



China Asean Resources Limited

神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

Interim Report 2010





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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”) is pleased to announce 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 2010, together with the comparative unaudited figures for the corresponding periods in 2009, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2010	2009	2010	2009
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
CONTINUING OPERATIONS					
Turnover	2	557	20	690	30
Cost of sales		(310)	(63)	(372)	(153)
Gross profit/(loss)		247	(43)	318	(123)
Other income	4	38	2	39	11
Net effect of deconsolidation of a subsidiary	5	–	–	–	1,044
Selling and distribution expenses		(37)	(31)	(75)	(71)
Administrative expenses		(6,540)	(6,516)	(14,452)	(13,536)
Finance costs	6	–	(349)	–	(694)
Gain on disposal of subsidiaries	7	12,260	–	12,260	–
Profit/(loss) before taxation	6	5,968	(6,937)	(1,910)	(13,369)
Taxation	8	–	–	–	–
Profit/(loss) for the period from continuing operations		5,968	(6,937)	(1,910)	(13,369)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
DISCONTINUED OPERATIONS					
Profit/(loss) for the period from discontinued operations	7	(218)	390	(3,800)	(42)
PROFIT/(LOSS) FOR THE PERIOD		5,750	(6,547)	(5,710)	(13,411)
Other comprehensive income for the period					
Exchange differences on translation of financial statements of overseas subsidiaries		(439)	(3,276)	(551)	(3,282)
Other comprehensive income for the period, net of tax		(439)	(3,276)	(551)	(3,282)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		5,311	(9,823)	(6,261)	(16,693)
		2010 HK Cents	2009 HK Cents	2010 HK Cents	2009 HK Cents
Basic and diluted earnings/(loss) per share	10				
From continuing operations		0.24	(0.36)	(0.09)	(0.70)
From discontinued operations		(0.01)	0.02	(0.17)	–
		0.23	(0.34)	(0.26)	(0.70)



CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	22,152	22,454
Intangible assets	13	485,188	488,807
		507,340	511,261
Current assets			
Inventories	14	1,726	1,796
Trade and other receivables	15	33,753	27,871
Cash at bank and on hand		7,336	9,436
		42,815	39,103
Assets of disposal group classified as held for sale	9	–	38,881
		42,815	77,984
Current liabilities			
Trade and other payables	16	5,135	13,603
Tax payable		302	302
		5,437	13,905
Liabilities of disposal group classified as held for sale	9	–	26,282
		5,437	40,187
Net current assets		37,378	37,797
Total assets less current liabilities		544,718	549,058
Non-current liabilities			
Bonds	17	–	3,700
NET ASSETS		544,718	545,358
CAPITAL AND RESERVES			
Share capital	18	26,670	19,050
Reserves		518,048	526,308
TOTAL EQUITY		544,718	545,358

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital HK\$'000	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 (audited)	19,050	497,783	5,265	6,135	15,805	50,868	594,906	9,651	604,557
Transactions with owners									
Recognition of equity-settled share based payments	-	-	-	2,318	-	-	2,318	-	2,318
Total transactions with owners	-	-	-	2,318	-	-	2,318	-	2,318
Comprehensive income									
Loss for the period	-	-	-	-	-	(13,411)	(13,411)	-	(13,411)
Other comprehensive income for the period	-	-	-	-	(3,282)	-	(3,282)	-	(3,282)
Total comprehensive income	-	-	-	-	(3,282)	(13,411)	(16,693)	-	(16,693)
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	(9,651)	(9,651)
Balance at 30 June 2009 (unaudited)	19,050	497,783	5,265	8,453	12,523	37,457	580,531	-	580,531
Balance at 1 January 2010 (audited)	19,050	497,783	5,265	9,197	12,069	1,994	545,358	-	545,358
Transactions with owners									
Issue of shares	7,620	7,620	-	-	-	-	15,240	-	15,240
Recognition of equity-settled share based payments	-	-	-	355	-	-	355	-	355
Total transactions with owners	7,620	7,620	-	355	-	-	15,595	-	15,595
Comprehensive income									
Loss for the period	-	-	-	-	-	(5,710)	(5,710)	-	(5,710)
Other comprehensive income for the period	-	-	-	-	(551)	-	(551)	-	(551)
Total comprehensive income	-	-	-	-	(551)	(5,710)	(6,261)	-	(6,261)
Exchange reserve realised upon disposal of subsidiaries	-	-	-	-	(9,974)	-	(9,974)	-	(9,974)
Balance at 30 June 2010 (unaudited)	26,670	505,403	5,265	9,552	1,544	(3,716)	544,718	-	544,718



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(12,937)	(26,615)
NET CASH USED IN INVESTING ACTIVITIES	(162)	(8,682)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	11,540	(694)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,559)	(35,991)
Cash and cash equivalents at beginning of the period	9,436	48,414
Effect of foreign exchange rate changes	(541)	(10)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	7,336	12,413
Analysis of cash and cash equivalents		
Cash at bank and on hand	7,336	12,413



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 2009 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 2010. 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 would 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	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of wood and agriculture products	557	20	690	30	-	-	-	-
Research and development services fees	-	-	-	-	1,193	964	1,193	964
	557	20	690	30	1,193	964	1,193	964

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, 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	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	1	1	2	10	3	12	8	26
Miscellaneous	-	1	-	1	-	-	-	-
Gain on disposal of property, plant and equipment	37	-	37	-	-	-	-	-
	38	2	39	11	3	12	8	26

5. DECONSOLIDATION OF MEDICAL EQUIPMENT SUBSIDIARY

As detailed in the Company's announcement on 26 March 2009 and 9 June 2009 in relation to a potential dispute over the Company's ownership in Sinnowa Medical Science and Technology Co., Ltd (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 control 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 has been deconsolidated as from 1 January 2009.

Details of the net effect of deconsolidation of Medical Equipment Subsidiary recognised are as follows:

	<i>HK\$'000</i>
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 Innova Science & Technology Co., Ltd. ("Innova")	5,840
	<hr/> 61,017
Aggregate liabilities, non-controlling interests and reserves deconsolidated	
Trade and other payables	18,738
Bank borrowings	13,040
Taxation	1,665
Non-controlling interests	9,651
Exchange reserve	3,312
	<hr/> 46,406
Net deconsolidated amount	14,611
Write-back of provision for a potential loss of control of Medical Equipment Subsidiary at 31 December 2008	<hr/> (15,655)
Net effect of deconsolidation of Medical Equipment Subsidiary	<hr/> (1,044)

Reference is made to the Company's announcement on 2 August 2010, regarding the latest development of the dispute. The Company preliminary intends to settle the dispute with the counterparty, in consideration of the counterparty paying a sum of RMB4,000,000 to the Company. However, no final decision has been made by the Company in this regard yet, and the Company could further negotiate the exact terms of settlement with the counterparty in more details.



6. 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	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Finance costs								
Interest on bonds	-	349	-	694	-	-	-	-
Staff costs								
Wages and salaries	1,059	1,486	3,760	2,794	107	178	1,197	382
Share based payments	-	1,159	355	2,318	-	-	-	-
Staff retirement benefits	13	13	26	26	-	-	-	-
Other items								
Cost of inventories	-	42	-	99	-	-	-	-
Depreciation	239	158	533	220	41	17	59	46
Auditors' remuneration	511	250	665	500	4	7	4	14
Operating lease charges in respect of office premises	169	99	295	177	122	-	143	20
Amortisation of prepaid lease payments	-	1	-	1	55	22	69	44
Amortisation of forest exploitation rights	1,810	1,810	3,619	3,619	-	-	-	-

7. DISPOSAL OF SUBSIDIARIES

Reference is made to the announcement of the Company dated 2 March 2010 and 28 June 2010 (the “Announcement”) relating to the disposal of subsidiaries engaged in the medical business in the PRC. Unless otherwise stated herein, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

On 24 June 2010, the Group completed the disposal transaction, of which 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 HK\$'000
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 during the period contributed a loss of approximately HK\$3,800,000 to the Group from operating activities for the six months ended 30 June 2010.

The Group made a loss on re-measurement to fair value in respect of construction in progress and medical research projects during the year ended 31 December 2009. The total amount of loss recognised amounted to HK\$19,735,000.



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 2010 (2009: 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 2010 (2009: HK\$Nil) 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 as the Group did not have any assessable profits for the three months and six months ended 30 June 2010 (2009: 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 2010 (2009: HK\$Nil).

9. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES

The assets and liabilities related to the disposal of subsidiaries engaged in the medical business in the PRC as disclosed in Note 7 have been presented as held for sale at 31 December 2009.

	At 31 December 2009 <i>HK\$'000</i>
Property, plant and equipment	224
Construction in progress	13,831
Prepaid lease payments	1,365
Intangible assets – medical research projects	15,597
Inventories	84
Trade and other receivables	84
Cash at bank and on hand	7,696
Assets classified as held for sale	38,881
Trade and other payables	24,010
Amount due to Innova	2,272
Liabilities associated with assets classified as held for sale	26,282
Net assets classified as held for sale	12,599



10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share for the three months and six months ended 30 June 2010 is based on the profit/(loss) attributable to the owners of the Company of HK\$5,750,000 (2009: loss of HK\$6,547,000) and loss of HK\$5,710,000 (2009: loss of HK\$13,411,000), respectively, divided by the weighted average number of 2,507,901,099 and 2,208,116,022 for the three months and six months ended 30 June 2010 (2009: 1,905,000,000) ordinary shares in issue during the relevant periods.

The dilutive earnings/(loss) per share for the three months and six months ended 30 June 2010 are 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.

11. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: HK\$Nil).

12. 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	Total HK\$'000
Cost						
At 1 January 2009	19,020	6,786	424	3,499	7,151	36,880
Additions	2,120	5,763	–	283	451	8,617
Reclassification	–	3,276	–	–	(3,276)	–
Reclassification from intangible assets	848	–	–	–	–	848
Disposals	–	–	–	(803)	–	(803)
Exchange adjustments	–	–	–	2	2	4
Deconsolidation of a subsidiary	(16,429)	–	–	(615)	(2,441)	(19,485)
Transferred to disposal group classified as assets held for sale	–	–	–	(510)	(1,036)	(1,546)
At 31 December 2009	5,559	15,825	424	1,856	851	24,515
At 1 January 2010	5,559	15,825	424	1,856	851	24,515
Additions	108	–	–	187	35	330
Disposals	–	(123)	–	–	–	(123)
– Continuing operations	–	(123)	–	–	–	(123)
– Disposals of subsidiaries	–	–	–	–	(9)	(9)
Exchange adjustment	–	–	1	–	1	2
At 30 June 2010	5,667	15,702	425	2,043	878	24,715
Aggregate depreciation						
At 1 January 2009	1,396	151	382	2,457	2,109	6,495
Charge for the year	159	124	7	362	182	834
Write-back on disposal	–	–	–	(803)	–	(803)
Exchange adjustments	–	–	–	2	1	3
Deconsolidation of a subsidiary	(1,387)	–	–	(616)	(1,143)	(3,146)
Transferred to disposal group classified as assets held for sale	–	–	–	(510)	(812)	(1,322)
At 31 December 2009	168	275	389	892	337	2,061
At 1 January 2010	168	275	389	892	337	2,061
Charge for the period	317	83	–	67	125	592
Write-back on disposal	–	–	–	–	–	–
– Continuing operations	–	(32)	–	–	–	(32)
– Disposals of subsidiaries	–	–	–	–	(59)	(59)
Exchange adjustments	–	–	–	–	1	1
At 30 June 2010	485	326	389	959	404	2,563
Net book value						
At 30 June 2010	5,182	15,376	36	1,084	474	22,152
At 31 December 2009	5,391	15,550	35	964	514	22,454



13. INTANGIBLE ASSETS

	Forest exploitation rights <i>HK\$'000</i>	Medical research projects <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2009	508,776	84,285	2,810	595,871
Reclassification to				
– property, plant & equipment	(848)	–	–	(848)
– other receivable	(1,170)	–	–	(1,170)
Exchange adjustments	–	3	–	3
Deconsolidation of a subsidiary	–	–	(2,810)	(2,810)
Transferred to disposal group classified as assets held for sale	–	(84,288)	–	(84,288)
At 31 December 2009	506,758	–	–	506,758
At 1 January 2010	506,758	–	–	506,758
Additions	–	–	1,137	1,137
Disposals of subsidiaries	–	–	(1,137)	(1,137)
At 30 June 2010	506,758	–	–	506,758
Accumulated amortisation				
At 1 January 2009	10,713	66,892	2,047	79,652
Loss on re-measurement to fair value	–	1,799	–	1,799
Charge for the year	7,238	–	–	7,238
Deconsolidation of a subsidiary	–	–	(2,047)	(2,047)
Transferred to disposal group classified as assets held for sale	–	(68,691)	–	(68,691)
At 31 December 2009	17,951	–	–	17,951
Charge for the period	3,619	–	–	3,619
At 30 June 2010	21,570	–	–	21,570
Carrying value				
At 30 June 2010	485,188	–	–	485,188
At 31 December 2009	488,807	–	–	488,807

14. INVENTORIES

	At 30 June 2010	At 31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	12	69
Work in progress	–	–
Finished goods	1,726	1,811
Transferred to disposal group classified as assets held for sale	–	(84)
Disposal of subsidiaries	(12)	–
	1,726	1,796

15. TRADE AND OTHER RECEIVABLES

	At 30 June 2010	At 31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	–	169
Less: Allowance for doubtful debts	–	(169)
	–	–
Other receivables, deposits and prepayments	37,371	27,823
Deposits paid	666	132
Transferred to disposal group classified as assets held for sale	–	(84)
Disposal of subsidiaries	(4,284)	–
Loans and receivables	33,753	27,871

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



16. TRADE AND OTHER PAYABLES

	At 30 June 2010	At 31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	227	–
Other payables and accrued liabilities	12,327	9,138
Deposit received	–	7,500
Amount due to non-controlling shareholder	20,975	20,975
Transferred to disposal group classified as liabilities held for sale	–	(24,010)
Disposal of subsidiaries	(28,394)	–
	5,135	13,603

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 2010	At 31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within 3 months or on demand	227	–
Due after 3 months but within 6 months	–	–
Due after 6 months but within 1 year	–	–
	227	–

17. BONDS

On 8 July 2008, the Company issued HK\$70,000,000 bonds as part of the consideration for the acquisition of Agri-Industrial Crop Development Company Limited. The bonds are unsecured and interest bearing at 2% per annum. The bonds were fully repaid on 4 January 2010.

18. SHARE CAPITAL

	At 30 June 2010		At 31 December 2009	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Shares of HK\$0.01 each				
Authorised				
At beginning and end of the year	5,000,000	50,000	5,000,000	50,000
Issued and fully paid				
At beginning of the year	1,905,000	19,050	1,905,000	19,050
Issue of shares	762,000	7,620	–	–
At end of the year	2,667,000	26,670	1,905,000	19,050

On 20 April 2010, the Company increased its amount of share capital to HK\$26,670,000 by issuing of 762,000,000 offer shares at the subscription price of HK\$0.02 each in connection with the open offer.

Reference is made to the announcement of the Company dated 20 April 2010 relating to the open offer of shares of the Company.

19. COMMITMENTS

(a) Capital commitments

Capital commitments contracted but not provided for were as follows:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Property, plant and equipment	–	3,922
Continuing operations	–	–
Discontinued operations	–	3,922
	–	3,922



(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 2010	At 31 December 2009
	HK\$'000	HK\$'000
Within 1 year	125	250
After 1 year but within 5 years	49	54
After 5 years	246	252
	420	556
Continuing operations	420	535
Discontinued operations	–	21
	420	556

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.

20. 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:

		At 30 June 2010	At 31 December 2009
	<i>Note</i>	HK\$'000	HK\$'000
Salary paid to a former director	<i>(i)</i>	–	152
Management fee paid to a related company	<i>(i)</i>	9	19
Rental paid to a related company	<i>(i)</i>	78	156
Amount due to Innova	<i>(ii)</i>	–	(2,371)
Amount due to non-controlling shareholder	<i>(iii)</i>	–	20,975



Note:

- (i) The Group paid salary of approximately HK\$152,000 to a former director, Mr. Li Wo Hing, who is also a substantial shareholder of the Company, during the year ended 31 December 2009. The Group also paid rental and building management fees to a Company of which Mr. Li Wo Hing is a director and has equity interest, during the period/year.
- (ii) The amount has been included in the calculation of gain on disposal of subsidiaries as disclosed in Note 7.
- (iii) The amount has been included in the calculation of gain on disposal of subsidiaries as disclosed in Note 7.

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

21. SUBSEQUENT EVENTS

Reference is made to the announcement of the Company dated 29 July 2010 in relation to the signing of a conditional agreement to acquire a third forest in Cambodia. 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 2010 deconsolidated the financial results of the Medical Equipment Subsidiary.

The Group's turnover for the six months ended 30 June 2010 amounted to approximately HK\$690,000 (2009: HK\$30,000). The increase was due to more sales of wood products in Cambodia. For the six months ended 30 June 2010, the Group recorded a loss attributable to the owners of the Company of approximately HK\$5,710,000 (2009: HK\$13,411,000).

The basic and diluted loss per share for the six months ended 30 June 2010 was 0.26 Hong Kong cents (2009: 0.70 Hong Kong cents).

At 30 June 2010, the Group had no bank borrowings outstanding (2009: Nil).

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 capital.

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

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



Our gearing ratio was Nil and 0.1% as at 30 June 2010 and 31 December 2009, respectively. The decrease in gearing ratio in the past six months under review was due to fully repaid of the Bonds. The Group has no outstanding bank loan or facilities as at 30 June 2010.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 30 June 2010, the Group had total assets of approximately HK\$550,155,000 (2009: HK\$589,245,000) which were financed by current liabilities of approximately HK\$5,437,000 (2009: HK\$40,187,000) and equity attributable to the owners of the Company of approximately HK\$544,718,000 (2009: HK\$545,358,000).

The current assets of the Group amounted to approximately HK\$42,815,000 (2009: HK\$77,984,000) of which approximately HK\$7,336,000 (2009: HK\$9,436,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$5,437,000 (2009: HK\$40,187,000) of which approximately HK\$5,135,000 (2009: HK\$13,603,000) were trade and other payables and HK\$302,000 (2009: HK\$302,000) was provision for income tax. There were no outstanding bank borrowings at 30 June 2010 (2009: Nil).

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

The net assets value per share as at 30 June 2010 was HK\$0.24 (2009: HK\$0.29).

CAPITAL COMMITMENT, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group expects to receive the economic benefit derived from the initial clearing up of the forest area and the subsequent cultivation of rubber tree and jatropha curcas plantations during the 70 year concession period.

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 was completed on 24 June 2010.

As at 30 June 2010, the Group did not have any outstanding capital commitment. (2009: HK\$3,922,000).



CHARGE ON ASSETS OF THE GROUP

During the period under review, there has been no charge on assets of the Group.

RISK MANAGEMENT

Risk management is an integral part of the operation management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in sales and development of medical drugs and medical equipment as well as forest exploitation business, the Group faces a wide spectrum of risks, the most important types are 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 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 loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from merger and acquisition as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risk from all such activities.

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

- formulating credit policies on approval process, post-disbursement monitoring and collection process;
- issuing guidelines on setting of credit payment terms to customers and acceptability of warranty, undertaking or deposit from customers;
- reviewing the repayment of account receivable by aging analysis;
- monitoring the largest exposures by customers;
- 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 receivable. Provision on impairment loss is made semi-annually. Collection and recovery units are established by the Group to provide customers with intensive support in order to maximize recoveries of long-outstanding trade receivable. Management regularly performs an assessment of the adequacy of the established impairment provisions by conducting a detailed review of the aging analysis, comparing performance and past due statistics against historical trends.

Liquidity risk

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's 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 and results in a monthly net funding requirement which indicates the financing needs for any period within the scope of the forecast conditions.

Market risk

Market risk is the risk that foreign exchange rates, interest rates and equity, and 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 return on risk.

Foreign exchange risk

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

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



The Group does not hedge its foreign currency risks with US dollar as the rate of exchange between 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 consolidated financial statements.

As at 30 June 2010, the Group had no outstanding hedging instruments (2009: HK\$Nil).

Interest rate risk

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

Equity risk

The Group's equities exposure was mainly in long-term equity investments. All equities held are more than 50% with controlling interest and are for long term investment. They are not subject to volatility arises from short term fluctuation.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organization and covers a wide spectrum of issues. The terms 'error', 'omission' and 'inefficiency' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance level 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 an acceptable level 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 2010, the Group and the Company did not have any material outstanding contingent liabilities.

BUSINESS REVIEW

The Group is principally engaged in the forestry and plantation business in Cambodia. During the six months ended 30 June 2010, the Group recorded revenue of HK\$690,000 from the sale of sawn timber in the domestic market. The Board attributes the poor performance to a lack of funding for capital expenditure and working capital. The Group has only one sawn timber factory located in the First Forest which (i) has an actual annual capacity of only 6,000 cubic metres and is far from sufficient to utilise the abundant natural resources owned by the Group at a meaningful pace; and (ii) does not have the capability of manufacturing wood flooring materials (which command higher margins) for the Group to generate meaningful operating profit. As disclosed in the Company's quarterly report for the three months ended 31 March 2010, a planned 15,000 cubic metre per annum sawn timber and wood flooring material factory was scrapped due to the subcontractor running into financial difficulty. In April 2010, the Company conducted an open offer and raised net proceeds of approximately HK\$14.61 million. However, such net proceeds were not enough for the Group to bring its forestry and plantation business to a self-sustainable level.

BUSINESS OUTLOOK

Reference is made to the announcement of the Company (the "Announcement") dated 29 July 2010 in relation to the signing of a conditional agreement (the "Acquisition Agreement") to acquire a third forest in Cambodia. Unless otherwise stated herein, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

The Group plans to set up a wood flooring material factory with an annual capacity of at least 10,000 cubic metres and has paid deposits for certain equipment which has long delivery cycles. However, additional capital is required to (i) complete the construction of the plants and purchase the remaining production equipment; (ii) finance the working capital required for the production and export cycles; and (iii) pay for the field planting of rubber seedlings in early 2011 in accordance with the business development plan agreed with and endorsed by the Cambodian government.



The Company has evaluated a number of alternatives (including debt and equity financing) in an effort to raise the necessary funds, but none of such plan has been fruitful as at the date of the Acquisition Agreement due to the Group's poor business and financial performance and the drop in Share price of nearly 40% since the said open offer. Pursuant to the Acquisition Agreement, the Vendors will provide the Working Capital Facility of HK\$30 million to the Target Group as general working capital for development of the Forests upon Completion.

Based on a preliminary estimation of the Directors, the additional funding from the Working Capital Facility of HK\$30 million will be sufficient for the Group to implement its forestry and plantation business development plan, including equipping itself with the necessary production facilities (as mentioned above, setting up a wood flooring material factory with an annual capacity of at least 10,000 cubic metres) to enhance its production capacity and production capability to achieve certain level of economy of scale and providing working capital to finance the production and the sales cycles, so as to enable such business to operate at a profitable level.

EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES

As at 30 June 2010, the Group had 104 (2009: 177) 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 2010 amounted to HK\$4,957,000 (2009: HK\$5,520,000).

In addition to Share Option Scheme adopted by the Company on 14 September 2001, 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 retirement fund to its employees in the PRC according to the relevant regulations of PRC.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participates 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 the 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 benefits payment 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 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:

(a) Long positions in the shares of the Company

Name	Number of ordinary shares of HK\$0.01 each in the share capital of the Company held	Nature of interests	Percentage of interest
Mr. Leung Sze Yuan Alan	54,754,589 46,857,143	Personal Share option granted but not yet exercised	3.81%
Mr. Zhang Zhenzhong	136,640,000 46,857,143	Personal Share option granted but not yet exercised	6.88%
Dr. Li Nga Kuk, James	45,955,134	Personal	1.72%
Mr. Li Tai To, Titus	22,995,134	Personal	0.86%

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

Save as disclosed herein, as at 30 June 2010, 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 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 51,428,571 shares, 46,285,714 shares and 66,500,000 shares to employees of the Group on 12 October 2007, 31 March 2008 and 4 June 2010 at exercise prices of HK\$0.35, HK\$0.163 and HK\$0.073 per share respectively. Subsequently, 5,142,857 shares granted to the former director and 18,642,857 shares granted to the senior employees have been cancelled after their resignation.

As at 30 June 2010, details of the outstanding options were as follows:

Date of grant	Exercise period	Number of share options				Outstanding as at 30 June 2010
		Outstanding as at 1 January 2010	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	
12/10/2007	12/10/2009 to 12/10/2011	41,142,857	-	-	-	41,142,857
31/03/2008	31/03/2010 to 31/03/2012	32,785,714	-	-	-	32,785,714
04/06/2010	04/06/2011 to 03/06/2014	-	66,500,000	-	-	66,500,000
		73,928,571	66,500,000	-	-	140,428,571

Save as disclosed above, as at 30 June 2010, 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 2010, 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 any 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:

(a) Long positions in the shares of the Company

Name of substantial shareholder	Number of shares held	Capacity	Percentage of interest
Li Wo Hing	34,090,267	Personal	1.28%
	270,704,000	Corporate (<i>Note</i>)	10.15%
	304,794,267		11.43%
PMM (<i>Note</i>)	270,704,000	Beneficial owner	10.15%

Note: As at 30 June 2010, PMM owned 270,704,000 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 270,704,000 shares through PMM.

Save as disclosed above, as at 30 June 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 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.



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 2010.

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

During the six months ended 30 June 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 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 2010. 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 2010.



CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the six months ended 30 June 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 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 2010, the Committee was composed of the three independent nonexecutive directors, namely, Messrs. Fan Wan Tai, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel. During the six months ended 30 June 2010, the Committee held three 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 2010 and are of the opinion that the preparation of such results complied with applicable accounting standards.

By order of the Board
Leung Sze Yuan Alan
Chairman

Hong Kong, 12 August 2010