61,017
<i>Aggregate liabilities, minority interests and reserves deconsolidated</i>	
Trade and other payables	18,738
Bank borrowings	13,040
Taxation	1,665
Minority interests	9,651
Exchange reserve	3,312
	<hr/> 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
	<hr/> 1,044
Net effect of deconsolidation of Medical Equipment Subsidiary	<hr/> 1,044

4. FINANCE COSTS

	For the three months ended 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Interest on bonds	–	345

5. TAXATION

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2010 (2009: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax for the period.

(b) PRC Income Tax

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 2010 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 2010 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 2010 (2009: HK\$Nil).

6. LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS

Disposal of medical research and development of drugs business

The Company announced on 2 March 2010 that it has entered into conditional agreements to sell its interest in two subsidiaries engaged in research and development of drugs business in the PRC, namely the entire registered capital of CB Pharmaceutical (Nanjing) Co., Ltd (南京神州佳美製藥有限公司) and 75% of the entire issued capital of Medical China Technology Ltd., for a cash consideration of HK\$12,000,000. The transaction is expected to be completed by mid-2010.

The analysis of the result of discontinued operations is as follows:

	For the three months ended 31 March	
	2010 HK\$'000	2009 HK\$'000
Revenue	5	14
Expenses	(3,587)	(446)
Loss before taxation	(3,582)	(432)
Taxation	-	-
Loss for the period from discontinued operations	(3,582)	(432)

7. LOSS PER SHARE

The calculation of basic and diluted loss per share for the three months ended 31 March 2010 is based on the loss attributable to equity holders of the Company at HK\$11,460,000 (2009: loss of HK\$6,864,000) divided by the number of 1,905,000,000 (2009: 1,905,000,000) ordinary shares in issue during the relevant periods.

The diluted loss per share are the same as basic loss per share for the three months ended 31 March 2010 because the exercise prices of the Company's share options were higher than the average market price for shares.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: HK\$Nil).



9. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2009	497,783	5,265	6,135	15,805	50,868	575,856	9,651	585,507
Transactions with owners								
Recognition of equity-settled share based payments	-	-	1,158	-	-	1,158	-	1,158
Total transactions with owners	-	-	1,158	-	-	1,158	-	1,158
Comprehensive income								
Loss for the period	-	-	-	-	(6,864)	(6,864)	-	(6,864)
Other comprehensive income for the period	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive income	-	-	-	(6)	(6,864)	(6,870)	-	(6,870)
Deconsolidation of a subsidiary	-	-	-	(3,312)	-	(3,312)	(9,651)	(12,963)
Balance at 31 March 2009	497,783	5,265	7,293	12,487	44,004	566,832	-	566,832
	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance at 1 January 2010	497,783	5,265	9,197	12,069	1,994	526,308	-	526,308
Transactions with owners								
Recognition of equity-settled share based payments	-	-	355	-	-	355	-	355
Total transactions with owners	-	-	355	-	-	355	-	355
Comprehensive income								
Loss for the period	-	-	-	-	(11,460)	(11,460)	-	(11,460)
Other comprehensive income for the period	-	-	-	(112)	-	(112)	-	(112)
Total comprehensive income	-	-	-	(112)	(11,460)	(11,572)	-	(11,572)
Balance at 31 March 2010	497,783	5,265	9,552	11,957	(9,466)	515,091	-	515,091

FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2010 amounted to approximately HK\$133,000 (2009: HK\$10,000) from sales of wood products in Cambodia.

The loss attributable to equity holders of the Company for the three months ended 31 March 2010 amounted to approximately HK\$11,460,000 (2009: HK\$6,864,000). The increase of losses was primarily the result of greater operating losses incurred by the discontinued operations in China for the periods. The loss per share was 0.60 Hong Kong cents (2009: loss per share of 0.36 Hong Kong cents).

The administrative expenses for the three months ended 31 March 2010 increased by 12.7% from HK\$7,020,000 to HK\$7,912,000 as compared with that of the corresponding period last year. The increase in administrative expenses was primarily due to more staff being employed for the Group's operation in Cambodia.

At 31 March 2010, the Group had no bank loan outstanding (2009: Nil).

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.

At 31 March 2010, the Group had no outstanding hedging instruments (2009: Nil).

BUSINESS REVIEW

Forestry, wood product manufacturing and plantation

The Group began selling sawn timber domestically for the Cambodian housing and construction market in the first quarter ended 31 March 2010. The Group has also invested in a nursery for rubber seedlings, and the rubber seedlings will be ready for field planting next year.

Research, development and sales of drugs/Manufacturing and sales of drugs and medicines

The Company announced on 2 March 2010 that it has entered into conditional agreements to sell its interest in two subsidiaries engaged in research and development of drugs business in the PRC, namely the entire registered capital of CB Pharmaceutical (Nanjing) Co., Ltd. (南京神州佳美製藥有限公司) and 75% of the entire issued capital of Medical China Technology Ltd., for a cash consideration of HK\$12,000,000. The transaction is expected to be completed by mid-2010.



Outlook

The Group is focusing its financial and management resources on developing its forestry, wood product manufacturing, and plantation businesses in Cambodia. This year, the Group expects to increase its production of wood products in Cambodia, and to expand its sale network to include both export and domestic sales in Cambodia. Currently, we have a sawn timber factory with an annual capacity of 10,000 cubic metres. A planned 15,000 cubic metre per annum capacity sawn timber and wood flooring material factory, which was under construction and owned by a subcontractor, has been scrapped due to the subcontractor running into financial difficulty. The Group is exploring various options to increase manufacturing capacity of wood products, including investing in additional capacity ourselves and/or looking for a new subcontractor.

OTHER INFORMATION

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

As at 31 March 2010, 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	97,600,000	Personal	6.02%
	17,000,000	Share options granted but not yet exercised	
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 2010, 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.

The Company has granted Share Option of 40,000,000 shares and 36,000,000 shares to directors and employees of the Group on 12 October 2007 and 31 March 2008 at exercise prices of HK\$0.45 and HK\$0.21 per share respectively for exercise during the 3rd and the 4th year from the date of grant pursuant to the Share Option Scheme. Subsequently, 4,000,000 shares granted to the former director and 14,500,000 share options granted to the senior employees have been cancelled after their resignation.

As at 31 March 2010, details of the outstanding options were as follows:

Date of grant	Exercise period	Outstanding as at 1 January 2010 and 31 March 2010 '000
12/10/2007	12/10/2009 to 13/10/2011	32,000
31/3/2008	31/03/2010 to 31/03/2012	25,500
		57,500

Save as disclosed above, as at 31 March 2010, 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 DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2010, 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	24,300,000	Personal	1.28%
	193,360,000	Corporate <i>(Note)</i>	10.15%
	217,660,000		11.43%
PMM <i>(Note)</i>	193,360,000	Beneficial owner	10.15%

Note: As at 31 March 2010, 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 2010, 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 2010.

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

During the three months ended 31 March 2010, 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 2010, 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 2010, 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 2010, 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 2010. 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 2010.

By order of the Board
Leung Sze Yuan Alan
Chairman

Hong Kong, 14 May 2010