THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in China Asean Resources Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

China Asean Resources Limited
神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

(i) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF THE THIRD FOREST IN CAMBODIA; (ii) SPECIFIC MANDATE TO ISSUE NEW SHARES; (iii) INCREASE IN AUTHORISED SHARE CAPITAL; AND (iv) SHARE CONSOLIDATION OF 5 SHARES INTO 1 NEW SHARE

A notice convening the special general meeting (the "SGM") to be held at Falcon Room II, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Wednesday, 6 October 2010 at 10:00 a.m. is set out on pages 221 to 223 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend and vote at the SGM or any adjourned meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

The circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for 7 days from the date of its posting.

17 September 2010

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

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

CONTENTS

Unless the context otherwise requires, the following expressions in this circular shall have the following meanings:

"Acquisition"	the purchase of the Sales Shares and the Sale Loan by Forest Glen from the Vendors under the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 22 July 2010 in relation to the Acquisition
"Cambodia"	Kingdom of Cambodia
"CCASS"	the Central Clearing and Settlement System established and operated by the HKSCC
"Company"	China Asean Resources Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM
"Completion"	completion of the Acquisition Agreement in accordance with the terms thereof
"Consideration"	the consideration of HK$330,000,000 for the Acquisition
"Consideration Shares"	1,089,338,022 new Shares (or 217,867,605 new Consolidated Shares if the Share Consolidation becomes effective prior to Completion) to be issued by the Company at the Issue Price
"Consolidated Share(s)"	Share(s) of HK$0.05 each in the issued and unissued share capital of the Company after the Share Consolidation becoming effective
"Conversion Price"	the initial conversion price of HK$0.044 per Conversion Share (or HK$0.22 per Conversion Share if the Share Consolidation becomes effective prior to Completion)
"Conversion Shares"	up to 6,410,661,977 new Shares (or 1,282,132,395 new Consolidated Shares if the Share Consolidation becomes effective prior to Completion) to be issued upon the exercise of the conversion rights attached to the Convertible Bonds

"Convertible Bonds"	the zero-coupon convertible bonds due 2015 in the principal amount of HK$282,069,127 to be issued by the Company, which entitle the holder(s) thereof to convert the principal amount outstanding into the Conversion Shares at the then Conversion Price
"Crops & Land Development"	Crops & Land Development (Cambodia) Co., Ltd., a company incorporated in Cambodia with limited liability and an Independent Third Party
"Directors"	directors of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"First Forest"	the first forest owned by the Company with a site area of 9,965 hectares located in Kratie District, Kratie Province, Cambodia
"Forest Glen"	Forest Glen Group Limited, a wholly-owned subsidiary of the Company, incorporated with limited liability in the British Virgin Islands
"Forests"	the First Forest, the Second Forest and the Third Forest
"GEM"	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"General Mandate"	the existing general mandate of the Company granted by the Shareholders to authorise the Directors to allot and issue up to 533,400,000 Shares pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 May 2010
"Group"	the Company and its subsidiaries
"HKSCC"	the Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Third Parties"	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected person(s)
"Issue Price"	HK$0.044 per Share (or HK$0.22 per Consolidated Share if the Share Consolidation becomes effective prior to Completion), being the issue price of the Consideration Shares
"Latest Practicable Date"	14 September 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Reorganisation"	the reorganisation such that the Target Company (or its wholly-owned subsidiary) will beneficially own the entire issued share capital of Crops & Land Development
"Sale Loan"	all of the shareholders' loan due from the Target Group to the Vendors as at Completion
"Sale Shares"	all of the issued shares of the Target Company, representing the entire issued share capital of the Target Company
"Second Forest"	the second forest owned by the Company with a site area of 9,555 hectares located in Kratie District, Kratie Province, Cambodia and adjacent to the First Forest
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

"SGM"	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve, among other matters, if thought fit, the Acquisition Agreement (including the issue and allotment of the Consideration Shares and the Conversion Shares under the Specific Mandate, and the issue of the Convertible Bonds), the Share Consolidation and the proposed increase in the authorised share capital of the Company
"Share(s)"	Share(s) of HK$0.01 each in the share capital of the Company
"Share Consolidation"	the proposed consolidation of the Shares on the basis that every five issued and unissued Shares of HK$0.01 each will be consolidated into one Consolidated Share of HK$0.05
"Shareholder(s)"	holder(s) of the Shares or the Consolidated Shares (as the case may be)
"Specific Mandate"	a specific mandate proposed to be granted to the Directors in relation to the allotment and issue of the Consideration Shares and the Conversion Shares by the Shareholders at the SGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Richking Development Limited, a company incorporated with limited liability in the British Virgin Islands and an Independent Third Party
"Target Group"	the Target Company and its subsidiaries after completion of the Reorganisation
"Technical Adviser"	中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry of China Academy of Forestry*), the independent technical advisory firm appointed by the Company to perform a technical review on the Third Forest
"Technical Report"	the technical report on the Third Forest prepared by the Technical Adviser as contained in appendix VI to this circular

"Third Forest"	the forest with a site area of 11,500 hectares located in Kratie District, Kratie Province, Cambodia and is close to the First Forest and the Second Forest
"Valuation Report"	the valuation report on Crops & Land Development prepared by the Valuer as contained in appendix V to this circular
"Valuer"	BMI Appraisals Limited, an independent valuer engaged by the Company to conduct valuation on Crops & Land Development
"Vendors"	United Sky Investments Limited and Jethero International Limited, both of which are investment holding companies incorporated in the British Virgin Islands with limited liability and Independent Third Parties
"Working Capital Facility"	the loan of HK$30 million, which is unsecured, interest-free and has a term of 70 years, provided by the Vendors to the Target Group and their fellow subsidiaries within the Group for development of the Forests
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States
"sq.m"	square metres

* *for identification only*

All amounts in US$ have been translated in HK$ at the rate of US$1=HK$7.8 in this circular for illustration purpose only.

China Asean Resources Limited
神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 8186)

Executive Directors:
LEUNG Sze Yuan, Alan *(Chairman)*
ZHANG Zhenzhong

Non-executive Director:
LI Tai To, Titus

Independent non-executive Directors:
FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business:
8th Floor
Teda Building
87 Wing Lok Street
Hong Kong

17 September 2010

To the Shareholders

Dear Sir/Madam,

(i) VERY SUBSTANTIAL ACQUISITION INVOLVING ACQUISITION OF THE THIRD FOREST IN CAMBODIA; (ii) SPECIFIC MANDATE TO ISSUE NEW SHARES; (iii) INCREASE IN AUTHORISED SHARE CAPITAL; AND (iv) SHARE CONSOLIDATION OF 5 SHARES INTO 1 NEW SHARE

INTRODUCTION

On 22 July 2010, Forest Glen, a wholly-owned subsidiary of the Company, the Company and the Vendors entered into the Acquisition Agreement, pursuant to which the Vendors have conditionally agreed to dispose of and assign, and Forest Glen has conditionally agreed to purchase and accept the assignment of the Sale Shares and the Sale Loan, respectively, at the Consideration. The Consideration will be satisfied as to HK$47,930,873 by the issue of the Consideration Shares at the Issue Price and as to the remaining HK$282,069,127 by the issue of the Convertible Bonds. In addition, pursuant to the Acquisition Agreement, the Vendors will also provide the Working Capital Facility of HK$30 million to the Target Group and the fellow subsidiaries within the Group as general working capital for the development of the Forests upon Completion. The Working Capital Facility is unsecured, interest-free and has a term of 70 years.

In order to facilitate the issue of the Consideration Shares and the Conversion Shares under the Acquisition Agreement as well as the potential fund-raising activities of the Company in the future, the Company proposes to increase its authorised share capital from HK$50,000,000 divided into 5,000,000,000 Shares to HK$200,000,000 divided into 20,000,000,000 Shares (or 4,000,000,000 Consolidated Shares after the Share Consolidation becomes effective).

The Company also proposes to implement the Share Consolidation on the basis that every five issued and unissued Shares of HK$0.01 each will be consolidated into one Consolidated Share of HK$0.05.

The purpose of this circular is to provide the Shareholders with details of, among other things, (i) the Acquisition Agreement and the transaction contemplated thereunder; (ii) the Share Consolidation; and (iii) the proposed increase in the authorised share capital of the Company; together with (i) an accountants' report on the Target Group; (ii) an accountants' report on Crops & Land Development; (iii) the unaudited pro-forma financial information of the Enlarged Group; (iv) the Valuation Report; (v) the Technical Report; and (vi) a notice convening the SGM.

THE ACQUISITION AGREEMENT

Date

22 July 2010

Parties to the Acquisition Agreement

(i) Forest Glen, a wholly-owned subsidiary of the Company, as the purchaser;

(ii) the Vendors, as the vendors; and

(iii) the Company, as the guarantor of Forest Glen's obligation under the Acquisition Agreement

The Vendors are Independent Third Parties and own the entire issued share capital of the Target Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, the Group has not had any prior transactions with the Vendors, each of their ultimate beneficial owners and/or their respective associates during the previous 12 months which are required to be aggregated with the Acquisition under Rule 19.22 of the GEM Listing Rules.

Conditions precedent to Completion

Completion is subject to the following conditions being fulfilled or waived (as the case may be):

(i) Forest Glen having been satisfied with the results of a due diligence review of the Target Group (including, but not limited to, the Target Group having obtained all the necessary licences and approval to conduct its forest exploitation business);

(ii) legal opinions, in form and substance satisfactory to Forest Glen, to be issued by a firm of lawyers nominated by Forest Glen in such jurisdiction (including Cambodia) and covering such matters relating to the ownership and business of the Target Group as may be required by Forest Glen having been obtained pursuant to the Acquisition Agreement;

(iii) the Stock Exchange having granted the listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(iv) all other approvals, consents and acts required (including the GEM Listing Rules) having been obtained and completed;

(v) the board of Directors having approved and authorised, among other things, the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds to the Vendors;

(vi) the passing of the ordinary resolution(s) by the Shareholders at the SGM for the approval of the transactions contemplated under the Acquisition Agreement, including, but not limited to, the allotment and issue of the Consideration Shares and Conversion Shares under the Specific Mandate, the issue of the Convertible Bonds and the proposed increase in the authorised share capital of the Company;

(vii) all necessary consents and approvals required having been obtained on the part of the Vendors and the Group in respect of the Acquisition Agreement and the transactions contemplated thereunder;

(viii) none of the warranties given by the Vendors under the Acquisition Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect;

(ix) the Group having obtained a valuation report showing that the fair value of the Third Forest shall not be less than HK$1,300 million; and

(x) completion of the Reorganisation in a manner satisfactory to the Group.

Prior to the entering into of the Acquisition Agreement, the management of the Company has conducted site visits to the Third Forest and inspected the relevant documents from the Vendors regarding the status of the Third Forest, including the in-principle approval concession rights granted by the Cambodian government. After the signing of the Acquisition Agreement, the Company has engaged (i) the Technical Adviser to assess the details relating to the Third Forest, including, the timber reserves, the types of trees planted and their relevant statistics; (ii) the Valuer to conduct valuation on Crops & Land Development (hence the Third Forest); and (iii) legal advisers as to Cambodian laws and PRC laws to perform legal due dilegence on the Crops & Land Development and the Third Forest. As such, although conditions numbered (i) and (ii) are waivable by the Group, it is the intention of the Group to complete the due diligence as required under condition numbered (i) and receive the legal opinions under condition numbered (ii) before proceeding to Completion. The Group will exercise such rights of waiver only if the irregularities, if any, found from its due diligence exercise and the legal opinions relating to the Target Group do not have any material adverse impact on the operation, business and financial conditions of the Target Group (hence the Enlarged Group). As such, the Directors consider that by granting such rights of waiver to the Group, the Group will have the flexibility to continue to proceed to Completion if insignificant deviations are identified in the Target Group so as to avoid the Acquisition being called off due to such insignificant deviations.

If the conditions set out above are not fulfilled or, as the case may be, waived (in respect of conditions numbered (i), (ii) and (viii) only) by the Group on or before 12:00 noon on 31 December 2010, the obligations of the parties to the Acquisition Agreement shall cease and neither party to the Acquisition Agreement shall have any claims under the Acquisition Agreement against the others save in respect of any antecedent breaches of the Acquisition Agreement.

As at the Latest Practicable Date, only condition numbered (ix) above has been fulfilled.

Completion

Completion shall take place on any day falling within five business days after all conditions of the Acquisition Agreement have been fulfilled or waived or such later date as may be agreed amongst the parties to the Acquisition Agreement.

Upon Completion, each of the Target Company and Crops & Land Development will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

Consideration

The Consideration, which represents a discount of approximately 75.4% to the valuation of Crops & Land Development of HK$1,340 million as stated in the Valuation Report, was determined after arm's length commercial negotiations between the Company and the Vendors and having regard to the prospects and potential synergy amongst the Forests in which the interests of the Vendors and the Group will be in line with each other following Completion. The Consideration will be satisfied as to (i) HK$47,930,873 by the issue of the Consideration Shares at the Issue Price; and (ii) HK$282,069,127 by the issue of the Convertible Bonds. The principal assumptions underlying the Valuation are detailed in the Valuation Report as contained in appendix V to this circular.

Given that (i) the Consideration represents a substantial discount of approximately 75.4% to the valuation of Crops & Land Development of HK$1,340 million; (ii) the synergy to be achieved amongst the Forests; (iii) the additional forest land and timber reserves to be obtained by the Group following Completion; and, most importantly, (iv) the Vendors' commitment to the future development of the Forests as evidenced by the granting of the Working Capital Facility (as detailed below) and thus providing an opportunity for the Group to revive its forestry business in Cambodia, the Directors (including the independent non-executive Directors) considered the terms of the Acquisition Agreement (including the Consideration) are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares

As at the date of the Latest Practicable Date, the Company has a total of 2,667,000,000 Shares (or 533,400,000 Consolidated Shares if the Share Consolidation becomes effective prior to Completion) in issue. The Consideration Shares represent (i) approximately 40.85% of the issued share capital of the Company as at the date of the Latest Practicable Date; (ii) approximately 29% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and (iii) approximately 10.71% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming the exercise of the conversion rights attaching to the Convertible Bonds in full). The Consideration Shares will be allotted and issued upon Completion under the Specific Mandate and will rank pari passu in all respects with all other Shares in issue on the date of their issue, including the right as to any dividend or distribution on or after the date of their issue.

The Issue Price of HK$0.044 per Consideration Share (or HK$0.22 if the Share Consolidation becomes effective prior to Completion) is determined after arm's length negotiation among Forest Glen, the Company and the Vendors and represents (i) a discount of approximately 21.4 % to the closing price of HK$0.056 per Share as quoted on the Stock Exchange on 21 July 2010, the last trading day prior to the release of the Company's announcement relating to the Acquisition dated 29 July 2010; and (ii) a discount of approximately 22.8% to the average of the closing prices of HK$0.057 per Share as quoted on the Stock Exchange for the last 5 trading days prior to the release of the Company's announcement relating to the Acquisition dated 29 July 2010 and including 21 July 2010.

In view of the above, the Directors (including the independent non-executive Directors) considered that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Convertible Bonds

Pursuant to the Acquisition Agreement, the Company will issue the Convertible Bonds in the principal amount of HK$282,069,127 upon Completion. Set out below are the principal terms of the Convertible Bonds:

Principal amount	:	HK$282,069,127
Maturity date	:	The date falling on the fifth anniversary of the issue date of the Convertible Bonds (or if that is not a business day, the first business day thereafter)
Interest rate	:	Nil
Conversion right	:	Holders of the Convertible Bonds will have the right to convert the Convertible Bonds, in whole or in part (in the amount or integral multiple of HK$1 million) into the Conversion Shares, credited as fully paid and provided that no conversion right may be exercised if such exercise (i) triggers a mandatory offer obligation under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") on the part of the holder of the Convertible Bonds which exercised the conversion rights attaching to the Convertible Bonds, such that holder of the Convertible Bonds and parties acting in concert with it, when taken together, will be interested in 30% or more of the then issued share capital of the Company or such other percentage that will trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code or otherwise pursuant to other provisions of the Takeovers Code; or (ii) results in the public float of the Shares being less than 25% of the issued Shares at any one time in compliance with the GEM Listing Rules.
Conversion Price	:	HK$0.044 per Conversion Share (or HK$0.22 if the Share Consolidation becomes effective prior to Completion), which is the same as the Issue Price of the Consideration Share, subject to the adjustment provision as contained in the instrument constituting the Convertible Bonds.

Ranking of the Conversion Shares	:	The Conversion Shares will rank pari passu in all respects with the Shares (or the Consolidated Shares if the Share Consolidation becomes effective prior to Completion) in issue on the date of their allotment and issue and shall entitle the holders to participate in all dividends or other distributions on or after the date of their allotment and issue.
Redemption rights	:	The instrument constituting the Convertible Bonds contains an events of default provision which provides that holders of the Convertible Bonds may give notice to the Company such that the Convertible Bonds will immediately become due and repayable at their principal amount in the occurrence of certain events of default specified therein.
Redemption on maturity	:	The Company shall redeem the Convertible Bonds which remains outstanding on the maturity date at its principal amount. Save as aforesaid, the Company does not have the right to redeem the Convertible Bonds prior to its maturity date.
Ranking of the Convertible Bonds	:	The Convertible Bonds shall at all times rank pari passu without any preference among themselves and at least equally with all its other present and future unsecured and unsubordinated obligations.
Transferability	:	Subject to all applicable laws and regulations and prior notification to the Company, the Convertible Bonds may be assigned or transferred in whole or in part (in the amount or integral multiple of HK$1 million) to any person who is not a connected person of the Company (except of the wholly-owned subsidiaries or holding companies of the Vendors). The Company and the Directors will notify the Stock Exchange any dealings by the connected persons of the Company in the Convertible Bonds from time to time immediately upon the Company becoming aware of it.
Voting	:	Holders of the Convertible Bonds shall not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Bonds.

The Conversion Shares

As at the date of the Latest Practicable Date, there are 2,667,000,000 Shares in issue, assuming the conversion rights attached to the Convertible Bonds are exercised in full, the Conversion Shares represent:

(i) approximately 240.37% of the existing issued share capital of the Company; and

(ii) approximately 63.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares.

The Conversion Shares will, upon exercise (if so exercised) of the conversion rights attached to the Convertible Bonds, be allotted and issued pursuant to the Specific Mandate.

THE WORKING CAPITAL FACILITY

Upon Completion, the Vendors will provide the Working Capital Facility of HK$30 million to the Target Group and their fellow subsidiaries within the Group as general working capital for the future development of the Forests upon Completion. The Working Capital Facility is unsecured, interest-free and has a term of 70 years (which approximates the duration of the concession obtained by the Group for the First and the Second Forests and the in-principal concession obtained by Crops & Land Development for the Third Forest).

In order to ensure that the Group can effectively utilise such facility for development of its forestry and plantation business, the Vendors shall have no rights to demand early repayment of or additional security for the Working Capital Facility in any event.

It is expected that the Working Capital Facility will be applied as to (i) approximately HK$10 million for the construction of a wood flooring material factory with an annual capacity of at least 10,000 cubic metres and the purchase of the relevant wood logging/processing equipments (such as bulldozers and excavators) to enhance its production capacity; (ii) approximately HK$10 million for the field planting of rubber seedlings; and (iii) the remaining of approximately HK$10 million as working capital of the Group for the wood processing and sales cycles.

INFORMATION ON THE TARGET COMPANY, CROPS & LAND DEVELOPMENT, THE THIRD FOREST AND THE GROUP

The Target Company

The Target Company is an investment company incorporated in the British Virgin Islands in July 2010 and its entire issued share capital is owned by the Vendors. After Completion, the Target Company (hence Crops & Land Development) will become an indirect wholly-owned subsidiary of the Company. As disclosed in appendix II to this circular, the consolidated net assets value of the Target Group as at 31 July 2010 amounted to US$100 (comprising total assets of US$11,086,261 and total liabilities of US$11,086,161) and has not incurred any profit or loss for the period since its date of incorporation up to 31 July 2010.

Crops & Land Development

Crops & Land Development is a company incorporated in Cambodia with limited liability. In December 2008, Crops & Land Development entered into the Concession Contract (as defined below) with Ministry of Agriculture, Forestry and Fisheries ("MAFF") of Cambodia for the granting of a 70-year concession right (subject to conditions) for the Third Forest (please refer to the paragraph headed "Compliance with Forestry Law, Land Law and the Sub-Decree regarding the Third Forest" below for details). According to the accountants' report on Crops & Land Development, during the period from 20 May 2008 (date of incorporation of Crops & Land Development) to 31 December 2008 and the year ended 31 December 2009, Crops & Land Development has not commenced any active business operations and has not recorded any turnover but recorded loss after tax of approximately HK$0.2 million and HK$1.96 million, respectively. As at 31 July 2010, Crops & Land Development had net assets value amounted to approximately HK$5.37 million.

The Third Forest

The Third Forest, which has a total site and concession area of approximately 11,500 hectares (equivalent to approximately 115 million sq.m.) and 7,200 hectares (equivalent to approximately 72 million sq.m.), respectively, is located in Kratie District, Kratie Province, Cambodia and is close to the First and Second Forests. According to the Technical Report, the Third Forest mainly comprises top-class timber (such as rosewood), first-class timber (such as pyinkado and laurel) and second-class timber (such as adina cordifolia, aphanamiris polytachya and albizia kalkora) and has a total timber reserve of approximately 1.78 million cubic metres. Following Completion, the Target Group will commence the clearing up of the Third Forest for subsequent rubber tree plantation and the timber obtained from the initial forest clearing stage will be processed and sold by the Company.

The Group

The Group is principally engaged in the forestry and plantation business in Cambodia, involving the logging of the existing timbers from the First and Second Forests (and the Third Forest following Completion) and the subsequent plantation of rubber tree on the cleared forest land. Currently, the timber logged are processed into sawn timber and mainly sold to construction companies in Cambodia. As detailed below, given the abundant forest resources in the First and Second Forests (and the Third Forest after Completion), the existing sawn timber factory with production capacity of only 6,000 cubic metres is far from sufficiency. It is therefore the intention of the Group to utilise the Working Capital Facility to increase its sawn timber production capacity and to construct a wood flooring material factory to produce higher margin wood flooring material products for distribution to the PRC. In general, it will take 5 years for latex to reach harvest stage after plantation of rubber trees and the production period of latex from rubber trees will usually last 30 years. The above development cycle will be repeated after the 30-year latex production period ends whereby the old rubber trees will be logged and processed for sale and new rubber trees will be planted.

BACKGROUND OF THE GROUP'S MANAGEMENT TEAM ON THE FORESTS

Members of the Group's management team have years of experience in the management and development of forestry and plantation business in Cambodia. It is expected that after Completion, these members of the Group's management team will also be responsible for the management of the Third Forest and their background is described as follows:

Mr. Zhang Zhenzhong, an executive Director and the chief executive officer of the Company, is responsible for the day-to-day management of the Group's businesses in Cambodia. Mr. Zhang has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, and has substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products.

Mr. Zhang Jie, who has 15 years of management experience (including the resources industry), joined the Group in 2008 and is responsible for management of land clearing, timber logging and plantation of rubber trees.

Mr. Pan Yongning, who has 35 years of experience in wood production and processing and had worked as the production and technical managers for several wood-processing companies, is responsible for guidance for the Group's wood production and processing activities, including flooring material, door plank and fiberboard etc..

Mr. Wang Genrong, who has 30 years of experience in production, technical and quality control management in the wood processing industry, is the production and technical manager of the Group's forestry operations.

Mr. Mai Weizhong, who has more than 20 years of experience in producing the rosewood furniture and rosewood products, joined the Group in 2008 and is the manager of the Group's sawn timber factory.

Mr. Sui Jianhua, who graduated from Shanghai Normal University and has held senior management positions in various import and export industries before joining the Group in 2007, is responsible for the sales and marketing of timber of the Group.

Mr. Chen Junshan, who has substantial experience in accounting and finance in the resources industry, is responsible for the management of the accounting department of the Company's forestry and plantation business.

INDUSTRY OVERVIEW

Overview of the forestry industry in Cambodia

Cambodia, a country located in South East Asia with a population of approximately 13.4 million in 2008, is rich in natural resources including timber, gemstones and mineral resources such as iron ore, manganese and phosphate. The weather of Cambodia can be characterized by its high temperature and humidity which make it suitable for the growth of forests. According to the "Country Paper on Forestry Outlook 2020" (the "Cambodia Forestry Outlook") published by the Forest Administration of Cambodia in 2008, Cambodia had forest area of approximately 10.7 million hectares covering approximately 59% of the total land area of Cambodia.

Cambodia has a variety of forest types and these forests can be broadly classified into six major categories, namely evergreen forest, semi-evergreen forest, deciduous forest (dry dipterocarp), dry wood shrub lands, evergreen wood shrub lands and bamboo, which accounted for approximately 33.8%, 12.5%, 43.2%, 0.3%, 0.9% and 0.3% of the forest land in Cambodia in 2008 respectively. The government of Cambodia has opened for both local and foreign private investment in economic land concession (as detailed below) for agro-industrial plantation. The major goal of this opening is to provide land for agricultural and agro-industrial plantation and processing for export, which is expected by the government to create jobs and generate income for the people living in the rural area.

The Forest Administration ("FA"), which is under the supervision of the MAFF of Cambodia, are the two main authorities which regulate the forest industry in Cambodia.

Relevant rules and regulation relating to obtaining forestland in Cambodia

In general, the granting of the land parcels (including forest land) in Cambodia to individuals and entities are governed by the Land Law and the Sub-Decree on Economic Land Concessions.

1. The Land Law

The Land Law, as promulgated in 2001, authorizes the grant of land concessions responding to either social or economic purposes. A land concession is a legal right provided in a juridical act under the discretion of the competent authority (such as the MAFF), given to a natural person, legal entity or group of persons to occupy and exercise the rights on a land in accordance with the Land Law. The maximum duration of a land concession is 99 years. There are three types of land concessions that may be granted by the Cambodia government, namely:

(i) Social land concessions

The purpose of a social concession is to allow the concessionary right holder to build residential construction and/or cultivate lands for their own subsistence, and such concessions will be granted only to the citizens of Cambodia.

(ii) Economic land concessions (the "Economic Land Concessions")

The purpose of an economic concession is to allow the concessionary right holder to clear the land for industrial agricultural exploitation of the land.

(iii) Other types of use, development and exploitation land concessions

The purpose is to allow the concessionary right holder to exploit the land for a particular approved purpose, whether a foreigner or foreign entity will be granted this concession will depend on the relevant laws applicable to the industry.

Land concessions may be cancelled if (i) the land parcel is not exploited for a period exceeding 12 months during the term of the concession without proper justification or (ii) the concessionaires have failed to fulfill the conditions set out in the concession contract (such as the relevant forest exploitation and plantation plans). Furthermore, concessionaires are not entitled to seek compensations for any damage resulting from the aforesaid withdrawal of a concession.

2. The Sub-Decree on Economic Land Concession (the "Sub-Decree")

The Sub-Decree sets out the regulatory framework for (i) determining the criteria, procedures, mechanism and institutional arrangement for granting the Economic Land Concessions; (ii) monitoring the performance of the concession contracts for the Economic Land Concessions; and (iii) reviewing the compliance with the Land Law for the Economic Land Concessions granted. The granting of the Economic Land Concessions provides a mechanism to grant state private land (the "State Private Land") for agricultural and industrial-agricultural exploitation for purposes of, amongst others, investment in agriculture, rural employment and diversification of livelihood opportunities, and the generation of state revenues. Under the Sub-Decree, Economic Land Concession that exceeds 1,000 hectares is subject to the approval of MAFF whereas provincial and municipals are authorised to grant Economic Land Concession below the 1,000 hectares.

Economic Land Concessions are heavily regulated and subject to regular government review, and will be granted only when all of the following criteria have been met:

(i) the land parcel has been registered and classified as State Private Land;

(ii) a land use plan for the land parcel has been adopted by the provincial or municipal state land management committee, and the land use is consistent with the plan;

(iii) environmental and social impact assessments have been completed with respect to the land use and development plan;

(iv) there are solutions for resettlement issues, in accordance with the existing legal framework and procedures; and

(v) public consultation have been conducted with territorial authorities and local residents, relating to economic land concessions projects or proposals.

3. Forestry Law

The forest related business activities, such as logging, production, transportation, processing and exports of timber and related products in Cambodia are regulated by the Forestry Law.

Permissions to conduct forestry business in Cambodia

Article 25 and 26 of the Forestry Law set out the various permissions required from the relevant authorities for entities engaged in business activities relating to forest timber production and non timber forest products ("NTFP") in Cambodia. Set out below are the key permits that are relevant to the Group's forestry and plantation business in Cambodia:

	Types of permit required	**Approval authorities**
1.	Permit to set an annual harvest quota	Minister of MAFF or Cantonment Chief of FA
2.	Permit to harvest	Director or Division Chief of FA
3.	Permit to set quota for transport	Director of FA
4.	Permit to transport	Director, Cantonment Chief or Division Chief of FA
5.	Permit for use of forest	Minister of MAFF
6.	A Prakas (proclamation) to establish an industrial forest center, sawmill, or timber or NTFPs processing facilities	Minister of MAFF
7.	Permit to enter coupe for preparation	Director of FA
8.	Permit to establish a stock place to sell or distribute timber products and/or NTFPs	Cantonment Chief of FA
9.	Permit to establish all types of kilns that use timber products and/or NTFPs as raw material	Cantonment Chief of FA
10.	Export quota for timber products and/or NTFPs	Minister of FA
11.	Export and Import License for timber products and/or NTFPs	Director of FA

Restrictions on the Domestic Sale and Export of Rare Timber Types

Under Article 29 of the Forestry Law, except when permitted by the MAFF, transporting, exporting and importing of some particular types of timber of the following trees is prohibited:

(i) tree species whose diameter is smaller than the diameter allowed to harvest;

(ii) rare tree and vegetation species;

(iii) tree species that local communities have tapped to extract resin for traditional use; and

(iv) tree that yield high value resin.

Article 30 of the Forestry Law prohibits the processing of timber products or NTFPs, or to establish and operate a forestry industry centre, sawnmill timber, and/or NTFPs processing facility, or all types of kilns in the boundaries of the permanent forest reserves (as defined under the Forestry Law).

In addition, Article 38 of the Forestry Law also prohibits the sawing, slicing, or processing of logs within the permanent forest reserve (as defined under the Forestry Law) and the use of chain saw to harvest within a permanent forests reserve unless authorised by the FA.

Restrictions on import and export of timber products in Cambodia

According to Article 73 of the Forest Law, an exporter must obtain an export license for exporting timber products and/or NTFPs from the Ministry of Commerce ("MoC"). All timber products and NTFRs shall be inspected in advance by the FA official during their loading into containers and sealed prior to transport to the custom's warehouse and stockpile area. MAFF shall issue a Prakas (proclamation) to determine the sample of the seal to be attached to the outside of the container holding the timber products and NTFPs.

There is no restriction on import for the import of timber products and NTFPs but relevant licences are still required from MoC.

Restrictions on Transportation of and Export of Timber and Wood Products

In addition to the above, there are a number of other restrictions in the transportation and storage of timber under Article 69 of the Forestry Law:

- All timber products and NTFPs must be moved from the forest to the stockpile at the permanent log landing within one month after harvest and must be accompanied by a Transport Permit issued by FA.

- All timber products and NTFPs stocked anywhere in Cambodia must be accompanied by an authorised transport or stock permit issued by FA.

- Transportation and stockpiling of timber products and NTFPs without a required permit or not in compliance with the terms and restrictions stated in the permit(s) is illegal and subject to seizure and confiscation.

Article 70 of the Forestry Law also requires all machinery and vehicles must be registered with FA and obtain the identification tags before entering into the harvest areas.

Tax and fees

An export/import tax, and other duty tax, shall be paid for the export/import of timber products, NTFPs and rubber. In addition, companies engaged in forestry business in Cambodia are also subject to a number of taxes including profit tax, minimum tax, withholding tax, salary tax, value added tax and patent tax. Furthermore, individuals or legal entities harvesting timber products or NTFPs for commercial purposes within the permanent forest reserve must pay royalties and premiums to the national budget through FA. The Cambodia government will determine the amount of these royalties and premiums upon the recommendation of the Ministry of Economy and Finance ("MOEF") and MAFF.

Compliance with Forestry Law, Land Law and the Sub-Decree regarding the Third Forest

Crops & Land Development was granted the Sor-Chor-Nor (the in-principle approval for the granting of the Economic Land Concession) by the Council of Ministers of Cambodia in 2008. Following the validation of the preliminary environment and social impact studies on the Third Forest and the preparation of the preliminary master development plan, Crops & Land Development entered into a contract (the "Concession Contract") with MAFF for the granting of the concession right to exploit the Third Forest (including the initial clearing up of the existing trees and the subsequent plantation of rubber and acacia). Under the Concession Contract, Crops & Land Development was required to prepare a 7-year master development plan relating to the initial clearing up of the existing forest land and plantation of rubber and acacia in the Third Forest which was conditionally approved by MAFF in September 2009. However, the granting of the final approval of the Economic Land Concession on the Third Forest by the MAFF is still subject to (i) the MAFF's final assessment of the environmental and social impact on the Third Forest after Crops & Land Development (or the Group following Completion) has commenced operations; (ii) the final demarcation of land area in the Third Forest which is subject to conservation by the Cambodian government; and (iii) the registration of the Third Forest as a State Private Land. The Company's legal advisers as to Cambodian laws have confirmed that upon fulfillment of the above conditions under the Concession Contract, there is no legal impediment for the Group to obtain the final approval of the Economic Land Concession for the Third Forest from MAFF. As advised by the Vendors, Crops & Land Development has applied for the registration of the Third Forest as a State Private Land.

In order to exploit the existing trees in the area under the Economic Land Concession (during the initial clearing stage of the business plan agreed with MAFF), the Group must obtain the relevant licenses, administrative decisions and permits from the relevant ministries of the Cambodian government (such as MAFF and MOEF). These kinds of licenses, administrative decisions and permits include decisions and permits to (a) begin clearing the forest land; (b) establish and build sawmill and wood processing factories; (c) transport logs, timber and wood products; (d) export wood products; and (e) cultivate rubber and acacia plantation.

The Group has obtained the relevant procedural licenses, administrative decisions and permits for the First Forest, but will need to acquire the same for the Second and Third Forests (after Completion). The legal advisers of the Company as to Cambodian laws have confirmed that the obtaining of these licenses, administrative decisions and permits are administrative in nature and there is no legal impediment for the Group in obtaining the same.

Market Environment

Competitors and entry barriers of forest industry in Cambodia

After the Cambodian government's decision to impose a moratorium on logging concessions in Cambodia in 2002, Economic Land Concessions have become the primary concessions given out from the Cambodian government which allow the logging of existing forests in Cambodia, for purposes of making way for economic plantations and crops. Over the years, the MAFF has granted Economic Land Concessions of a total area of not more than one million hectares located in 16 provinces in Cambodia. However, many of these concessions were given out to local and foreign investors that have no experience in or financial resources for operating forestry and plantation businesses. As a result, many forest land under the Economic Land Concessions granted have been (i) left dormant; or (ii) re-sold; or (iii) subjected to illegal logging (i.e. not in compliance with the business plan agreed with MAFF under the Concession Contracts signed and without obtaining the relevant licenses, decisions and permits). In response to such situation, MAFF has threatened to cancel the Economic Land Concessions granted that have infringed the Forestry Law and the Land Law. Up to April 2010, MAFF had made requests to the Cambodian government for cancelation of the Concession Contracts for approximately 40% of the total area under the Economic Land Concessions granted.

In efforts to better protect forest and prevent further deforestation, and promote a sustainable use of forest resources, the Cambodian government has increasingly cracked down on the illegal timber trade, including tightening the approvals processes of granting the Economic Land Concessions to new industry comers and more stringent review of existing holders of Economic Land Concessions. Given the stringent regulatory approvals and continuous reviews imposed by the government of Cambodia as described above, the Directors have considered that it will pose significant entry barriers to new comers in the forest industry in Cambodia.

Timber price trend

According to International Tropical Timber Organization ("ITTO"), an inter-governmental organisation with over 30 member countries (such as the United States of America and the PRC), consumption of timber by its member countries increased by approximately 2.5% (or approximately 40 million cubic meters), from 1.75 billion cubic meter in 2004 to approximately 1.79 billion cubic meter in 2008. During the same period, production of timber by ITTO members increased by 3.4% from approximately 1.67 billion cubic meters in 2004 to approximately 1.73 billion cubic meters in 2008. The tables below set out the total timber production by all ITTO members during 2004 to 2008:

Production of all timber by all ITTO members (1,000 m^3)

Products	**2004**	**2005**	**2006**	**2007**	**2008**	***Increase/ decrease (from 2004 to 2008)***
Logs	1,250,391	1,292,731	1,254,750	1,280,453	1,309,455	*4.7%*
Sawn	348,898	357,090	363,318	354,473	336,343	*(3.6%)*
Ven	10,416	10,496	10,408	10,258	10,241	*(1.7%)*
Ply	65,080	68,595	69,423	76,060	76,033	*16.8%*
Total	1,674,785	1,728,912	1,697,899	1,721,244	1,732,072	*3.4%*

Sources: ITTO Annual Review 2009, Production and Trade of Timber 2005-2009

Consumption of all timber by all ITTO members (1,000 m^3)

Products	**2004**	**2005**	**2006**	**2007**	**2008**	***Increase/ decrease (from 2004 to 2008)***
Logs	1,311,740	1,355,952	1,319,850	1,345,827	1,361,050	*3.8%*
Sawn	362,730	369,518	371,537	362,484	349,650	*(3.6%)*
Ven	10,008	9,793	9,781	9,624	9,600	*(4.1%)*
Ply	66,769	68,252	67,433	73,075	74,172	*11.1%*
Total	1,751,247	1,803,515	1,768,601	1,791,010	1,794,472	*2.5%*

Sources: ITTO Annual Review 2009, Production and Trade of Timber 2005-2009

Surplus/(Shortfall) of all timber by ITTO members (1,000 m^3)

Products	**2004**	**2005**	**2006**	**2007**	**2008**
Logs	(61,349)	(63,221)	(65,100)	(65,374)	(51,595)
Sawn	(13,832)	(12,428)	(8,219)	(8,011)	(13,307)
Ven	408	703	627	634	641
Ply	(1,689)	343	1,990	2,985	1,861
Total	(76,462)	(74,603)	(70,702)	(69,766)	(62,400)

As illustrated above, there has been a constant shortage in the supply of timbers and given that timber is a scarce natural resources, the market prices of timber and wood products have experienced an overall upward trend in the past years. For example, the PRC, one of the Group's target markets and one of the largest timber consuming countries amongst ITTO country members (the PRC's consumption in 2008 ranked the third for logs, the second for sawnwood, the first for veneer and plywood, representing 7.1%, 11.0%, 30.7% and 37.9% respectively in terms of total consumption of ITTO members), has experienced an increase in imported raw timber price from approximately US$107 per cubic meter in 2004 to approximately US$144 per cubic meter in 2009, representing an increase of approximately 34.6% according to the Customs of the PRC (or a compound annual growth rate of approximately 6.1%).

RISKS RELATING TO THE ACQUISITION AND BUSINESS OF THE GROUP

Impairment assessment of forest exploitation rights of the Third Forest

Upon completion, the excess of the Consideration over the then net asset value of the Target Group (representing the premium paid for the forest exploitation right in respect of the Third Forest) will be recorded as an intangible asset of the Group. Such forest exploitation right is subject to annual impairment assessment based on the valuation report prepared by an independent valuer based on a number of assumptions, including selling prices, sale volume, operating costs, etc.. Any unfavourable changes in these assumptions may have an adverse impact on the carrying values of the Group's forest exploitation rights and may result in impairment charge to the Group's financial results.

Revenue is sensitive to fluctuations in prices of timber products

Revenue of the Group is primarily derived from the sale of timber products, the prices of which are subject to numerous factors which are beyond the control of the Group, such as demand for timber products, supply from illegal logging, changes in foreign exchange rates, economic growth rates, foreign and domestic interest rates, trade policies, fuel and transportation costs, etc.

In addition, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Oversupply and lower prices may also result from illegal logging activities or relaxation in logging restrictions by the government. If market prices for wood products were to decline, it could have a material adverse effect on the Group's business, financial condition and results of operation.

Illegal logging and timber trading

The Group's sales of timber products business may be adversely affected by illegal logging and illegal timber trading activities in Cambodia. However, as described above, the Cambodian government has been trying to crack down on such illegal timber trading activities given the growing seriousness of such issue. The Directors expect that in a long run, the measures imposed by the Cambodian government will be beneficial to those entities (such as the Group) which have been granted the legal rights and the necessary permits to be engaged in the forestry business and reduce the adverse impact from the illegal timber trading activities.

Dependence on the PRC and the Cambodian markets

The Group's timber and wood products are primarily targeted to the PRC and the Cambodian markets. There is no assurance that demand in these markets will continue, or that the Group can successfully expand to other markets. In the event that there is a downturn in the demand in these markets and the Group is not able to expand its sales network to other markets, the Group's business, financial position and results of operation may be adversely affected.

Global financial crisis and disruptions in the financial market

The global financial crisis and disruptions in the financial market occurred in late 2008 have adversely affected economies and businesses around the world, including the forestry business of the Group and the business of our customer. Should the financial crisis or economic downturn recurs in the future, the Group may experience significant decrease in demand for the Group's products and thereby adversely affecting the Group's business, financial position and results of operation.

Crops & Land Development has not yet obtained certain governmental approvals for its forest exploitation business in respect of the Third Forest

Crops & Land Development was granted the Sor-Chor-Nor (the in-principle approval for the granting of the Economic Land Concession) from the Council of Ministers of Cambodia in 2008. However, the granting of the final approval of the Economic Land Concession on the Third Forest by the MAFF is still subject to (i) the MAFF's final assessment of the environmental and social impact on the Third Forest after Crops & Land Development (or the Group following Completion) commenced its forestry and plantation business on the Third Forest; (ii) the final demarcation of land area in the Third forest which is subject to conservation by the MAFF; and (iii) the registration of the Third Forest as State Private Land. However, the Company's legal advisers as to Cambodian laws have confirmed that upon fulfillment of the above conditions under the Concession Contract, there is no legal impediment for the Group to obtain the final approval of the Economic Land Concession for the Third Forest from MAFF. In addition, Crops & Land Development has not obtained the relevant export licenses for the timber products to be produced and if such governmental approvals are not obtained as and when the timber products are produced by the Group, the financial results and business performance of the Target Group (hence the Group after Completion) can be materially and adversely affected. However, the legal advisers of the Company as to Cambodian laws have confirmed that the obtaining of these licenses and permits are administrative in nature and there is no legal impediment for the Group in obtaining such export licenses.

RISKS RELATING TO THE INDUSTRY

Weather conditions, natural and man-made disasters outside control

The Group's logging and plantation operations in the forests land in Cambodia may be adversely affected by unfavourable local and global weather conditions, including but not limited to drought, floods, prolonged periods of rainfall, hailstorms, windstorms, typhoons and hurricanes, and natural disasters such as fire, disease, landslides, insect infestation, pests, volcanic eruptions or earthquakes. Its operations may also be affected by man-made disasters, such as environmental pollution, arson, accidents, civil unrest or acts of terrorism. The occurrence of natural or man-made disasters may diminish the supply of logs available for logging in the forest, or otherwise impede plantation operations or growth of trees, which the Group's business, financial position and results of operation may be adversely affected.

Competitors of the Group's target market

There are many competitors who supply timber to the Group's two major markets, the PRC and Cambodia, including local and overseas suppliers (such as those from Malaysia, Indonesia and other Southeast Asia countries). If competition increases in the future, the Group's business, financial position and results of operation may be adversely affected. In order to mitigate the adverse impact from competitions, it is the intention of the Group, after the drawdown of the Working Capital Facility, to focus on the development and production of high-margin timber product (such as wood flooring material) and other high value-added timber products to maintain its competitiveness in the market.

Competition from substitutes of timber

Imitation wood and other materials have been used as alternative materials. Consumer preferences may affect the demand for timber products, and hence, could decrease demand for timber in general, resulting in a material adverse effect on the Group's business, financial position and results of operation. As mentioned above, it is the intention of the Group to focus on high-value added timber products which are usually less substitutable.

RISKS RELATING TO CAMBODIA

Political and government regulatory risks

Political risk is the risk that any event of the political instability in Cambodia may have an adverse effect toward the Group's business, operating results and financial investment. The recent history of Cambodia has been characterized by political instability and civil war, with fighting between different factions until as recently as 1997. It is only in the past decade that Cambodia has regained some measure of political stability with Prime Minister Samdech Hun Sen and his Cambodian People's Party rising to political dominance.

The Group exposures to government regulatory risk primarily arise from the operations in Cambodia to a wide range of environmental laws and regulations, which regulate, among other things, forestry and plantation activities, including harvesting, land clearing for forests, planting in cleared areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations have generally become more stringent in recent years in Cambodia and could become even more stringent in the future. The Group may be required to obtain additional licenses before it can be permitted to occupy certain premises and/or carry out certain activities.

Any tightening of the requirements prescribed by environmental laws and regulations in Cambodia, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact the Group's operations by increasing its compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on the Group's liquidity and adversely affect our results of operations.

SPECIFIC MANDATE TO ISSUE NEW SHARES

As at the Latest Practicable Date, no new Shares have been issued under the General Mandate since the date of its granting and the balance of the General Mandate amounted to 533,400,000 Shares. As the aggregate number of the Consideration Shares and the Conversion Shares to be issued pursuant to the Acquisition Agreement will exceed the balance of the General Mandate, the allotment and issue of the Consideration Shares and the Conversion Shares will be made under the Specific Mandate and the General Mandate will not be utilised.

REASONS FOR AND BENEFITS OF THE ACQUISITION

In early 2009, in light of the global financial turmoil (and the economic recession) and the difficulty for the Group to obtain financing in the market, the Directors had conducted a review of the Group's business portfolio and concluded to focus the Group's financial and management resources on its forestry and plantation business in Cambodia, which they considered the Group would have competitive edges by owning the concession rights for the development of the forest resources, especially having obtained the relevant permits for the domestic and export sale of wood products from the Cambodian government at that time, as compared to the increasingly competitive medical and pharmaceutical market. As such, the Group has gradually disposed of all of its medical and pharmaceutical business in 2009 and 2010, which had resulted in the forestry and plantation business having become the Group's only principal business.

However, the business performance of the Group's forestry and plantation business has been unsatisfactory and, as disclosed in the Company's annual report for the year ended 31 December 2009, the Group suffered a substantial downturn in business and financial performance with turnover having been decreased by approximately 99% from the previous year and turned from a net profit of approximately HK$71.00 million to a net loss of approximately HK$49.76 million during the same periods because the revenue derived from the sale of wood products amounted to only approximately HK$0.34 million during the year ended 31 December 2009. Such situation has not been much improved this year and the revenue derived from the sale of wood products amounted to only approximately HK$0.69 million for the six months ended 30 June 2010.

The Directors attributed such poor performance of the Group's forestry and plantation business mainly to (i) a delay in the export of wood products from Cambodia in 2009 (which has since been rectified) caused by the increase in administrative procedures for export of timber products as the Cambodian government was trying to crack down on the illegal timber trade (such government actions, in the long run, are indeed positive to entities (such as the Group) which have been granted the legal rights to be engaged in the business); and, most importantly, (ii) the Group's lack of funding for capital expenditures and working capital because the forestry and plantation business is of capital intensive nature.

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 meters 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. To tackle such problems, the Group successfully negotiated with a sub-contractor to set up a wood flooring material factory next to the Group's sawn timber factory to process the logs into wood flooring materials for the Group on an out-sourcing basis. However, as disclosed in the Company's quarterly report for the three months ended 31 March 2010, such plan was scrapped due to such sub-contractor 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.

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 the sales 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.

Timber and rubber are two of the most common raw materials being applied in a wide range of industries and the selling prices of which have been on an overall upward trend in recent years due to their scarcity and increasing market demand, particularly in the PRC, which is currently one of the major consumers for both timber and rubber. According to ITTO, approximately 138.5 million cubic meters and 166.7 million cubic meters of timber were produced and consumed in the PRC in 2008, respectively, representing a shortfall of approximately 28.2 million cubic meters despite the global financial turmoil taken place that year. In addition, the rubber market is also experiencing a shortage in supply as a result of the strong appetite for natural resources. According to the China Rubber Industry Association, the PRC, primarily fueled by the development of highway construction and transportation industry, consumed about 16% of the world's natural rubber and is expected to consume 6.4 million tons of rubber in 2010, representing an increase of approximately 8.5%. Given the above, coupled with the gradual recovery of the world's economy, the Directors are confident in the future prospects of its forestry and plantation business in Cambodia and are of the view that, given its abundant forest resources and timber reserves, the operation and financial performance of the Group's forestry and plantation business can be greatly improved and achieve certain level of economy of scale if it has sufficient capital to equip itself with the necessary production facilities to enhance its production capacity and production capability (and hence its profitability) and working capital to finance the production and the sales cycles.

Forest land and timber reserve are the life-blood of the Group's forestry and plantation business. The Group owns the First and Second Forests with a total site area of approximately 19,500 hectares and estimated timber reserves of over 5 million cubic metres, and has obtained the relevant permits for the domestic and export sale of wood products from the Cambodian government in 2009. The Acquisition represents a good investment opportunity for the Group to obtain additional forest land and timber reserve. As a result of the Acquisition, and subject to fulfilment of certain governmental regulations, the Group will have right to exploit three forests in Cambodia and the total site area of the Group's forest land will be increased by nearly 60% to approximately 31,000 hectares. As described above, given the additional funding from the Working Capital Facility of HK$30 million, the Group will be able 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. Furthermore, due to the close geographic proximity between the Third Forest and the First and Second Forests, the Directors expect that the Acquisition will create significant synergy for the Group's forestry and plantation business in Cambodia resulting from (i) the economy of scale for the Group's wood logging facilities and more efficient utilisation of the production capacity of its manufacturing facilities; (ii) the formulation of a more efficient and systematic transportation for the timber logged and processed from the Forests; and (iii) a more effective and efficient planning of the future rubber plantation (hence the subsequent latex production). Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

INCREASE IN THE AUTHORISED SHARE CAPITAL

In order to facilitate the issue of the Consideration Shares and the Conversion Shares under the Acquisition Agreement as well as the potential fund-raising activities in the future, the Company proposes to increase its authorised share capital from HK$50,000,000 divided into 5,000,000,000 Shares to HK$200,000,000 divided into 20,000,000,000 Shares (or 4,000,000,000 Consolidated Shares). The increase in the authorised share capital of the Company is subject to the passing of an ordinary resolution by the Shareholders by way of a poll at the SGM. As at the Latest Practicable Date, save for the issue of the Consideration Shares and the Conversion Shares, the Company does not have any immediate plan to further issue new Shares/Consolidated Shares.

Under Bermuda laws, the Company is required to file a memorandum of increase in the authorised share capital together with a certified copy of the resolution in respect thereof with the Bermuda Registrar of Companies within 30 days of the effective date of such increase.

THE SHARE CONSOLIDATION

The Company proposes to implement the Share Consolidation on the basis that every five issued and unissued Shares of HK$0.01 each will be consolidated into one Consolidated Share of HK$0.05. The Share Consolidation is conditional on the passing of an ordinary resolution by the Shareholders by way of a poll at the SGM and the Stock Exchange having granted the listing of, and the permission to deal in the Consolidated Shares and any new Consolidated Shares which may fall to be issued pursuant to the exercise of the Company's options or other securities convertible into Shares.

Other than the relevant expenses, including professional fees and printing charges, to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the rights of the Shareholders, save for any fractional Consolidated Shares to which Shareholders may be entitled.

The Consolidated Shares shall rank pari passu in all respects with each other.

Capital Structure of the Company before and after the Share Consolidation and increase of authorised share capital

The following table sets out the effect on the share capital structure before and immediately after the Share Consolidation and after Share Consolidation and increase of authorised share capital:

	Before Share Consolidation	**After Share Consolidation**	**After increase of authorised share capital and Share Consolidation**
Nominal value per share	HK$0.01	HK$0.05	HK$0.05
Authorized share capital	HK$50,000,000	HK$50,000,000	HK$200,000,000
Number of authorized shares	5,000,000,000 Shares	1,000,000,000 Consolidated Shares	4,000,000,000 Consolidated Shares
Issued share capital	HK$26,670,000	HK$26,670,000	HK$26,670,000
Number of issued shares	2,667,000,000 Shares	533,400,000 Consolidated Shares	533,400,000 Consolidated Shares
Unissued share capital	HK$23,330,000	HK$23,330,000	HK$173,330,000
Number of unissued shares	2,333,000,000 Shares	466,600,000 Consolidated Shares	3,466,600,000 Consolidated Shares

Board Lot Size

There will be no change in board lot size as a result of the Share Consolidation and the increase in authorized share capital.

Odd Lot Arrangements and Fractional Consolidated Shares

Fractional Consolidated Shares will be disregarded and not issued to the Shareholders, but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

In order to facilitate the trading of odd lots of the Consolidated Shares, a security broker, Kingston Securities Limited, has been appointed by the Company to provide a matching service, on a "best effort" basis, to those Shareholders who wish to acquire or dispose of their holding of odd lots of Consolidated Shares. Holders of odd lots of the Consolidated Shares who wish to take advantage of this trading facility should contact Ms. Rosita Kiu of Kingston Securities Limited at Suite 2801, 28/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong (Tel: (852) 2298-6215 Fax: (852) 2295-0682) either directly or through their licenced securities dealers during the period from 21 October 2010 to 10 November 2010. Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot facility, is recommended to consult his/her/its own professional advisers.

Exchange of Share Certificates

Should the Share Consolidation become effective, Shareholders may, during the period from 7 October to 17 November 2010, submit existing certificates for the Shares in green colour to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange, at the expense of the Company, for new share certificates in blue colour for the Consolidated Shares. It is expected that the new certificates for the Consolidated Shares will be available for collection within 10 business days after the submission of the existing share certificates to the share registrar of the Company for exchange. Thereafter, certificates for existing Shares will be accepted for exchange only on payment of a fee of HK$2.5 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for the Consolidated Shares, and existing certificates for the Shares will cease to be good for delivery, trading and settlement purposes but will continue to be good evidence of legal title and may be exchanged for certificates for the Consolidated Shares at any time at the expense of the Shareholders.

Reasons for the Share Consolidation

Pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK$0.01 or HK$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities. In view of the recent trading price of the Shares and for compliance with the GEM Listing Rules, the Company proposes to implement the Share Consolidation. It is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price of the Consolidated Shares. Accordingly, the Directors consider that the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

Expected Timetable

The expected timetable of the proposed Share Consolidation is as follows:

	2010
Despatch of circular	Friday, 17 September
Latest time for lodging forms of proxy for the SGM	10:00 a.m. on Monday, 4 October

SGM	10:00 a.m. on Wednesday, 6 October
Effective date of the Share Consolidation	Thursday, 7 October
Dealings in the Consolidated Shares commences	9:30 a.m. on Thursday, 7 October
Original counter for trading in existing Shares in board lots of 10,000 Shares closes	9:30 a.m. on Thursday, 7 October
Temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares (in the form of existing share certificates) opens	9:30 a.m. on Thursday, 7 October
First day of free exchange of existing share certificates for new share certificates for the Consolidated Shares	Thursday, 7 October
Original counter for trading in the Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new share certificates) re-opens	9:30 a.m. on Thursday, 21 October
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:30 a.m. on Thursday, 21 October
Parallel trading in the Consolidated Shares (in the form of new share certificates and existing share certificates) commences	9:30 a.m. on Thursday, 21 October
Designated broker ceases to stand in the market to provide matching services for odd lots of the Consolidated Shares	4:00 p.m. on Wednesday, 10 November
Temporary counter for trading in Consolidated Shares in board lots of 2,000 Consolidated Shares (in the form of existing share certificates) ends	4:00 p.m. on Wednesday, 10 November
Parallel trading in Consolidated Shares (in the form of new share certificates and existing share certificates) ends	4:00 p.m. on Wednesday, 10 November
Last day for free exchange of existing share certificates for new share certificates for the Consolidated Shares	Wednesday, 17 November

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Shares Consolidation but before issue of the Consideration Shares and the Conversion Shares; (iii) immediately after the Share Consolidation and issue of the Consideration Shares but before the exercise of the conversion rights attached to the Convertible Bonds; and (iv) immediately after the Share Consolidation, the issue of the Consideration Shares and the exercise of the conversion rights attaching to the Convertible Bonds in full (for illustration purposes only):

	As at the Latest Practicable Date		**Immediately after the Share Consolidation**		**Immediately after the Share Consolidation and the issue of the Consideration Shares but before the exercise of the conversion rights attached to the Convertible Bonds**		**Immediately after the Share Consolidation, the issue of Consideration Shares and the exercise of the conversion rights attaching to the Convertible Bonds in full**			
							(Note 1)		*(Note 3)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Li Wo Hing and his associates	304,794,267	11.43%	60,958,853	11.43%	60,958,853	8.11%*	60,958,853	3.00%*	60,958,853	3.17%*
Directors *(Note 2)*	260,304,857	9.76%	52,060,972	9.76%	52,060,972	6.93%	52,060,972	2.56%	52,060,972	2.70%
Public	2,101,900,876	78.81%*	420,380,175	78.81%*	420,380,175	55.96%*	420,380,175	20.67%*	420,380,175	21.83%*
The Vendors and the parties acting in concert with any of them	–	–	–	–	217,867,605	29.00%	1,500,000,000	73.77%	1,391,956,114	72.30%
	2,667,000,000	100%	533,400,000	100%	751,267,605	100%	2,033,400,000	100%	1,925,356,114	100%

* *public float*

Note 1: since the Convertible Bonds cannot be converted into Shares/Consolidated Shares if the holder of the Convertible Bonds and its parties acting in concert will be holding not less than 30% of the entire issued Shares or such other percentage as it will trigger off general offer obligations on the part of the holder of the Convertible Bonds under the Takeovers Code. The figures shown in this column is for illustration purposes only.

Note 2: comprises Shares held by Zhang Zhenzhong, Leung Sze Yuan, Alan, Li Tai To, Titus and Li Nga Kuk, James (who resigned as a Director on 13 August 2010) as at the Latest Practicable Date of 136,640,000 Shares, 54,754,589 Shares, 22,955,134 Shares and 45,955,134 Shares, respectively.

Note 3: the figures shown in this column illustrate the shareholding structure of the Company assuming that the minimum public float of 25% is maintained pursuant to the GEM Listing Rules.

FUND-RAISING IN THE PAST 12 MONTHS

The Company completed an open offer of two offer shares for five existing shares held on hand at a price of HK$0.02 per Share in April 2010, which raised net proceeds of approximately HK$14.61 million and was applied as the general working capital of the Group and for payment of operating costs.

Save for disclosed above, the Company has not conducted any fund raising activities in the past 12 months.

FINANCIAL IMPACT OF THE ACQUISITION

Upon Completion, each of the Target Company and Crops & Land Development will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group. The following sets out, for illustrative purposes only, the key financial information of the Group and the Enlarged Group based on unaudited pro forma financial information as disclosed in appendix IV to this circular:

	The Group (as at 30 June 2010) *(HK$'000)*	**The Enlarged Group after Completion** *(HK$'000)*
Total assets	550,155	910,499
Total liabilities	5,437	202,136
Net asset value	544,718	708,363
Gearing ratio (total liabilities/total assets)	1.0%	22.2%

Upon Completion, the Group's consolidated total assets and total liabilities have increased by approximately HK$360 million and HK$197 million respectively. The increase in total assets value is mainly due to the increase in intangible assets (representing the excess of the Consideration over the then net asset value of the Target Group as at 31 July 2010) and the obtaining of the Working Capital Facility of HK$30 million, whereby the increase on the total liabilities is mainly due to the inclusion of the Working Capital Facilities of HK$30 million and the liability component of the Convertible Bonds issued after Completion. As such, the gearing ratio of the Group will be increased from 1.0% to 22.2%. Given the additional funding available from the Working Capital Facility after Completion to enable the Group to implement the above-mentioned forestry and plantation business plan, coupled with the additional forest resources from the Third Forest, the Directors expect that the Acquisition will contribute positively to the earnings and funds of the Group though the quantification of such impact will depend on the future demand and market prices for timber and rubber products.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In view of the constant shortage of timber and wood products and the upward trend in the timber price as discussed in the paragraph headed "Market Environment" above, together with the growing recovery of the world's economy from the financial turmoil in 2008, the Directors consider that the demand for scarce natural resources such as timber will remain robust. With the Working Capital Facility for better equipping its production capacity and capability and the additional timber and forest resources from the Third Forest, the Enlarged Group will be able to create significant synergy amongst the Forests for (i) achieving better economy of scale for the Group's wood logging facilities and more efficient utilisation of the production capacity of its manufacturing facilities; (ii) formulating a more efficient and systematic transportation for the timber logged and processed from the Forests; and (iii) implementing a more effective and efficient planning of the future rubber plantation (hence the subsequent latex production). All of these are expected to contribute positively to the Enlarged Group's future profitability and financial performance.

LISTING APPLICATION

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares, the Consideration Shares and the Conversion Shares.

No application will be made by the Company for the listing of the Convertible Bonds on any stock exchanges.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares, the Consideration Shares and Conversion Shares on the Stock Exchange, the Consolidated Shares, the Consideration Shares and the Conversion Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares, the Consideration Shares and Conversion Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Shares or Consolidated Shares after the Share Consolidation may be settled through CCASS and that investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will affect their rights and interests.

IMPLICATION OF THE GEM LISTING RULES

The Acquisition Agreement

Since the relevant percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition are greater than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and, accordingly, the transactions contemplated under the Acquisition Agreement (including the issue and allotment of the Consideration Shares and the Conversion Shares under the Specific Mandate, and the issue of the Convertible Bonds) are subject to Shareholders' approval at the SGM.

THE SGM

The Company will convene the SGM for the purpose of seeking approval from the Shareholders on the Acquisition Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares and the Conversion Shares under the Specific Mandate, and the issue of the Convertible Bonds), the Share Consolidation and the proposed increase in the authorised share capital of the Company. Voting on these resolution will be taken by way of a poll pursuant to the GEM Listing Rules.

The notice convening the SGM of the Company to be held at Falcon Room II, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Wednesday, 6 October 2010 at 10:00 a.m. is set out on pages 221 to 223 of this circular.

Since no Shareholders have any material interest in the Acquisition Agreement, the Share Consolidation and the proposed increase in the authorized share capital, no Shareholders are required to abstain from voting in respect of the resolutions relating to the transactions contemplated under the Acquisition Agreement (including the issue and allotment of the Consideration Shares and the Conversion Shares under the Specific Mandate, and the issue of the Convertible Bonds), the Share Consolidation and the proposed increase in the authorised share capital of the Company at the SGM.

Form of proxy for use in the SGM is enclosed with this circular. If Shareholders are not able to attend the SGM, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjournment thereof should they wish to do so.

RECOMMENDATION

Based on the above, the Directors consider that the transactions contemplated under the Acquisition Agreement (including the issue and allotment of the Consideration Shares and the Conversion Shares under the Specific Mandate, and the issue of the Convertible Bonds), the Share Consolidation and the proposed increase in the authorised share capital of the Company are in the best interests of the Company and its Shareholders as a whole and, accordingly, recommend the Shareholders to vote in favor of the relevant resolutions in respect of the Acquisition Agreement at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board of Directors
Leung Sze Yuan, Alan
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the consolidated results, assets and liabilities of the Group for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 as extracted from its corresponding annual and interim reports. An unqualified opinion in respect of the audited financial statements of the Group has been issued for each of the two years ended 31 December 2007 and 2008 and a disclaimer opinion was rendered for the year ended 31 December 2009.

RESULTS

	Year ended 31 December			For the six months ended 30 June	
	2009	**2008**	**2007**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
Turnover	343	47,895	38,443	690	30
Profit/(Loss) before taxation	(30,016)	89,951	(21,874)	(1,910)	(13,369)
Taxation	–	(1,500)	(24)	–	–
Profit/(loss) for the year from continuing operations	(30,016)	88,451	(21,898)	(1,910)	(13,369)
DISCONTINUED OPERATIONS					
Loss for the year from discontinued operations	(19,747)	(17,456)	–	(3,800)	(42)
Loss for the year	(49,763)	70,995	(21,898)	(5,710)	(13,411)
Profit/(loss) per share (Hong Kong cents) Basic	(2.61)	3.81	(2.12)	(0.26)	(0.70)

ASSETS AND LIABILITIES

	As at 31 December			As at 30 June	
	2009	**2008**	**2007**	**2010**	**2009**
	HK$'000 (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000*	*HK$'000*
Total assets	589,245	755,645	474,815	550,155	684,472
Total liabilities	(43,887)	(151,088)	(69,675)	(5,437)	(103,941)
Minority interests	–	(9,651)	(6,875)	–	–
Net assets attributable to equity holders of the Company	545,358	594,906	398,265	544,718	580,531

2. INTERIM RESULTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010

Set out below are the unaudited consolidated results of the Group together with accompanying notes as extracted from the interim report of the Company for the six months ended 30 June 2010:

"Consolidated Statement of Comprehensive Income

		For the three months ended 30 June		For the six months ended 30 June	
		2010	**2009**	**2010**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)	(Unaudited)	(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 2010 HK$'000 (Unaudited)	For the three months ended 30 June 2009 HK$'000 (Unaudited)	For the six months ended 30 June 2010 HK$'000 (Unaudited)	For the six months ended 30 June 2009 HK$'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)

	Note	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	2009
	HK$'000	*HK$'000*
	(Unaudited)	(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:

	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 Innova Science & Technology Co., Ltd. ("Innova")	5,840
	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
	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	(15,655)
Net effect of deconsolidation of Medical Equipment Subsidiary	(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	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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 *HK$'000*
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						
– 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 *HK$'000*	Medical research projects *HK$'000*	Others *HK$'000*	Total *HK$'000*
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 HK$'000	At 31 December 2009 HK$'000
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 HK$'000	At 31 December 2009 HK$'000
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 HK$'000	At 31 December 2009 HK$'000
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
	HK$'000	*HK$'000*
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	Amount	No. of shares	Amount
	'000	*HK$'000*	*'000*	*HK$'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 *HK$'000*	**At 31 December 2009** *HK$'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:

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

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2009.

"Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	**2009** *HK$'000*	**2008** *HK$'000*
CONTINUING OPERATIONS			
Turnover	*6*	343	47,895
Cost of sales		(890)	(21,781)
Gross profit/(loss)		(547)	26,114
Net effect of deconsolidation of a subsidiary	*2*	1,044	–
Provision for a potential loss of control of a subsidiary	*2*	–	(15,655)
Income from forestry exploitation business	*8*	–	129,985
Other income	*9*	18	5,763
Selling and distribution costs		(104)	(13,421)
Administrative expenses		(26,446)	(38,212)
Impairment loss recognised in respect of:			
Biological assets		–	(93)
Construction in progress	*18*	(2,600)	–
Other operating expenses	*10*	–	(3,558)
Finance costs	*10*	(1,381)	(972)
Profit/(loss) before taxation	*10*	(30,016)	89,951
Taxation	*11*	–	(1,500)
Profit/(loss) for the year from continuing operations		(30,016)	88,451
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	*12(b)*	(19,747)	(17,456)
PROFIT/(LOSS) FOR THE YEAR		(49,763)	70,995

	Note	2009 HK$'000	2008 HK$'000
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		(424)	3,974
Other comprehensive income for the year, net of tax		(424)	3,974
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(50,187)	74,969
Profit/(loss) attributable to:			
Equity holders of the Company	*15*	(49,763)	68,665
Non-controlling interests		–	2,330
		(49,763)	70,995
Total comprehensive income attributable to:			
Equity holders of the Company		(50,187)	72,193
Non-controlling interests		–	2,776
		(50,187)	74,969
		HK Cents	*HK Cents*
Basic earnings/(loss) per share	*16*		
From continuing operations		(1.58)	4.78
From discontinued operations		(1.03)	(0.97)
		(2.61)	3.81
Diluted earnings/(loss) per share	*16*		
From continuing operations		(1.58)	4.78
From discontinued operations		(1.03)	(0.97)
		(2.61)	3.81

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	22,454	30,385
Construction in progress	18	–	31,950
Prepaid lease payments	20	–	2,585
Intangible assets	21		
Forest exploitation rights		488,807	498,063
Medical research projects		–	17,393
Others		–	763
		511,261	581,139
Current assets			
Inventories	23	1,796	13,575
Trade and other receivables	24	27,871	112,517
Cash at bank and on hand		9,436	48,414
		39,103	174,506
Assets of disposal group classified as held for sale	12	38,881	–
		77,984	174,506
Current liabilities			
Trade and other payables	26	13,603	50,427
Provision for a potential loss of control of a subsidiary	2	–	15,655
Bank borrowings		–	13,040
Taxation		302	1,966
		13,905	81,088
Liabilities of disposal group classified as held for sale	12	26,282	–
		40,187	81,088
Net current assets		37,797	93,418

	Note	2009 HK$'000	2008 HK$'000
Total assets less current liabilities		549,058	674,557
Non-current liabilities			
Bonds	28	3,700	70,000
NET ASSETS		545,358	604,557
CAPITAL AND RESERVES			
Share capital	29	19,050	19,050
Reserves		526,308	575,856
Total equity attributable to:			
Equity holders of the Company		545,358	594,906
Non-controlling interests		–	9,651
TOTAL EQUITY		545,358	604,557

Balance Sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	52	30
Construction in progress	18	–	3,400
Investments in subsidiaries	19	498,420	525,289
		498,472	528,719
Current assets			
Trade and other receivables	24	238	32
Amounts due from subsidiaries	25	48,599	109,904
Cash at bank and on hand		7,685	18,331
		56,522	128,267
Current liabilities			
Trade and other payables	26	10,504	2,170
Amounts due to subsidiaries	27	212,392	131,802
		222,896	133,972
Net current liabilities		(166,374)	(5,705)
Total assets less current liabilities		332,098	523,014
Non-current liabilities			
Bonds	28	3,700	70,000
NET ASSETS		328,398	453,014
CAPITAL AND RESERVES			
Share capital	29	19,050	19,050
Reserves	30	309,348	433,964
TOTAL EQUITY		328,398	453,014

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	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 2008	17,050	379,783	5,265	1,875	12,277	(17,985)	398,265	6,875	405,140
Transactions with owners									
Issue of shares	2,000	118,000	–	–	–	–	120,000	–	120,000
Recognition of equity-settled share based payments	–	–	–	4,448	–	–	4,448	–	4,448
Lapse of share options	–	–	–	(188)	–	188	–	–	–
Total transactions with owners	2,000	118,000	–	4,260	–	188	124,448	–	124,448
Comprehensive income									
Profit for the year	–	–	–	–	–	68,665	68,665	2,330	70,995
Other comprehensive income for the year	–	–	–	–	3,528	–	3,528	446	3,974
Total comprehensive income	–	–	–	–	3,528	68,665	72,193	2,776	74,969
Balance at 31 December 2008	19,050	497,783	5,265	6,135	15,805	50,868	594,906	9,651	604,557
Balance at 1 January 2009	19,050	497,783	5,265	6,135	15,805	50,868	594,906	9,651	604,557
Transactions with owners									
Issue of shares	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	3,951	–	–	3,951	–	3,951
Lapse of share options	–	–	–	(889)	–	889	–	–	–
Total transactions with owners	–	–	–	3,062	–	889	3,951	–	3,951
Comprehensive income									
Loss for the year	–	–	–	–	–	(49,763)	(49,763)	–	(49,763)
Other comprehensive income for the year	–	–	–	–	(424)	–	(424)	–	(424)
Total comprehensive income	–	–	–	–	(424)	(49,763)	(50,187)	–	(50,187)
Deconsolidation of a subsidiary	–	–	–	–	(3,312)	–	(3,312)	(9,651)	(12,963)
Balance at 31 December 2009	19,050	497,783	5,265	9,197	12,069	1,994	545,358	–	545,358

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit/(loss) before taxation including discontinued operations		(49,763)	72,495
Adjustments for:			
Depreciation		834	1,432
(Profit)/loss on disposal of property, plant and equipment		(5)	19
Income from sub-concession of 10% of forest exploitation rights		–	(51,985)
Impairment losses recognised in respect of:			
Biological assets		–	93
Medical research projects	*12(b)*	1,799	9,600
Construction in progress	*12(b)&18*	20,536	–
Amortisation of prepaid lease payments		91	135
Amortisation of intangible assets:			
Forest exploitation rights		7,238	7,332
Others		–	398
Share based payments	*33*	3,951	4,448
Bad debts written off		48	1,790
Bad debts recovered		–	(3,246)
Bank interest income		(54)	(611)
Provision for a potential loss of control of a subsidiary	*2*	–	15,655
Finance costs		1,381	972
Net effect of deconsolidation of a subsidiary	*2*	(1,044)	–
Write-back of accrued expenses		–	(787)
Operating profit/(loss) before changes in working capital		(14,988)	57,740
Increase in inventories		(734)	(7,184)
(Increase)/decrease in trade and other receivables		65,319	(22,507)
Increase/(decrease) in trade and other payables		7,502	(23,135)
Cash generated from operations		57,099	4,914
Income tax paid outside Hong Kong		–	164
Net cash from operating activities		57,099	5,078

	Note	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Capital expenditure:			
Property, plant and equipment		(8,617)	(16,903)
Construction in progress		(3,168)	(19,755)
Acquisition of a subsidiary	22	–	(80,000)
Forest exploitation rights		–	(2,207)
Proceed from sub-concession of 10% of forest exploitation rights		–	46,800
Interest received		54	611
Deconsolidation of a subsidiary	2	(9,775)	–
Net cash used in investing activities		(21,506)	(71,454)
Cash flows from financing activities			
Interest paid		–	(302)
Redemption of bonds		(66,300)	–
Proceeds from new bank borrowings		–	13,040
Net cash from/(used in) financing activities		(66,300)	12,738
Net decrease in cash and cash equivalents		(30,707)	(53,638)
Cash and cash equivalents at beginning of the year		48,414	99,400
Effect of foreign exchange rate changes		(575)	2,652
Cash and cash equivalents at end of the year		17,132	48,414
Analysis of cash and cash equivalents:			
Cash at bank and on hand		9,436	48,414
Cash at bank and on hand classified as assets held for sale	12	7,696	–
		17,132	48,414

Notes to the Financial Statements

For the year ended 31 December 2009

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in Note 38 to the financial statements.

2. BASIS OF CONSOLIDATION OF THE FINANCIAL STATEMENTS

Potential dispute over the ownership in Sinnowa Medical Science and Technology Co. Ltd. ("Medical Equipment Subsidiary")

As detailed in the announcement of the Company dated 26 March 2009, Medical Equipment Subsidiary is a 65% equity interest subsidiary of the Company established in September 2002 as a sino-foreign joint venture enterprise in the People's Republic of China (the "PRC"). Medical Equipment Subsidiary engaged in the business of manufacture and sale of medical equipment. The remaining 35% equity interest of Medical Equipment Subsidiary was owned by a PRC company called Innova Science & Technology Co., Ltd. (南京英諾華科技有限公司) (the "Chinese Partner"). During the course of external audit of the financial statements for the year ended 31 December 2008, the Company discovered that the official records of the PRC governmental authorities on the equity ownership of Medical Equipment Subsidiary had been amended without the knowledge of the Company, and that the Company was no longer recorded as an equity owner of the Medical Equipment Subsidiary since 10 December 2007.

Under this circumstance, the board of directors of the Company (the "Board") had, through its PRC lawyers, made enquiries with the Bureau of Administration of Industry and Commerce in Nanjing, Jiangsu Province (江蘇省南京市工商行政管理局) ("Nanjing BAIC") and discovered that two unauthorised sale and purchase agreements (the "Unauthorised Sale and Purchase Agreements"), both dated 10 November 2007, were entered into in the name of the Company and executed by a director, who resigned during the year ended 31 December 2008, pursuant to which the Company agreed to dispose of its entire 65% equity interest in Medical Equipment Subsidiary as to 30% to the Chinese Partner and as to 35% to the first new shareholder, at a consideration of RMB14 million (equivalent to approximately HK$15.88 million) and RMB1 million (equivalent to approximately HK$1.13 million), respectively. The Unauthorised Sale and Purchase Agreements were duly registered with Nanjing BAIC to the effect that Medical Equipment Subsidiary was owned as to 65% by the Chinese Partner and as to the remaining 35% by the first new shareholder. The former director, whose signature was imprinted on the Unauthorised Sale and Purchase Agreements, has confirmed to the Board that he had no knowledge about the Unauthorised Disposal and he had never executed such agreements for and on behalf of the Company.

Despite the allegations of the Chinese Partner that the consideration stated in the Unauthorised Sale and Purchase Agreements had been fully settled by means of cash and telegraphic transfer, the Group reported only having received a sum of RMB2,000,000 from the Chinese Partner after checking all prior transactions in its bank accounts and accounting records during the year ended 31 December 2008. Since the Board was not aware of the Unauthorised Sale and Purchase Agreements, the Group recorded the said sum of RMB2,000,000 as a general advance from the Chinese Partner and it is classified as an amount due to non-controlling shareholder in the consolidated balance sheet as at 31 December 2008.

Also, from the official records of the PRC government, the registered capital of the Medical Equipment Subsidiary has been increased to RMB30,000,000 since late 2008, and the equity owners of the Medical Equipment Subsidiary at that time were the Chinese Partner (holding 62% of the equity interest), Great Profit Enterprises Limited, a company incorporated in the British Virgin Islands (holding 25% of the equity interest), and another PRC company (holding 13% of the equity interest).

During the year ended 31 December 2009, the Company has consulted its PRC lawyers as to the appropriate action to restore its interest in Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. However, the Company was notified in

October 2009 that one of the current registered owners of Medical Equipment Subsidiary filed a civil claim against the Group in the courts of Nanjing, PRC so as to seek the court's declaration that the transfer of the Company's 65% equity interest in Medical Equipment Subsidiary is legal and valid. Up to the date of this report, the process of restoring the interest and the re-register of the Company as a 65% equity owner of Medical Equipment Subsidiary as well as the civil claim against the Company are still in progress.

Moreover, the Board has established a special investigation committee (the "Special Investigation Committee") for the purpose of, among others, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary.

In the opinion of the directors of the Company, the transfer of the Group's 65% interest in Medical Equipment Subsidiary should be void under PRC law and the Company should have effective control over Medical Equipment Subsidiary since it became the 65% equity owner of Medical Equipment Subsidiary in 2002 and, therefore, consider that it is appropriate to include the following balances relating to Medical Equipment Subsidiary in the financial statements of the Group for the year ended 31 December 2008.

	2008
	HK$'000
Income and expenses:	
Turnover	47,692
Cost of sales	(20,925)
Other income	5,283
Selling and distribution expenses	(13,282)
Administrative expenses	(7,752)
Other operating expenses	(2,559)
Finance costs	(302)
Taxation	(1,500)
Non-controlling interests	(2,330)
Profit attributable to the Group	4,325
Assets and liabilities:	
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 Chinese Partner	5,840
Trade and other payables	(18,738)
Bank borrowings	(13,040)
Taxation	(1,665)
Non-controlling interests	(9,651)
Net assets attributable to the Group	17,923

Deconsolidation of Medical Equipment Subsidiary

As a result of the aforesaid potential dispute over the ownership in Medical Equipment Subsidiary, the Group has been unable to exercise its rights as a controlling entity either to control the assets and operations or to exercise control over the financial and operating policy decisions of this company. The Group has also been unable to obtain the financial information of Medical Equipment Subsidiary since 31 December 2008. In the opinion of the Board, it is inappropriate to consolidate the financial results of Medical Equipment Subsidiary into the Group thereafter and, therefore, Medical Equipment Subsidiary has been deconsolidated as from 1 January 2009. The Group recorded a gain of approximately HK$1,044,000 on deconsolidation of Medical Equipment Subsidiary for the year ended 31 December 2009 based on its financial information as of 31 December 2008 and after taking into account the provision for a potential loss of control of Medical Equipment Subsidiary in an amount of approximately HK$15,655,000 made at 31 December 2008.

Details of the net effect of deconsolidation of Medical Equipment Subsidiary recognised during the year ended 31 December 2009 are as follows:

	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 Chinese Partner	5,840
	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
	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	(15,655)
Net effect of deconsolidation of Medical Equipment Subsidiary	(1,044)

As a result of the potential dispute over the ownership in Medical Equipment Subsidiary, the Board is of the opinion that full provision on the net assets value of Medical Equipment Subsidiary attributable to the Group of approximately HK$17,923,000 less the amount of RMB2,000,000 general advance from the Chinese Partner should be made at 31 December 2008.

The net effect of deconsolidation of Medical Equipment Subsidiary represented the accumulative amount of the exchange difference relating to Medical Equipment Subsidiary and reclassified from exchange reserve less the amount of general advance from the Chinese Partner in an amount of approximately HK$2,268,000 (RMB2,000,000).

In the opinion of the directors of the Company, the Group has no material obligations or commitments in Medical Equipment Subsidiary that require either adjustments to or disclosure in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

(i) Measurement basis, judgements, estimates and assumptions

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries except Medical Equipment Subsidiary as discussed in Note 2.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 3(s)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

(ii) Going concern assumptions

During the financial year ended 31 December 2009, the Group has recorded a loss attributable to equity holders of the Company of approximately HK$49,763,000. Apart from the income from forestry exploitation business during the financial year ended 31 December 2008, the Group has continued recording net losses for five consecutive financial years, the continuation of the Group as a going concern is dependent upon its ability to generate sufficient cash from operating activities in particular from the forestry. Notwithstanding the continuation of recorded net losses, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements on the following bases:

(a) As at 31 December 2009, the Group has net current assets of approximately HK$37,797,000 including cash at bank and on hand of approximately HK$9,436,000.

(b) The Group has minimum exposures to the global credit crisis as the Group's operations are not dependent on borrowings from financial institutions nor is dependent on third parties financing.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Where losses applicable to the non-controlling interests exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling interests has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

Loans from holders of non-controlling interests and other contractual obligations towards these holders, if any, are presented as financial liabilities in the consolidated balance sheet in accordance with Note 3(k).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 3(s)).

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3 (g)):

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	Shorter of 50 years and the remaining terms of the leases
Constructed roads	30 years
Medical equipment	6 years
Motor vehicles	5 years
Plant, machinery and equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 3(r)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 3(g)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(g)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Forest exploitation rights	70 years
Medical research projects	5 to 10 years
Other intangible assets	5 to 10 years

Both the useful life and method of amortisation are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the shorter of the estimated useful lives and the period of the lease term less impairment losses (see Note 3(g)).

(g) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets; and

– investments in subsidiaries (except for those classified as held for sale(or included in a disposal group that is classified as held for sale) (see Note 3(s)).

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 3(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fess payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deducible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or asserts are expected to settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and/or the related risks and rewards of ownership have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service fee income

– *Research and development*

Revenue is recognised when the outcome on a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable will be recoverable.

– *Other service fee income*

Other service income is recognised when services are provided.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out in Note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKAS 39, Financial instruments – Recognition and measurement
- Amendments to HKAS 32, Financial instruments – Presentation
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

The amendments to HKAS 23, HKAS 32, HKAS 39 and improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other

income and expenses in a revised statement of changes in equity. All other items of income and expense are presented in the new primary statement, the statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- The Amendment to HKFRS 2 clarifies the definition of vesting conditions and specifies the accounting treatment of cancellations by the counterparty to a share-based payment arrangement. Vesting conditions are either service conditions (which require a counterparty to complete a specified period of service) or performance conditions (which require a counterparty to complete a specified period of service and specified performance targets to be met). All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Note 8 describes the services fees income received from the initial services provided in relation to a piece of land of 1,000 hectares (equivalent to approximately 10 million sq.m.) located in Kratie District, Kratie Province, the Kingdom of Cambodia in which the Group had the right to exploit the natural resources on it during the year ended 31 December 2008. The management considered the detailed criteria for the recognition of revenue of rendering of services set out in HKAS 18 Revenue and, in particular, whether the Group had already provided the respective services. In order to earn such income, the Group needed to provide the initial facilities such as transportation, telecommunication, water and electricity facilities and on the date of signing the services agreement, the Group had substantially completed this obligation. There were no subsequent services that the Group needed to provide according to the services agreement, and therefore, in the opinion of the directors, the recognition of the full amount of the initial services fee in the current year was appropriate.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of intangible assets

In considering the impairment losses that may be required for the Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available.

In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

(ii) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on the directors' regular review and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would have a significant impact in profit and loss.

(iii) Depreciation and amortisation

The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses charge for the year. The management determines that the useful life of the forest exploitation rights located in Cambodia is 70 years based on management's expertise in the forestry industry. It could change significantly as a result of changes in such market. The useful lives of other assets are based on the Group's historical experience with similar assets. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

6. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	Continuing operations		Discontinued operations		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales of wood products	343	–	–	–	343	–
Sales of medical equipment *(Note 2)*	–	47,692	–	–	–	47,692
Medical equipment service fees and sales of related accessories	–	203	–	–	–	203
Research and development service fees	–	–	3,612	32	3,612	32
	343	47,895	3,612	32	3,955	47,927

7. SEGMENT INFORMATION

The Group only operated in a single business segment, that is, natural resources business in the Kingdom of Cambodia ("Cambodia"), after the deconsolidation of Medical Equipment Subsidiary as disclosed in Note 2 to the financial statements, and the discontinued operations as disclosed in Note 12 to the financial statements. The Board considers that presentation of segment disclosure would not be meaningful in the financial statements and accordingly, no segmental analysis is presented.

8. INCOME FROM FORESTRY EXPLOITATION BUSINESS

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sub-concession of 10% of forest exploitation rights *(note (a))*	–	51,985	–	–	–	51,985
Initial services fee income *(note (b))*	–	78,000	–	–	–	78,000
	–	129,985	–	–	–	129,985

Note:

(a) As detailed in the Company's circular dated 9 May 2008, the Group entered into a cooperation agreement with an independent third party, Qiong Hai Xin Neng Agriculture Development Company Limited ("Qiong Hai Agriculture") on 20 March 2008 and pursuant to which the Group agreed to sub-lease to Qiong Hai Agriculture of approximately 1,000 hectares (equivalent to approximately 10.0 million sq.m.), representing approximately 10% of the total site area of its forest (the "First Forest") located in Kratie District, Kratie Province, Cambodia. The forest exploitation rights were acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group secured the right to exploit the natural resources of the forest, for a term of approximately 70 years from 24 March 2008 to 11 November 2077, being the expiry date of the exclusive exploitation rights granted to the Group in respect of the First Forest, at a cash consideration of US$10 million (equivalent to approximately HK$78 million).

(b) As detailed in the Company's announcement dated 21 November 2008, the Group entered into a service agreement with an independent third party, Eastwood Link Limited ("Eastwood Link") and pursuant to which, Eastwood Link agreed to pay the Group a consideration of US$10 million (equivalent to approximately HK$78 million) for being appointed as the sole provider of services to the Group in respect of an area of land approximately 1,000 hectares (equivalent to approximately HK$10 million sq.m.) located in Kratie District, Kratie Province, Cambodia for the period from 20 November 2008 to 31 December 2010 acquired by the Group pursuant to the sale and purchase agreement dated 25 July 2007 in which the Group has the right to exploit the natural resources of the forest (the "Designated Land"). Eastwood Link is entitled to receive the operating profits up to an aggregate amount of US$15 million (equivalent to approximately HK$117 million) generated from the sale of wood products manufactured from the trees currently standing on the Designated Land.

9. OTHER INCOME

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bad debts recovered	–	3,246	–	–	–	3,246
Write back of accrued expenses	–	–	–	787	–	787
Bank interest income	13	428	41	183	54	611
Others	5	2,089	–	22	5	2,111
	18	5,763	41	992	59	6,755

10. PROFIT/(LOSS) BEFORE TAXATION

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

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Finance costs						
Interest on bank borrowing	–	302	–	–	–	302
Interest on bonds	1,381	670	–	–	1,381	670
	1,381	972	–	–	1,381	972
Other operating expenses						
Research and development costs	–	3,282	2,014	6,761	2,014	10,043
Others	–	276	–	–	–	276
	–	3,558	2,014	6,761	2,014	10,319
Staff costs						
(including directors' remuneration disclosed in *Note 13)*						
Wages and salaries	6,122	11,357	676	831	6,798	12,188
Share based payments	3,951	4,448	–	–	3,951	4,448
Staff retirement benefits	74	1,500	94	61	168	1,561
	10,147	17,305	770	892	10,917	18,197

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

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other items						
Cost of inventories *(Note 23)*	145	20,965	16	–	161	20,965
Depreciation	751	1,319	83	113	834	1,432
(Profit)/loss on disposal of property, plant and equipment	(5)	19	–	–	(5)	19
Bad debts written off	48	1,790	–	–	48	1,790
Auditors' remuneration	1,153	1,719	8	7	1,161	1,726
Operating lease charges in respect of office premises	458	504	41	55	499	559
Amortisation of prepaid lease payments	–	45	91	90	91	135
Amortisation of intangible assets:						
– Forest exploitation rights	7,238	7,332	–	–	7,238	7,332
– Other	–	398	–	–	–	398

11. TAXATION

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009	2008
	HK$'000	*HK$'000*
Current tax – PRC Income Tax *(Note 2)*	–	1,500

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits in Hong Kong during the year.

(ii) PRC Income Tax

No provision for PRC Income Tax has been made as the subsidiaries of the Company did not have any assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) Cambodia Tax on Profits

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 year determined in accordance with the relevant tax rules and regulations in Cambodia.

(b) Reconciliation between taxation and profit/(loss) before taxation at applicable tax rates:

	2009	2008
	HK$'000	*HK$'000*
Profit/(loss) before taxation:		
Continuing operations	(30,016)	89,951
Discontinued operations	(19,747)	(17,456)
	(49,763)	72,495
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the countries concerned	(8,914)	(9,741)
Tax effect of non-deductible expenses	8,914	12,740
Tax effect of concession period	–	(1,499)
Taxation for the year	–	1,500

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2008: Nil).

12. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS

Disposal of medical research and development of drugs business

The assets and liabilities related to Medical China Technology Limited, China Best Drugs Research (Nanjing) Ltd. and China Best Pharmaceutical (Nanjing) Co., Ltd. (the "disposal group") have been presented as held for sale following the plan for sale made by of the Group's management during the year ended 31 December 2009 to sell the medical research and development of drugs business. The Company entered into an agreement with an independent third party to dispose of the Group's equity interests in the disposal subsidiaries as disclosed in Note 2 to the financial statements. The transaction is expected to be completed by June 2010.

(a) Assets and liabilities of disposal group classified as held for sale

	2009
	HK$'000
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 Medical Equipment Subsidiary *(Note 2)*	2,272
Liabilities associated with assets classified as held for sale	26,282
Net assets classified as held for sale	12,599

(b) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Revenue	3,653	1,024
Expenses	(3,665)	(18,480)
Loss before taxation	(12)	(17,456)
Taxation	–	–
	(12)	(17,456)
Loss on re-measurement to fair value less costs to sell		
– Construction in progress *(Note 18)*	(17,936)	–
– Medical research projects *(Note 21)*	(1,799)	–
Taxation	–	–
	(19,735)	–
Loss for the year from discontinued operations	(19,747)	(17,456)

(c) Cash flows from discontinued operations:

	2009
	HK$'000
Net cash used in operating activities	(413)
Net cash used in investing activities	(3,177)
Net cash from financing activities	–
	(3,590)

13. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors fees		**Salaries, allowances and benefits in kind**		**Share based payments**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors								
Leung Sze Yuan, Alan	–	–	455	245	1,099	651	1,554	896
Zhang Zhenzhong	–	–	490	286	1,099	651	1,589	937
Non-executive directors								
Chen Minshan	–	20	–	–	–	–	–	20
Li Nga Kuk, James	152	152	–	–	–	–	152	152
Li Tai To, Titus	152	152	–	–	–	–	152	152
Independent non-executive directors								
Fan Wan Tat	120	120	–	–	–	–	120	120
Tam Wai Leung, Joseph	120	120	–	–	–	–	120	120
Chan Kim Chung, Daniel	120	120	–	–	–	–	120	120
	664	684	945	531	2,198	1,302	3,807	2,517

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2009.

Directors are appointed for one year terms and renewal terms are agreed by the Remuneration Committee annually.

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in Note 13. The aggregate of the emoluments in respect of the remaining three (2008: three) individuals are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	1,868	885
Discretionary bonuses	80	14
Share based payments	3,508	1,355
Retirement benefit scheme contributions	24	12
	5,480	2,266

The emoluments of the remaining three (2008: three) individuals with the highest emoluments are within the following bands:

	2009	**2008**
	Number of Individuals	*Number of Individuals*
Nil – $1,000,000	2	3
$1,000,001 – $1,500,000	1	–

15. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK$17,231,000 (2008: HK$22,212,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year *(Note 30)*:

	2009	**2008**
	HK$'000	*HK$'000*
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	17,231	22,212
Impairment loss recognised in respect of subsidiaries		
– Investment in subsidiaries *(Note 19)*	26,869	7,607
– Amounts due from subsidiaries *(Note 25)*	84,467	–
	128,567	29,819

16. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2009	**2008**
	HK$'000	*HK$'000*
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year attributable to equity holders of the Company)	(49,763)	68,665

	2009	**2008**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	1,905,000	1,801,721

The diluted earnings/(loss) per share are the same as basic earnings/(loss) per share for the years ended 31 December 2008 and 2009 because the exercise prices of the Company's share options were higher than the average market price for shares.

17. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	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 2008	6,802	–	418	2,596	2,830	12,646
Additions	4,678	6,786	–	842	4,597	16,903
Transfer from construction in progress *(Note 18)*	7,118	–	–	–	–	7,118
Disposals	–	–	–	(41)	(442)	(483)
Exchange adjustments	422	–	6	102	166	696
At 31 December 2008	19,020	6,786	424	3,499	7,151	36,880
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 *(Note 21)*	848	–	–	–	–	848
Disposals	–	–	–	(803)	–	(803)
Exchange adjustments	–	–	–	2	2	4
Deconsolidation of a subsidiary *(Note 2)*	(16,429)	–	–	(615)	(2,441)	(19,485)
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	–	–	–	(510)	(1,036)	(1,546)
At 31 December 2009	5,559	15,825	424	1,856	851	24,515
Aggregate depreciation						
At 1 January 2008	893	–	371	2,044	1,959	5,267
Charge for the year	444	151	7	365	465	1,432
Write-back on disposal	–	–	–	(31)	(433)	(464)
Exchange adjustments	59	–	4	79	118	260
At 31 December 2008	1,396	151	382	2,457	2,109	6,495
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 *(Note 2)*	(1,387)	–	–	(616)	(1,143)	(3,146)
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	–	–	–	(510)	(812)	(1,322)
At 31 December 2009	168	275	389	892	337	2,061
Net book value						
At 31 December 2009	5,391	15,550	35	964	514	22,454
At 31 December 2008	17,624	6,635	42	1,042	5,042	30,385

(b) The Company

	Motor vehicles	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2008	803	115	918
Additions	–	37	37
At 31 December 2008	803	152	955
At 1 January 2009	803	152	955
Additions	–	37	37
Disposals	(803)	–	(803)
At 31 December 2009	–	189	189
Aggregate depreciation			
At 1 January 2008	803	115	918
Charge for the year	–	7	7
At 31 December 2008	803	122	925
At 1 January 2009	803	122	925
Charge for the year	–	15	15
Write-back on disposal	(803)	–	(803)
At 31 December 2009	–	137	137
Net book value			
At 31 December 2009	–	52	52
At 31 December 2008	–	30	30

During the year ended 31 December 2008, the buildings of Medical Equipment Subsidiary of approximately HK$15,042,000 have been pledged to secure general banking facilities and borrowings granted to the Group. Such amount was deconsolidated for the year ended 31 December 2009 as disclosed in Note 2 to the financial statements.

The buildings of the Group are situated as follows:

	2009	2008
	HK$'000	*HK$'000*
PRC	41	15,086
Cambodia	5,350	2,538
	5,391	17,624

18. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year	31,950	18,189	3,400	–
Additions	3,168	19,755	–	3,400
Transfer to property, plant and equipment *(Note 17)*	–	(7,118)	–	–
Exchange adjustments	49	1,124	–	–
Written off				
– Transferred to consolidated statement of comprehensive income	(2,600)	–	(2,600)	–
– Transferred to other payables	(800)	–	(800)	–
Loss on re-measurement to fair value *(Note 12(b))*	(17,936)	–	–	–
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	(13,831)	–	–	–
Balance at end of the year	–	31,950	–	3,400

During the year ended 31 December 2008, the Group recognised an addition of HK$3,400,000 in respect of setting up its own telecommunication system in the forest area of Cambodia for the forestry exploitation business and the Group has paid HK$2,600,000 for the project. The balance payment of HK$800,000 was included in other payables.

During the year ended 31 December 2009, the management of the Group decided to cease to set up its own telecommunication system but to use the service of an existing telecommunication operator in Cambodia, who can provide the network to cover the forest area. Accordingly, the whole cost of the project of HK$3,400,000 has been written off and the cash payment of HK$2,600,000 has been recognised as an expense in the consolidated statement of comprehensive income for current year. The remaining payable of HK$800,000 has been written off against other payables.

19. INVESTMENTS IN SUBSIDIARIES

	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at cost		
At beginning of the year	540,433	268,872
Additions	–	271,561
At end of the year	540,433	540,433
Impairment		
At beginning of the year	15,144	7,537
Impairment loss recognised	26,869	7,607
At end of the year	42,013	15,144
Carrying value	498,420	525,289

The principal activities and other particulars of the subsidiaries are set out in Note 38.

20. PREPAID LEASE PAYMENTS

	2009	2008
	HK$'000	*HK$'000*
Cost		
At beginning of the year	3,001	2,826
Exchange adjustments	3	175
Deconsolidation of a subsidiary *(Note 2)*	(1,366)	–
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	(1,638)	–
At end of the year	–	3,001
Accumulated amortisation		
At beginning of the year	416	263
Charge for the year	91	135
Exchange adjustments	–	18
Deconsolidation of a subsidiary *(Note 2)*	(234)	–
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	(273)	–
At end of the year	–	416
Carrying value	–	2,585

During the year ended 31 December 2008, the prepaid lease payments of Medical Equipment Subsidiary of carrying value approximately HK$1,132,000 have been pledged to secure general banking facilities and borrowings granted to the Group. Such amount was deconsolidated for the year ended 31 December 2009 as disclosed in Note 2.

21. INTANGIBLE ASSETS

	Forest exploitation rights HK$'000	Medical research projects HK$'000	Others HK$'000	Total HK$'000
Cost				
At 1 January 2008	262,960	84,152	2,648	349,760
Additions				
– through acquisition of a subsidiary	270,000	–	–	270,000
– by the Group	2,207	–	–	2,207
Disposals	(26,391)	–	–	(26,391)
Exchange adjustments	–	133	162	295
At 31 December 2008 and 1 January 2009	508,776	84,285	2,810	595,871
Exchange adjustments	–	3	–	3
Reclassification to				
– property, plant and equipment *(Note 17)*	(848)	–	–	(848)
– other receivables	(1,170)	–	–	(1,170)
Deconsolidation of a subsidiary *(Note 2)*	–	–	(2,810)	(2,810)
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	–	(84,288)	–	(84,288)
At 31 December 2009	506,758	–	–	506,758
Accumulated amortisation				
At 1 January 2008	3,757	57,292	1,550	62,599
Impairment loss recognised	–	9,600	–	9,600
Charge for the year	7,332	–	398	7,730
Write-back on disposal	(376)	–	–	(376)
Exchange adjustments	–	–	99	99
At 31 December 2008 and 1 January 2009	10,713	66,892	2,047	79,652
Loss on re-measurement to fair value *(Note 12(b))*	–	1,799	–	1,799
Charge for the year	7,238	–	–	7,238
Deconsolidation of a subsidiary *(Note 2)*	–	–	(2,047)	(2,047)
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	–	(68,691)	–	(68,691)
At 31 December 2009	17,951	–	–	17,951
Carrying value				
At 31 December 2009	488,807	–	–	488,807
At 31 December 2008	498,063	17,393	763	516,219

Forest exploitation rights

The Group firstly acquired an exclusive right to exploit the forest located in Kratie District, Kratie Province, Cambodia (the "First Forest") for a period of 70 years during the year ended 31 December 2008. The Group further acquired additional exclusive right to exploit the forest located adjacent to the First Forest during the year ended 31 December 2008.

Amortisation of forest exploitation rights are charged to profit or loss on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2009, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

22. ACQUISITION OF A SUBSIDIARY

On 8 July 2008, Forest Glen Group Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Agri-Industrial Crop Development Company Limited for a total consideration of HK$270,000,000. The fair values of the net assets acquired were as follows:

	Fair value to the Group
	HK$'000
Intangible assets – Forest exploitation rights	270,000
Satisfied by:	
Cash	80,000
Bonds *(Note 28)*	70,000
Consideration shares *(Note 29)*	120,000
Total consideration	270,000

The above acquisition has been accounted for as acquisition of assets.

23. INVENTORIES

	2009	**2008**
	HK$'000	*HK$'000*
Raw materials	69	3,646
Work in progress	–	2,468
Finished goods	1,811	7,461
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	(84)	–
	1,796	13,575

An analysis of the amount of inventories recognised as expense is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Carrying amount of inventories sold	161	20,965

24. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors	169	8,940	–	–
Less: Allowance for doubtful debts	(169)	(4,228)	–	–
	–	4,712	–	–
Other receivables, deposits and prepayments	27,823	101,884	156	–
Deposits paid	132	81	82	32
Amount due from Chinese Partner	–	5,840	–	–
Transferred to disposal group classified as assets held for sale *(Note 12(a))*	(84)	–	–	–
Loans and receivables	27,871	112,517	238	32

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

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	2009	**2008**
	HK$'000	*HK$'000*
Within 3 months from the date of billing	–	4,031
3 to 6 months from the date of billing	–	13
6 to 12 months from the date of billing	–	668
	–	4,712

Ageing of trade receivables which are past due but not impaired:

	2009	**2008**
	HK$'000	*HK$'000*
Less than one month overdue	–	287
One to three months overdue	–	246
Over three months overdue	–	4,003
	–	4,536

Movement in the allowance for doubtful debts:

	2009	**2008**
	HK$'000	*HK$'000*
Balance at beginning of the year	4,228	6,097
Amounts written off as uncollectible during the year	48	1,790
Amounts recovered during the year	–	(3,246)
Exchange adjustments	(5)	(413)
Deconsolidation of a subsidiary	(4,060)	–
Transferred to disposal group classified as assets held for sale	(42)	–
Balance at end of the year	169	4,228

The average credit period on sales of goods is 30 to 90 days.

Receivables neither past due nor impaired relate to a wide range of customers for whom there has been no recent history of default. Receivables that were past due but not impaired relate to several number of independent customers that have a good track record with the Group.

Other receivables of the Group mainly represented the balance of receivables for the sub-concession of 10% forest exploitation right in respect of the First Forest as disclosed in Note 8(a).

25. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amount due from Medical China Technology Ltd. of approximately HK$84,467,000 has been impaired for the year pursuant to a waiver agreement signed on 2 March 2010, in respect of the disposals as disclosed in Note 35.

26. TRADE AND OTHER PAYABLES

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	8,120	–	–
Other payables and accrued liabilities	9,138	19,065	3,004	2,170
Deposits received	7,500	–	7,500	–
Amount due to Chinese Partner *(Note 2)*	–	2,267	–	–
Amount due to non-controlling shareholder *(Note 34)*	20,975	20,975	–	–
Transferred to disposal group classified as liabilities held for sale *(Note 12(a))*	(24,010)	–	–	–
Financial liabilities measured at amortised cost	13,603	50,427	10,504	2,170

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

Included in trade and other payables are trade creditors with the following ageing analysis as at the balance sheet date:

	2009	2008
	HK$'000	*HK$'000*
Due within 3 months or on demand	–	6,590
Due after 3 months but within 6 months	–	118
Due after 6 months but within 1 year	–	1,412
	–	8,120

The amount of deposits received represented the first payment received from the potential buyer for the disposal group as disclosed in Notes 12 and 34.

27. AMOUNTS DUE TO SUBSIDIARIES

The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

28. 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, interest bearing at 2% per annum and repayable on 7 July 2010. Subsequent to the balance sheet date, the bonds were fully repaid on 4 January 2010.

29. SHARE CAPITAL

	2009		2008	
	No. of shares	Amount	No. of shares	Amount
	'000	*HK$'000*	*'000*	*HK$'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	1,705,000	17,050
Issue of shares	–	–	200,000	2,000
At end of the year	1,905,000	19,050	1,905,000	19,050

On 8 July 2008, the Company increased its amount of share capital to HK$19,050,000 by issuing of 200,000,000 consideration shares of HK$0.01 each for the acquisition of Agri-Industrial Corp Development Company Limited (Note 22).

30. RESERVES

The Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share options Reserve *HK$'000*	Retained profits/ (Accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2008	379,783	5,265	1,875	(45,588)	341,335
Transactions with owners					
Issue of shares	118,000	–	–	–	118,000
Recognition of equity-settled share based payments	–	–	4,448	–	4,448
Lapse of share options	–	–	(188)	188	–
Total transactions with owners	118,000	–	4,260	188	122,448
Comprehensive income					
Loss for the year *(Note 15)*	–	–	–	(29,819)	(29,819)
At 31 December 2008	497,783	5,265	6,135	(75,219)	433,964
At 1 January 2009	497,783	5,265	6,135	(75,219)	433,964
Transactions with owners					
Issue of shares	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	3,951	–	3,951
Lapse of share options	–	–	(889)	889	–
Total transactions with owners	–	–	3,062	889	3,951
Comprehensive income					
Loss for the year *(Note 15)*	–	–	–	(128,567)	(128,567)
At 31 December 2009	497,783	5,265	9,197	(202,897)	309,348

31. COMMITMENTS

Capital commitments

Capital commitments outstanding at 31 December 2009 contracted but not provided for in the financial statements were as follows:

	2009	2008
	HK$'000	*HK$'000*
Property, plant and equipment	3,922	5,568
Continuing operations	–	–
Discontinued operations	3,922	5,568
	3,922	5,568

Operating lease commitments

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 1 year	250	206
After 1 year but within 5 years	54	48
After 5 years	252	255
	556	509
Continuing operations	535	490
Discontinued operations	21	19
	556	509

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

32. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

Hong Kong

The Group operates a defined contributed Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in profit or loss of the Group is disclosed in Note 10 of the financial statements.

33. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 14 December 2001 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 December 2011. Under the Scheme, the Board may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 57,500,000 (2008: 72,000,000), representing 3.02% (2008: 3.78%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised on the second anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise price	Fair value at grant date
		HK$	*HK$*
Directors			
12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085
Employees			
12 October 2007	12 October 2009 to 13 October 2011	0.45	0.23
31 March 2008	31 March 2010 to 31 March 2012	0.21	0.085

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2007 and 31 December 2008 vested on the second anniversary of the date of grant.

The fair value of the share options granted during the financial year is approximately HK$3,951,000 (2008: HK$4,448,000) each. Options were priced using a binomial option pricing model ("Binominal model"). Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past two years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

Inputs in the model:

Date of grant	**31/3/2008**	**12/10/2007**
Grant date share price	0.206	0.43
Exercise price	0.210	0.45
Expected volatility	18.55%	101.49%
Option life	2 years	2 years
Risk-free interest rate	1.837%	4.17%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years from the date of grant.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The following table discloses movements of the Company's share options held by employees and directors during the year.

Date of Grant	**Outstanding at 1/1/2008**	**Granted during the year**	**Lapsed during the year**	**Outstanding at 31/12/2008**	**Lapsed during the year**	**Outstanding at 31/12/2009**
	'000	*'000*	*'000*	*'000*	*'000*	*'000*
12/10/2007	40,000	–	(4,000)	36,000	(4,000)	32,000
31/3/2008	–	36,000	–	36,000	(10,500)	25,500
	40,000	36,000	(4,000)	72,000	(14,500)	57,500

34. 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 year:

		2009	**2008**
	Note	*HK$'000*	*HK$'000*
Salary paid to a former director	*(i)*	152	–
Management fee paid to a related company	*(i)*	19	–
Rental paid to a related company	*(i)*	156	–
Amount due from Chinese Partner	*(ii)*	–	5,840
Amount due to Chinese Partner	*(ii)*	(2,371)	(2,267)
Management fee paid to Chinese Partner		–	1,709
Amount due to non-controlling shareholder	*(iii)*	20,975	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 year.

(ii) The Group received an amount of approximately HK$2,371,000 from the Chinese Partner of Medical Equipment Subsidiary during the year ended 31 December 2008 as general advance disclosed in Note 2. The amount due from Chinese Partner of approximately HK$5,840,000 has been deconsolidated upon the deconsolidation of Medical Equipment Subsidiary as disclosed in Note 2.

(iii) The Group had a payable to other non-controlling shareholder, namely, Ms. Guo Ping, of approximately HK$20,975,000. Ms. Guo Ping is a non-controlling shareholder of Medical China Technology Ltd..

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

Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 13 and certain of the highest paid employees as disclosed in Note 14, are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Short-term employee benefits	1,609	1,215
Share based payments	2,198	1,302
	3,807	2,517

Total remuneration is included in staff costs (Note 10).

35. POST BALANCE SHEET EVENTS

- 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 Company announced on 5 March 2010 that it has approved an open offer of two offer shares for five existing shares held on record date of 24 March 2010. The proposed open offer is for a maximum of 762,000,000 shares at a price of HK$0.02 per share to raise gross proceeds of not more than HK$15,240,000 (before issue expenses). The proposed open offer is not underwritten.

36. CAPITAL RISK 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. The Group's overall strategy remains unchanged from prior year.

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 divided by the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to 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.

The gearing ratio of the Group was 0.1% as at 31 December 2009 (2008: 13.6%). The improving gearing ratio in the financial year was due to the deconsolidation of the Medical Equipment Subsidiary as detailed in Note 2 to the financial statements. Bonds issued by the Group as part of the purchase consideration for a forest in Cambodia had been paid down to HK$3,700,000 at 31 December 2009 (2008: HK$70,000,000).

The Board believes the existing gearing ratio of 0.1% is reasonable considering the cost of capital and the risks associated with each class of capital.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009	**2008**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents	37,307	160,931
Financial liabilities		
Amortised cost	13,603	133,467

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash at bank and on hand, trade and other payables, bank borrowings and bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

Market risk

(a) 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 the consolidated financial statements.

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

(b) Interest rate risk

The Group's explosure to fair value 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. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (as defined above) at the balance sheet date:

	2009		2008	
	Effective interest rate		Effective interest rate	
	%	*HK$'000*	%	*HK$'000*
Net fixed rate borrowings:				
Bonds	2.0%	3,700	2.0%	70,000
Variable rate borrowings:				
Bank borrowings	7.05%	–	7.05%	13,040
Total net borrowings		3,700		83,040

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of one per cent in interest rates, with all other variables held constant, would decrease/increase the Group's profit/(loss) and retained profits by approximately Nil (2008: $130,400). Other components of equity would not be affected (2008: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one per cent increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances. The Group cash flow interest rate is mainly concentrated on the fluctuation of the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

Credit risk

The carrying amount of trade and other receivables included in the consolidated balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, error, omission, inefficiency, systems failure or form 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.

Reference is made to the Company's announcement on 26 March 2009 regarding a potential dispute over the Company's ownership on Medical Equipment Subsidiary.

The Company consulted PRC lawyers as to the appropriate actions to protect its interest in Medical Equipment Subsidiary and implemented the necessary steps to formally re-register the Company as a 65% equity owner of Medical Equipment Subsidiary. Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish a special investigation committee (the "Special Investigation Committee") (comprising Mr. Leung Sze Yuan, Alan, an executive director, Mr. Tam Wai Leung, Joseph, an independent non-executive director, and Mr. Chan Kim Chung, Daniel, an independent non-executive director) for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Company. The Special Investigation Committee is authorized to appoint independent professional advisers (including but not limited to accountants and legal advisers) to assist in the course of its investigation and internal review, and report to the Board its findings. As at the date of this report, the Special Investigation Committee appointed Synthesis Consultancy Limited, an independent consultancy company, to conduct a review on its internal control system of all relevant financial, operational, compliance controls and risk management functions.

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table shows the details of the Group's expected maturity of the financial instruments.

			2009		
	Weighted average effective interest rate	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bonds	2.00	3,700	–	–	3,700
Bank	–	–	–	–	–
		3,700	–	–	3,700

			2008		
	Weighted average effective interest rate	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bonds	2.00	670	72,121	72,791	70,000
Bank	7.05	13,899	–	13,899	13,040
		14,569	72,121	86,690	83,040

Save as disclosed in Note 2 to the financial statements about the potential dispute over the ownership in Medical Equipment Subsidiary, the bank loans of $13,040,000 were deconsolidated from the Group's account. Subsequently, the buildings and leasehold land assets of the Group were not being pledged to the banks as at 31 December 2009.

(c) Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values at the respective balance sheet dates.

(d) Other risks

The Group's sales, purchases and expense transactions are generally denominated in US$ and RMB and a significant portion of the Group's assets and liabilities is denominated in US$ and RMB. The US$ is pegged and fixed within a range. The RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/ paid-in capital	Registered capital	Principal activities	*Note*
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	–	US$20,000	US$50,000	Investment holding	
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	–	100%	HK$142,900	HK$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	–	US$300,000	US$300,000	Development of software for medical equipment	*(i)*
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	–	100%	US$3,000,000	US$3,000,000	Research and development of medicine and drugs	*(ii)*
Sinnowa Medical Science and Technology Co. Ltd.	PRC	65%	65%	–	US$1,500,000	US$1,500,000	Manufacture and sale of medical equipment	*(iii)*
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US$100	US$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$5,000,000	US$5,000,000	Manufacture and sale of medicine and drugs	*(iv)*
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US$1,000,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	*(v)*
China Cambodia Resources Limited	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	*(vi)*

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital/ paid-in capital	Registered capital	Principal activities	*Note*
(Cambodia) Tong Min Group Engineering Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	*(vii)*
Forest Glen Group Ltd.	B.V.I	100%	100%	–	US$1	US$50,000	Investment holding	*(viii)*
Agri-Industrial Crop Development Co., Ltd.	Cambodia	100%	–	100%	US$1,000,000	US$1,000,000	Forestry business and development of rubber plantation for latex production	*(ix)*

Note:

(i) The subsidiary is a wholly foreign-owned enterprise set up to provide medical equipment, medical equipment software and related services.

(ii) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC and was set up to establish a research center for medicine and drugs. Pursuant to a research projects acquisition and reorganisation agreement with Miss Guo Ping ("Miss Guo") dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of the reorganisation, the Group retained a 75% shareholding in the subsidiary while the remaining 25% shareholding was held by Miss Guo. The Group decided to dispose of this subsidiary in order to concentrate its resources to the forestry exploitation business.

(iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2009 and 2008, the Company's total investment in this subsidiary amounted to US$975,000. Details of the potential dispute on the ownership of this subsidiary are set out in Note 2.

(iv) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC. During the year ended 31 December 2008, the Company injected US$200,000 as capital contribution. 南京德遠會計師事務所 verified the capital contribution and issued the capital verification report on 10 June 2008. As at 31 December 2009, the Company's total investment in this subsidiary amounted to US$5,000,000. The Group decided to dispose of this subsidiary in order to concentrate its resources to the forestry exploitation business.

(v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. As at 31 December 2009, the Company's total investment in this subsidiary amounted to US$1,000,000.

(vi) The subsidiary was incorporated on 26 June 2007 and is the holding company of (Cambodia) Tong Min Group Engineering Co., Ltd

(vii) The subsidiary is a wholly foreign-owned enterprise established in Cambodia. It undertakes logging/timber operations and is in the process of developing the forest areas into rubber plantation for the production of latex products.

(viii) The subsidiary was incorporated on 30 January 2008 and is the holding company of Agri-Industrial Crop Development Co., Ltd.

(ix) The subsidiary is a wholly foreign-owned enterprise established in Cambodia, and was acquired by the Group on 8 July 2008 for an aggregate consideration of HK$270,000,000 (Note 20). It is currently an investment company with no actual operation took place during the years ended 31 December 2009 and 31 December 2008."

4. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis extracted from the Company's annual reports for each of the three years ended 31 December 2007, 2008 and 2009.

For the year ended 31 December 2009

"Financial Review

The Group's turnover for the year ended 31 December 2009 amounted to approximately HK$343,000, representing a decrease of 99% as compared with the corresponding year in 2008 primarily as a result of the deconsolidation of Sinnowa. For the year ended 31 December 2009, the Group recorded a loss attributable to equity holders of the Company of approximately HK$49,763,000 (2008: profit of HK$68,665,000) due to: (a) deconsolidation of the results of Sinnowa; (b) the absence of one off initial service fee and sub-concession of its forests in Cambodia; and (c) loss provision for the Disposal Group.

Selling, distribution and administrative expenses for the year ended 31 December 2009 decreased by 49% to HK$26,550,000 from HK$51,633,000 as compared with the previous year. The significant decrease was primarily due to deconsolidation of Sinnowa and the Disposal Group.

An impairment loss of HK$2,600,000 was recognised for the telecommunication facilities in Cambodia during the year ended 31 December 2009.

In 2008, a full provision of approximately HK$15.65 million was made for Sinnowa in light of the uncertainties over the ownership dispute.

The basic loss per share for the year ended 31 December 2009 was 2.61 Hong Kong cents (2008: earnings per share of 3.81 Hong Kong cents).

At 31 December 2009, the Group did not have any bank borrowing (2008: HK$13,040,000).

Capital Structure

As at 31 December 2009, the total number of issued ordinary shares and the issued share capital of the Company were 1,905,000,000 (2008: 1,905,000,000) and HK$19,050,000 (2008: HK$19,050,000) respectively.

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 the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to 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.

The Group's gearing ratio was 0.1% and 13.6% as at 31 December 2009 and 31 December 2008, respectively. The improving gearing ratio in the financial year was due to the deconsolidation of the Medical Equipment Subsidiary as detailed in Note 2 to the financial statements. Bonds issued by the Group as part of the purchase consideration for a forest in Cambodia had been paid down to HK$3,700,000 at 31 December 2009 (2008: HK$70,000,000). Undrawn bank facility as at 31 December 2009 was nil (2008: Nil).

The Board believes the existing gearing ratio of 0.1% is reasonable considering the cost of capital and the risks associated with each class of capital.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2009, the Group had total assets of approximately HK$589,245,000 (2008: HK$755,645,000) which were financed by current liabilities of approximately HK$40,187,000 (2008: HK$81,088,000), total equity of the Company of approximately HK$545,358,000 (2008: HK$604,557,000), and bonds of HK$3,700,000 (2008: HK$70,000,000).

The current assets of the Group amounted to approximately HK$77,984,000 (2008: HK$174,506,000) of which approximately HK$9,436,000 (2008: HK$48,414,000) were cash and bank deposits, and HK$38,881,000 was assets held for sales (2008: Nil). The current liabilities of the Group amounted to approximately HK$13,905,000 (2008: HK$81,088,000) of which approximately HK$13,603,000 (2008: HK$50,427,000) were trade and other payables and HK$302,000 (2008: HK$1,966,000) was provision for income tax. There is no outstanding bank borrowing of the Group as at 31 December 2009 (2008: HK$13,040,000). During the year, the Group did not enter any banking facility or any of the Group's buildings and leasehold land assets was being pledged to the bank (2008: HK$16,173,000).

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 31 December 2009 was HK$0.29 (2008: HK$0.32).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

Following completion of the acquisition of Agri-Industrial Crop Development Company Limited during the year 2008, the Group increased its total concession area in Cambodia to approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group is expected to receive the economic benefit derived from the initial clearing up of the forest area and the subsequent cultivation of rubber tree and jatropha caucas plantations during the 70-year concession period.

There was no disposals of subsidiaries and affiliated companies during the year.

As at 31 December 2009, the Group had outstanding capital commitment of approximately HK$3,922,000 (2008: HK$5,568,000).

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, market price, natural, political and regulations 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 31 December 2009, the Group had no outstanding hedging instruments (2008: 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.

Market price risk

Market price risk is the risk arises from the wood product such as sawn timber and wood flooring materials have been volatile and are affected by numerous factors that we cannot control, including demand for wood and wood products, supply from illegal logging, changes in currency exchange rates, economic growth rates, foreign and domestic interest rates, trade policies, and prevailing fuel and transportation costs.

In addition, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Oversupply and lower prices may also result from illegal logging activity or decreased government enforcement of logging restrictions. If market prices for wood products were to decline, it could have a material adverse effect on our business, financial condition and results of operation.

Natural risk

The Group owns forest assets and has cultivated rubber tree, acacia and jatropha curcas plantations. Natural disasters, inclement weather conditions and other acts of God which are beyond the Group's control may adversely affect the growing of the plantations and generally our ability to extract value from owning these assets. The Group's business, operating results and financial condition may be adversely affected if natural disasters, contagious disease, bad weather conditions and other acts of God occur.

Political and government regulations risk

Political risk is the risk that any event of the political instability in Cambodia may have an adverse effect toward the Group's business, operating results and financial investment. The recent history of Cambodia has been characterized by political instability and civil war, with fighting between different factions until as recently as 1997. It is only in the past decade that Cambodia has regained some measure of political stability with Prime Minister Samdech Hun Sen and his Cambodian People's Party rising to political dominance.

The Group exposures to government regulation risk primarily arise from the operations in Cambodia to a wide range of environmental laws and regulations, which regulate, among other things, forestry and plantation activities, including harvesting, land clearing for forests, planting in cleared areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations have generally become more stringent in recent years in Cambodia and could become even more stringent in the future. We may be required to obtain additional licenses before we are permitted to occupy certain premises and/or carry out certain activities.

Any tightening of the requirements prescribed by environmental laws and regulations in Cambodia, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our liquidity and adversely affect our results of operations.

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in Note 38 to the financial statements. 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 form 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.

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. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary").

Employees' information and benefit scheme for the employees

As at 31 December 2009, the Group has 177 (2008: 324) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2009 and 2008 were approximately HK$10,917,000 and HK$18,197,000 respectively.

The Company has granted Share Option of 40,000,000 shares and 36,000,000 shares to 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 of the Company, which was adopted on 14 December 2001. Share Option of 4,000,000 shares granted to a former director and 14,500,000 shares granted to the senior employees have been subsequently cancelled after their resignation. The total share options granted including 34,000,000 shares to two directors, Mr. Leung Sze Yuan, Alan and Mr. Zhang Zhenzhong.

In addition to the 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 requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation 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.

Contingent Liabilities

As at 31 December 2009, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Forestry, wood product manufacturing and plantation

The two forests owned by the Group in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group has completed the construction of a self owned and operated sawn timber factory with an annual capacity of 10,000 cubic metres. A sawn timber and wood flooring material factory, owned by subcontractors with a capacity of 15,000 cubic metres, is under construction.

In 2009, we logged and cleared approximately 450 hectares of forest, and planted 270 hectares of rubber trees, acacia trees and jatropha curcas on the cleared land. In November 2009, the Group completed its maiden export shipment of timber products from Cambodia.

Manufacturing and sales of medical equipment

There is a potential dispute over the Company's ownership in the Medical Equipment Subsidiary, which should be a 65% subsidiary of the Company. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish the Special Investigation Committee for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Group.

Research, development and sales of drugs

The Group has yet to obtain approval from the State Food and Drug Administration ("SFDA") to commence Phase I clinical trial for its anti-cancer drug in the PRC.

Manufacturing and sales of drugs and medicines

The construction of the new pharmaceutical factory in Nanjing was completed in 2009.

Outlook

The Group is focusing its financial and management resources on developing its forestry, wood product manufacturing, and plantation businesses in Cambodia.

In 2010, the Group expects to increase its production of sawn timber and wood flooring material in Cambodia, and to expand its sale network to include both export and domestic sales in Cambodia.

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

On 2 March 2010, the Company announced that it has signed conditional agreements to sell its equity interest in two PRC subsidiaries that owned the experimental anti-cancer drug and the new pharmaceutical factory mentioned above. The sale is consistent with the Group's strategy to focus its financial and management resources in developing its businesses in Cambodia."

For the year ended 31 December 2008

"Financial Review

The Group's turnover for the year ended 31 December 2008 amounted to approximately HK$47,927,000, representing an increase of 24.7% as compared with the corresponding year in 2007. For the year ended 31 December 2008, the Group recorded a profit attributable to equity holders of the Company of approximately HK$68,665,000 (2007: loss of HK$21,989,000).

Other income for forestry exploitation business for the year ended 31 December 2008 amounted to approximately HK129,985,000. Included in this was service income of HK$78,000,000 (equivalent to US$10,000,000) recorded in connection with the signing of the exclusive services agreement with ELL. Also included was a gain of HK$51,985,000 from the Sub-concession of 10% of the First Forest.

Selling, distribution and administrative expenses for the year ended 31 December 2008 increased by 45.3% to HK$53,697,000 from HK$36,968,000 as compared with the previous year. The significant increase was primarily due to: (1) an increase in overheads associated with the Cambodian businesses of HK$8,542,000; (2) an increase in amortization expenses for the forest exploitation rights of HK$3,481,000; and (3) an increase in professional fees associated primarily with the acquisition of the First and Second Forest and the Sub-concession of the First Forest of HK$1,426,000.

An impairment loss of HK$9,600,000 was recognised for the anti-cancer drug candidate currently in pre-clinical development.

The basic earnings per share for the year ended 31 December 2008 was 3.81 Hong Kong cents (2007: loss per share 2.12 Hong Kong cents).

At 31 December 2008, the outstanding bank loan of the Group was HK$13,040,000 (2007: Nil).

Reference is made to the announcement of 26 March 2009 on Potential Dispute over the Group's ownership of the Medical Equipment Subsidiary. In light of the uncertainties of the potential dispute and in the interest of prudence, the Board has made a full provision of approximately HK$15.65 million for the Medical Equipment Subsidiary in the Group's consolidated financial statements for the year ended 31 December 2008.

Based on the Company's financial statements for the year ended 31 December 2008, the Medical Equipment Subsidiary recorded net profit after taxation of approximately HK$6.66 million, representing approximately 9.38% of the Group's consolidated net profit after taxation and full provision of the above-mentioned HK$15.65 million. As at 31 December 2008, the net asset value of the Medical Equipment Subsidiary attributable to the Company amounted to approximately HK$17.92 million, representing approximately 3.01% of the Group's consolidated net asset value. The management of the Company estimated that up to 31 December 2008, the Company's total investment in the Medical Equipment Subsidiary amounted to approximately HK$7.61 million.

Guaranteed profit of First Forest

For the year ended 31 December 2008, the net profit after tax and minority interests of the First Forest was approximately HK$123,000,000, which is equivalent to 72% of the guaranteed profit of HK$170,000,000 provided by the vendors of the First Forest when the Group acquired it from the vendors. As this is above the floor of 70% at which point the compensation mechanism kicks in, no compensation will accrue to the Group.

Capital Structure

As at 31 December 2008, the total number of issued ordinary shares and the issued share capital of the Company were 1,905,000,000 (2007: 1,705,000,000) and HK$19,050,000 (2007: HK$17,050,000) respectively. During the year, the Company increased its issued share capital by the allotment of 200,000,000 new Consideration Shares in connection with the acquisition of the Second Forest.

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 was to maintain the gearing ratio within 100% which was consistent to that of prior years. 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 13.6% and 0% as at 31 December 2008 and 31 December 2007, respectively. The capital base was increased by HK$120,000,000 with share capital and share premium at HK$2,000,000 and HK$118,000,000 upon the completion of acquisition of the Second Forest in Cambodia on 8 July 2008. The increase in gearing ratio in the financial year under review was due to bank loans taken out by the Group to fund the completion of the new factory in Nanjing and the Bonds issued by the Group to fund the said acquisition during the year. Under the new banking facility, the Group was granted general banking facility of

HK$7,937,000, payable on demand, with interest at 6.9% per annum as at 31 December 2008 so charged. Together with the existing facility granted by China Merchant Bank, both facilities are pledged by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$16,174,000 at 31 December 2008. The Bonds issued by the Group had a principal value of HK$70,000,000, 2% coupon per annum, payable on a semi-annual basis. The Bonds maturity date is 8 July 2010. Undrawn bank facility as at 31 December 2008 amounted is nil compared to HK$4,806,000 as at 31 December 2007.

The Board believes the existing gearing ratio of 13.6% is reasonable considering the cost of capital and the risks associated with each class of capital.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2008, the Group had total assets of approximately HK$755,645,000 (2007: HK$474,815,000) which were financed by current liabilities of approximately HK$81,088,000 (2007: HK$69,675,000), total equity of the Company of approximately HK$604,557,000 (2007: HK$405,140,000), and bonds of HK$70,000,000 (2007: Nil).

The current assets of the Group amounted to approximately HK$174,506,000 (2007: HK$159,435,000) of which approximately HK$48,414,000 (2007: HK$99,400,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$81,088,000 (2007: HK$69,675,000) of which approximately HK$50,427,000 (2007: HK$69,391,000) were trade and other payables and HK$1,966,000 (2007: HK$284,000) was provision for income tax. There is outstanding bank loan of the Group of HK$13,040,000 at 31 December 2008 (2007: Nil). During the year, the Group negotiated new banking facility from 南京市區農村信用合作聯社 of HK$7,937,000, with an effective interest rate of 6.9% per annum as at 31 December 2008. The existing banking facility from China Merchant Bank of HK$5,103,000, payable on demand, with an effective interest rate of 7.3% as at year end date. Both facilities were secured by the Group's buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$16,173,000 at 31 December 2008.

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 31 December 2008 was HK$0.32 (2007: HK$0.24).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

During the year ended 31 December 2008, the Company acquired the entire share capital of Agri-Industrial Crop with the approval by shareholders in the SGM on 28 May 2008. Following completion of the acquisition of Agri-Industrial Crop, the Group increased its total concession area in Cambodia to approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. The Group is expected to receive the economic benefit derived from the initial clearing up of the forest area and the subsequent cultivation of rubber tree and jatropha caucas plantations during the 70-year concession period.

There was no disposals of subsidiaries and affiliated companies during the year.

As at 31 December 2008, the Group had outstanding capital commitment of approximately HK$5,568,000 (2007: HK$13,693,000).

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 31 December 2008, the Group had no outstanding hedging instruments (2007: 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 which are reported as investment in subsidiaries set out in note 36 to the financial statements. 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 form 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.

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. (南京神州英諾華醫療科技有限公司) (the "Medical Equipment Subsidiary").

Employees' information and benefit scheme for the employees

As at 31 December 2008, the Group has 324 (2007: 227) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2008 and 2007 were approximately HK$18,197,000 and HK$11,327,000 respectively.

On 31 March 2008, the Company granted Share Options for 36,000,000 shares to employees of the Group at an exercise price of HK$0.21 per share during the period from 31 March 2010 to 31 March 2012 under its Share Option Scheme. The total share options granted included 18,000,000 to two directors, Mr. Leung Sze Yuan, Alan and Mr. Zhang Zhenzhong.

In addition to the 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 requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation 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.

Contingent Liabilities

As at 31 December 2008, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Forestry, wood product manufacturing and plantation

The two forests in Cambodia have a total site area of approximately 19,500 hectares with estimated timber reserves in excess of 5 million cubic metres. During the year, the Group completed most of the access roads measuring in excess of 150 kilometres, drainage systems, and river bridges of the two forests, as well as a sawn timber factory with an annual capacity of 10,000 cubic metres.

Forest clearing began in the first half of 2008 and over 300 hectares were cleared in 2008. We established a timber yard measuring 120 hectares and have in storage logs in excess of 5,000 cubic metres as at year end. Production of sawn timber from salvage logs began in the second half of 2008.

Cultivation of rubber tree and jatropha curcas plantations commenced in the second half of 2008. As at year end, we have planted 5,500 rubber trees and 1,800 jatropha curcas plants.

We signed an exclusive services agreement with ELL in November 2008 to provide services including the logging of trees, processing of logs into wood products, and the selling of such wood products on a designated piece of land measuring approximately 1,000 hectares in the First Forest. This will speed up the tree logging and the development pace of forest exploitation.

I am pleased to report that permits for the domestic and export sale of wood products have been received from the Cambodian Government and revenue from the sale of wood products will start from 2009.

Development of the market and application of RFAS in the PRC

The Group's RFAS radio frequency treatment business experienced a reduction in revenue as the number of co-operation contracts with the PRC hospitals declined.

Manufacturing and sales of medical equipment

The sales of medical equipment made good progress during the year. Sales of medical equipment increased by 24.7% to HK$47,692,000 as compared to the previous year.

There is a potential dispute over the Company's ownership in the Medical Equipment Subsidiary, which should be a 65% subsidiary of the Company. The Company has been consulting PRC lawyers as to the appropriate actions to take so as to protect its interest in the Medical Equipment Subsidiary and to implement the necessary steps to formally re-register the Company as a 65% shareholder of the Medical Equipment Subsidiary.

Moreover, with regard to the seriousness of the matter, the Board has resolved on 26 March 2009 to establish the Special Investigation Committee for the purpose of, inter alia, investigating the matters related to the potential dispute as to the Company's ownership in the Medical Equipment Subsidiary and reviewing the internal control procedures and corporate governance policies of the Group.

Research, development and sales of drugs

The Group decided to focus our pharmaceutical research and development efforts on a principal anti-cancer product. In March 2008, final application to commence Phase I clinical trials were submitted to the SFDA. In July 2008, the SFDA experts' panel discussed the Group's application, and final determination is expected in first half 2009.

Manufacturing and sales of drugs and medicines

The construction of the new pharmaceutical factory in Nanjing was completed and the factory passed GMP certification during the year. We will prepare applications to manufacture a number of generic drugs in 2009.

Plantation development in Guilin

The Group's plantation development in Guilin suffered losses due to the heavy snow storms in southern China in first quarter 2008. The Board reassessed the plantation development plan and have decided to write off the remaining investment in the plantation. The Group has leased out unutilised farm land to local farmers.

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 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 the second quarter of 2009. 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."

For the year ended 31 December 2007

"Financial Review

The Group's annual turnover for the year ended 31 December 2007 amounted to approximately HK$38,443,000, representing an increase of 9.9% as compared with the corresponding year in 2006. For the year ended 31 December 2007, the Group's sustained a loss attributable to equity holders of the Company of approximately HK$21,989,000 (2006: HK$29,378,000). Included in the loss for the year were the impairment loss for the plantation development in Guilin, China of HK$6,785,000, expenses incurred in placement of new shares for the acquisition of (Cambodia) Tong Min of HK$3,238,000 and the initial amortization charge of the forest exploitation rights in Cambodia of HK$3,757,000.

The operating expenses for the year ended 31 December 2007 decreased by 8.3% to HK$45,398,000 from HK$49,506,000 as compared with that of the corresponding period last year.

Other revenue for the year ended 31 December 2007 amounted to approximately HK$4,114,000, representing an increase of 92.7% as compared with the corresponding period last year. The increase was mainly attributable to an increase in interest income for the year.

The basic loss per share for the year ended 31 December 2007 was 2.12 Hong Kong cents (2006: 3.52 Hong Kong cents).

At 31 December 2007, there is no outstanding bank loan of the Group (2006: HK$3,484,000).

Capital Structure

As at 31 December 2007, the total number of issued ordinary shares and the issued share capital of the Company were 1,705,000,000 (2006: 835,000,000) and HK$17,050,000 (2006: HK$8,350,000) respectively. During the year, the Company increased its issued share capital by the allotment of 167,000,000 New Placement Shares, 233,000,000 Top-up Shares, 400,000,000 Consideration Shares and 70,000,000 Conversion Shares.

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 adjusted capital. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bond and other interest bearing securities. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognized in equity relating to cash flow hedges, less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio at 0% to 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, repurchase of shares, raise new debt financing or sell assets to reduce debt.

Our gearing ratio was 0% and 3.7% as at 31 December 2007 and 31 December 2006, respectively. The improving gearing ratio in the financial year under review was due to the full repayment of bank loan and change of loan term with China Merchant Bank. Under the new banking facility, the Group was granted general banking facility of HK$4,806,000, payable on demand, with interest at market prevailing rate as fixed by the People's Bank of China from time to time and 10% of interest so charged. The facility was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,974,000 at 31 December 2007 (2006: HK$6,750,000). The change of term provides greater flexibility of the Group in managing the liquidity and interest expenses. Undrawn facility as at 31 December 2007 amounted to HK$4,806,000 compared to HK$1,068,000 as at 31 December 2006.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2007, the Group had total assets of approximately HK$474,815,000 (2006: HK$134,558,000) which were financed by current liabilities of approximately HK$69,675,000 (2006: HK$33,799,000) and equity attributable to equity holders of the Company of approximately HK$398,265,000 (2006: HK$94,420,000).

The current assets of the Group amounted to approximately HK$159,435,000 (2006: HK$87,613,000) of which approximately HK$99,400,000 (2006: HK$69,957,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$69,675,000 (2006: HK$33,799,000) of which approximately HK$69,391,000 (2006: HK$30,075,000) were trade and other payables and HK$284,000 (2006: HK$240,000) was provision for income tax. There is no outstanding bank loan of the Group at 31 December 2007 (2006: HK$3,484,000). During the year, the Group negotiated new banking facility from China Merchant Bank, was granted general banking facility of HK$4,806,000, payable on demand, with interest charged at market prevailing rate as fixed by the People's Bank of China from time to time and 10% of interest so charged. The facility was secured by the Group's buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,974,000 at 31 December 2007 (2006: HK$6,750,000).

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on deposits with maturity within one year.

The net assets value per share as at 31 December 2007 was HK$0.24 (2006: HK$0.12).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

During the year ended 31 December 2007, the Company acquired the entire share capital of (Cambodia) Tong Min with the approval by independent shareholders in the SGM on 2 October 2007. Following completion of the Acquisition of (Cambodia) Tong Min in October 2007, the Group has expanded into the forestry business in Cambodia and is expected to receive the economic benefit derived from the initial clearing up of the forest and the subsequent rubber plantation for 70 years from 2007.

On 9 January 2008, the Group entered into the non-binding In-Principle Agreement with the Vendor. Pursuant to which, the Group may acquire the entire share capital of Agri-Industrial Crop with total consideration of the Acquisition will be not more than HK$300 million and will be satisfied by way of cash (to be financed by the internal resources of the Group), bond and new Shares to be issued by the Company, which, if so issued, will be issued at an issue price of HK$0.60 per share, being the weighted average of the prices of the placing of the Shares conducted by the Company in July 2007, or a combination of any of the above, subject to finalisation of the valuation report prepared by the Independent Valuer.

Agri-Industrial Crop is an investment company incorporated in Cambodia and its principal business scopes are exploitation of the Second Forest (including forest clearing and processing of salvage logs into wood products) and rubber tree plantation for the subsequent latex production therein. The Second Forest is adjacent to the First Forest currently owned by the Group and has a site area of approximately 9,555 hectares (equivalent to approximately 95.55 million sq.m.).

There was no disposals of subsidiaries and affiliated companies during the year.

As at 31 December 2007, the Group had outstanding capital commitment of approximately HK$13,693,000 (2006: HK$17,123,000).

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 pastdue 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 Chinese Renminbi and the United States dollars. 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 Chinese Renminbi. 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 United States dollars as the rate of exchange between Hong Kong dollars and the United States dollars is pegged and fixed within a range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

As at 31 December 2007, the Group had no outstanding hedging instruments (2006: HK$Nil).

Interest rate risk

The Group is not subject to any interest rate risk as all interest bearing debts has been fully settled. The Board has set out capital management policy which is focus on the control of interest bearing debts. Following the well-defined policy, the gearing ratio is set to be under the adjusted capital and this will minimize the Group exposure to interest rate volatility.

Equity risk

The Group's equities exposure was mainly in long-term equity investments which are reported as investment in subsidiaries set out in note 19 to the financial statements. All equities held are more 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, system failure or from external events. It is inherent to every business organization and covers a wide spectrum of issues. The Group manages its operational risk through a controls-based environment in which the processes and controls are documented, authorization is independent and transactions are reconciled and monitored. This is supported by periodic independent review of the internal control department. The operational risk management framework comprises assignment of responsibilities at senior management level, assessment of risk factors inherent in each business and operations units, information systems to record operational losses and analysis of loss events. Operational risk is mitigated by adequate insurance coverage on assets and business losses. To reduce the impact and interruptions to business activities caused by natural disaster, back-up systems and contingency plans are in place for all business and critical operational functions. Operational risk management is coordinated by the Chief Operating officer of business units and monitored by the Internal Control Department.

Employees' information and benefit scheme for the employees

As at 31 December 2007, the Group has 227 (2006: 198) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2007 and 2006 were approximately HK$11,327,000 and HK$6,115,000 respectively.

On 12 October 2007, the Company granted Share Options for 40,000,000 shares to employees of the Group at an exercise price of HK$0.45 per share during the period from 12 October 2008 to 12 October 2014 under its Share Option Scheme. The total share options granted included 4,000,000 to a director, Mr. Li Wo Hing.

In addition to the 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 requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation 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.

Contingent Liabilities

As at 31 December 2007, the Group and the Company did not have any material outstanding contingent liabilities.

Business Review

Acquisition of (Cambodia) Tong Min

Since the acquisition of (Cambodia) Tong Min in October 2007, the Group made significant progress in the development of the concession area measuring 9,965 hectares in Kratie Province, Cambodia. Access roads connecting the concession area and National Highway No. 7 were completed at the time of this report, as well as supporting infrastructure such as worker's accommodation, fresh water wells and a timber yard.

Development of the market and application of RFAS in the PRC

The Group's RFAS radio frequency treatment business experienced a reduction in revenue as the number of co-operation contracts with the PRC hospitals declined. The promotion of the Group's "Multi-bullet, multi-hold drug injection system" in PRC hospitals progressed slower than expected. All these affected the Group's revenue and profit for the year.

Manufacturing and sales of medical equipment

The sales of medical equipment made good progress during the year. Sales of medical equipment increased by 36.6% to HK$38,243,000 as compared to the previous year. The sale increase had a positive effect to the Group's revenue. The Board expects sales will continue to increase in the year 2008, as the Group expands and strengthens its sales and after sales service teams. However, there will be downward pressure on the unit selling price due to the strong market competition and the weakening of the US dollar against RMB.

Research, development and sales of drugs

After due evaluation of the current conditions in the PRC pharmaceutical market, in particular, the tightening of drug approval requirements by the State Food and Drug Administration ("SFDA"), the Group decided to focus its research and development efforts on a Category One anti-cancer product. During the year, testing of clinical trial sample batches was completed by the provincial SFDA. The National Centre for Drug Evaluation has received the test report and completed the drug's technical assessment. Submission documents seeking approval to commence clinical trials are being prepared.

Manufacturing and sales of drugs and medicines

The construction of a new factory building and its annexure designed to manufacture drugs and medicines in Nanjing have been completed. Production machineries and air control system are in the process of being installed.

Plantation development in Guilin

Last year, the Group experienced losses for its plantation development in Guilin, China due to the poor climate condition. The drought condition resulted in losses, in particular, of young plants. With the recent heavy snow storms in Southern and Central China, there were further damages. The Board reassessed the plantation development plan and made provision of impairment loss of HK$6,785,000 for the year.

Outlook

Following the acquisition of (Camboida) Tong Min in October 2007, clearing of the forest area commenced in February 2008, and the first sawn timber production line was commissioned in March 2008. The Directors anticipate that an annual sawn timber processing capacity of approximately 25,000 cubic metres will be in place by the third quarter of 2008. Machinery orders for a wood flooring material factory with an annual capacity of 50,000 cubic metres have also been placed and production is expected to commence in the second half of 2008.

Concurrent with its logging progress, the Group has secured purchase orders for the sale of sawn timbers and wood flooring materials totaling US$32 million (equivalent to approximately HK$249.6 million) for delivery in 2008 and 2009. The Directors are confident of procuring additional purchase orders as the Group ramp up its production volume.

The Group has reached in-principal agreement to acquire a second concession area measuring approximately 9,555 hectares, which is contiguous to the first concession area. The Directors believe that the acquisition of the second concession area will create substantial synergistic value in logging, wood processing, transportation and logistics, and rubber plantation. The Directors also believe the acquisition will strengthen the Group's market position in the natural resources industry in Cambodia, and improve the Group's business profile and financial performance in the future.

The Group will continue developing its existing medical and pharmaceutical businesses and forecast that sales of medical equipment will further increase in the coming year. In the drug development business, we will seek approval to commence Phase I clinical trial for our principal product this year. In Nanjing, we will finish the fitting out and installation of machineries and seek GMP clearance from the SFDA. In Guilin, the Group will continue to support the plantation development for long term investment purpose."

5. MANAGEMENT DISCUSSION AND ANALYSIS ON CROPS & LAND DEVELOPMENT AND THE TARGET GROUP

Upon Completion, the Target Group will be wholly-owned by the Company and its financial results will be consolidated into the Company's consolidated financial statements.

Crops & Land Development

Results

During each of the period from 20 May 2008 (date of incorporation of Crops & Land Development) to 31 December 2008, the year ended 31 December 2009, the seven months ended 31 July 2009 and 2010 (the "Relevant Periods"), Crops & Land Development did not commence any active business operations and did not generate any turnover but recorded a net loss of approximately HK$0.2 million, HK$2.0 million, HK$1.7 million and HK$0.3 million, respectively.

Gearing ratio

As at 31 December 2008, 31 December 2009 and 31 July 2010, Crops & Land Development had net asset value of approximately HK$7.6 million, HK$5.6 million and HK$5.4 million, respectively, and did not have any bank borrowings. Accordingly, its gearing ratio was 0% as at each of the aforesaid period end.

Material acquisition and disposal of subsidiary and significant investment held

Crops & Land Development neither held any significant investment nor any subsidiaries during each of the Relevant Periods.

Employees

Crops & Land Development did not pay any director's remuneration and did not have any employee (hence no staff cost was incurred) during each of the Relevant Periods.

Charges on assets

Crops & Land Development had no pledged assets as at 31 December 2008 and 31 December 2009, and 31 July 2010.

Hedging

Crops & Land Development had neither foreign currency hedging activities nor any financial instruments for hedging purposes during each of the Relevant Periods.

Future plans

After the Completion, Crops & Land Development will become a wholly-owned subsidiary of the Company and will be engaged in the forestry and plantation business in Cambodia.

Contingent liabilities

In April 2009, Crops & Land Development entered into a cooperation agreement with a PRC company (the "PRC Company") pursuant to which Crops & Land Development agreed to grant the PRC Company a right to process the timber exploited from a forest located in Cambodia. The representative of the PRC Company has alleged that the PRC Company had paid RMB0.2 million and US$0.5 million to the owner of Crops & Land Development pursuant to the cooperation agreement. The representative of the PRC Company has lodged a claim in the PRC against the owner of Crops & Land Development for repayment of the said sum and the related damages as it alleged that Crops & Land Development had failed to comply with the terms of the said cooperation agreement. However, no provision for any potential claims or liabilities has been made by Crops & Land Development in this respect. Further details of such litigation is disclosed in the paragraph headed "Litigation" in "Appendix VIII – General information" to this circular.

The opinion expressed on the financial information of Crops & Land Development

As disclosed in the accountants' report on Crops & Land Development contained in appendix III to this circular, the reporting accountants have rendered a disclaimer of opinion on the financial information of Crops & Land Development due to lack of supporting evidence regarding the relevant administrative expenses and the relevant construction costs incurred during the Relevant Periods. However, as mentioned in the section headed "Letter from the Board", after signing the Acquisition Agreement, the Company has engaged professional parties to conduct due diligence on Crops & Land Development, including legal advisers as to Cambodia laws and PRC laws to perform legal due diligence on Crops & Land Development. Furthermore, the Acquisition Agreement has also contained a number of protective clauses such that the Group could be indemnified by the Vendors against the potential loss, liabilities, expenses and costs that are not being recorded in the financial statements of Crops & Land Development. As such, the Directors considered that the above measures would be sufficient for the Group to protect itself prior to Completion. Upon Completion, the Target Group will be wholly-owned by the Group and the Group will be able to impose more stringent internal controls over the financial management and policy of Crops & Land Development. Having considered the above and taken into account that the Enlarged Group will obtain (i) the 70-year concession right for exploiting the Third Forest, including the initial clearing up of the existing trees in the Third forest and the subsequent plantation of rubber and acacia; (ii) the Working Capital Facility for the construction of the wood flooring material factory and the purchase of the wood logging/processing equipment to enhance its production capacity and (iii) the various benefits and synergies brought to the Group from the Acquisition and the overall positive contribution to its future business operations resulted from the Acquisition, the Directors are of the view that the Acquisition, despite the above-mentioned qualification and disclaimer, is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

The Target Group

During the period from 1 July 2010 (date of incorporation of the Target Company) to 31 July 2010, the Target Group did not commence any active business operations and therefore did not record any turnover or profit/loss.

Gearing ratio

As at 31 July 2010, the Target Group had net assets value of approximately US$100 and did not have any bank borrowings. Accordingly, its gearing ratios was 0%.

Employees

The Target Company did not pay any director's remuneration and did not have any employee (hence no staff cost was incurred) during the month ended 31 July 2010.

Charges on assets

The Target Group had no pledged assets as at 31 July 2010.

Hedging

The Target Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the one month ended 31 July 2010.

Future plans

Save for the Reorganisation, the Target Company did not have any major investment plans as at the Latest Practicable Date.

Assessment of Consideration

As advised by the Vendors, due to the lack of necessary funding and expertise, Crops & Land Development had not commenced any forestry exploitation on the Third Forest after entering into the Concession Contract in 2008. As described in the section headed "Letter from the Board", MAFF has, in recent years, adopted a stringent policy in dealing with those concessionaires who have left their forest land under Economic Land Concessions dormant for a prolonged period of time by requesting the Cambodian government to cancel the Concession Contracts granted. The owner of Crops & Land Development, in consideration of such iron-fist policy of MAFF, has decided to dispose of its interests in Crops & Land Development to the Target Company for cash of HK$80 million (which is at a substantial discount to the perceived valuation of the Third Forest). However, the circumstances under which the acquisition of Crops & Land Development by the Target Company took place are very different from the Acquisition in material respects, particularly the nature of the Acquisition and the Vendors' commitment to the future development of the Group (hence the Forests) as evidenced by (i) agreeing to have the Reorganisation as a condition precedent to the Acquisition Agreement (which cannot be waived) such that all of the risks relating to the Reorganisation will be borne by the Vendors (and will thus substantially reduce the risk to be borne by the Company in the Acquisition); (ii) accepting the shares of the Company as consideration (which results in the Vendors sharing the same interest in the Forests as the Group); (iii) agreeing to procure the Target Group to obtain the Economic Land Concession for the Third Forest (including registration of the Third Forest as the State Private Land) and, most importantly, (iv) providing the Group with the Working Capital Facility (which is unsecured, interest-free and for a term of 70 years) so as to enhance the Group's production capacity and implementation of its business plans regarding the Forests.

In addition to the above, given the political and legal environment in Cambodia, the Directors consider that substantial time and resources can be saved if the Reorganisation is taken up by the Vendors, instead of having the Company conducted the Reorganisation on its own. All of these, together with the willingness of the Vendors to provide the Working Capital Facility and accept the Consideration Shares and the Convertible Bonds as consideration thus demonstrate that the Acquisition is akin to a cooperation project between the Group and the Vendors. In addition, the Directors have considered that more weight should be given to the overall impact of the Acquisition on the Group's business and the various synergies and benefits to the future development of the Group (rather than the consideration under the Reorganisation) and the fact that the Consideration representing a substantial discount of over 75% to the valuation of the Third Forest in assessing the Acquisition (including the Consideration). Given the above, the Directors consider that the Acquisition (including the Consideration) is fair and reasonable and is in the interest of the Company and the Shareholders as a whole. It is expected that the Completion (including the Reorganisation) will be on or before 31 December 2010.

6. INDEBTEDNESS

Borrowings

At the close of business on 31 July 2010, being the latest practicable date for the purpose of this indebtedness statement, other than Sinnowa Medical Science and Technology Co., Ltd. ("Sinnowa") whereas no information can be obtained owing to the potential dispute as mentioned under the heading "5. LITIGATION" as set out in Appendix VIII to the Circular, the Enlarged Group did not have any borrowings.

Securities and guarantees

At the close of business on 31 July 2010, other than Sinnowa whereas no information can be obtained owing to the potential dispute as mentioned under the heading "5. LITIGATION" as set out in Appendix VIII to the Circular, the Enlarged Group did not provide any securities and guarantees.

Contingent liabilities

At the close of business on 31 July 2010, other than the litigations as disclosed under the heading "5. LITIGATION" as set out in Appendix VIII to the Circular, the Enlarged Group did not have any material contingent liabilities.

Capital commitments and other commitments

At the close of business on 31 July 2010, other than Sinnowa whereas no information can be obtained owing to the potential dispute as mentioned under the heading "5. LITIGATION" as set out in Appendix VIII to the Circular, commitments of the Enlarged Group in respect of operating leases amounted to approximately HK$401,000.

The directors of the Company plan to finance the above commitments by internally generated funds of the Enlarged Group.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, at the close of business on 31 July 2010, the Enlarged Group had no debt securities, borrowings, mortgages, charges, debentures or other loan capital or bank overdrafts or other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments or any guarantees or other material commitment or any material contingent liabilities.

The Directors have confirmed that save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2010 up to the Latest Practicable Date.

7. WORKING CAPITAL SUFFICIENCY

The Directors are satisfied after due and careful enquiry that, after taking into account the existing cash and bank balances and the Working Capital Facility available to the Group after Completion, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the Latest Practicable Date, in the absence of unforeseeable circumstances.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

5/F, Ho Lee Commercial Building,
38-44 D'Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

17 September 2010

The Directors
China Asean Resources Limited
8/F, Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Richking Development Limited ("Richking") and its subsidiaries ("Richking Group"), including the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 July 2010 (date of incorporation of Richking) to 31 July 2010 (the "Relevant Period"), and the consolidated balance sheet of Richking Group and the balance sheet of Richking as at 31 July 2010 (collectively, the "Financial Information"), prepared for inclusion in the circular of China Asean Resources Limited (the "Company") dated 17 September 2010 (the "Circular").

Richking was incorporated on 1 July 2010 as a limited liability company in the British Virgin Islands ("BVI") and, save for the acquisition of subsidiaries as set out in the paragraph below, has not carried on any business since the date of its incorporation. The entire issued share capital of Richking is wholly and beneficially owned by United Sky Investment Limited and Jethero International Limited (the "Vendors").

Pursuant to the agreement dated 22 July 2010 entered into between Forest Glen Group Limited ("Forest Glen"), a directly held wholly-owned subsidiary of the Company as at the date of this report, and the Vendors, Forest Glen will acquire from the Vendors their 100% equity interest in Richking (the "Acquisition Agreement").

Richking is an investment holding company and intends to undertake forest clearing operations together with the processing of salvage logs into wood products and to develop a rubber tree plantation for the production of latex products. This is to be achieved under exclusive rights to exploit a designated forest area which is located at Kratie Province in the Kingdom of Cambodia ("Cambodia") and is adjacent to the forests owned by the Company and its subsidiaries (the "Group").

Richking has the following direct and indirect subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of equity interest attributable to and held by Richking		Principal activities
			Directly	*Indirectly*	
Mighty Pine Limited ("Mighty Pine")	BVI 1 July 2010	Ordinary share of US$1	100%	–	Investment holding
Crops & Land Development (Cambodia) Co., Ltd. ("Crops & Land Development")	Cambodia 20 May 2008	Registered capital of US$1,000,000	–	100%	Processing of salvage logs into wood products and to develop a rubber tree plantation for the production of latex products

No audited financial statements have been produced for Richking, Mighty Pine and Crops & Land Development since their respective dates of incorporation and up to the date of this report as there are no such statutory audit requirements in BVI and Cambodia.

BASIS OF PREPARATION

The Financial Information has been prepared by the sole director of Richking based on the unaudited management financial statements of Richking Group for the Relevant Period and on the basis as detailed in note 2(b) to the Financial Information. The Financial Information is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

DIRECTORS' RESPONSIBILITY

The sole director of Richking is responsible for the preparation and the true and fair presentation of the Financial Information of Richking Group in accordance with the HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. Except as described in the basis for qualified opinion paragraph below, we have carried out appropriate audit procedures in respect of the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as are necessary in accordance with the Auditing guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

BASIS FOR QUALIFIED OPINION

The costs incurred for the constructed road as included in property, plant and equipment in the consolidated balance sheet were paid by the sole director of Crops & Land Development. Due to a lack of supporting evidence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the accuracy of the costs incurred on the constructed road appearing in the consolidated balance sheet in the amount of US$446,568 at 31 July 2010.

There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy of the costs incurred on the constructed road as included in property, plant and equipment. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustments to the amount reported may have a consequential significant effect on the total assets of Richking Group at 31 July 2010.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter as described under the basis for qualified opinion paragraph above, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the state of affairs of Richking Group and Richking as at 31 July 2010.

A. FINANCIAL INFORMATION

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income has not been presented as Richking Group did not have any active operations or incur any profit or loss for the period from 1 July 2010 (date of incorporation of Richking) to 31 July 2010.

Consolidated Balance Sheet

	Note	**As at 31 July 2010** *US$*
Non-current assets		
Property, plant and equipment	*6*	446,568
Intangible assets	*7*	10,567,593
		11,014,161
Current assets		
Deposit	*9*	72,000
Amount due from the sole director of Richking	*11*	100
		72,100
Current liabilities		
Amount due to the sole director of subsidiary	*12*	(785,634)
Amounts due to shareholders	*13*	(10,256,409)
Other payable	*14*	(44,118)
		(11,086,161)
Net current liabilities		(11,014,061)
Net assets		100
Capital		
Share capital	*15*	100
Total equity		100

The accompanying notes form part of the financial information.

Balance Sheet

		As at 31 July 2010
	Note	*US$*
Non-current assets		
Investments in subsidiaries	*8*	10,256,410
Current assets		
Amount due from the sole director of Richking	*11*	100
Current liabilities		
Amounts due to shareholders	*13*	(10,256,409)
Amount due to a subsidiary		(1)
		(10,256,410)
Net current liabilities		(10,256,310)
Net assets		100
Capital		
Share capital	*15*	100
Total equity		100

Consolidated Statement of Changes in Equity

The only equity component of Richking Group is the share capital. The only movement in equity was the issuance of shares of US$100 on 1 July 2010 by Richking.

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows has not been presented as Richking Group did not operate any bank accounts or hold any cash and cash equivalents and the only cash movement was the issuance of shares of US$100 which is then advanced to the sole director of Richking. There were no other cash transactions during the Relevant Period.

The accompanying notes form part of the financial information.

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Richking was incorporated in British Virgin Islands as a private limited liability company on 1 July 2010. The address of its registered office is P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its principal place of business is Room 1412, COSCO Tower, 183 Queen's Road Central, Hong Kong.

The principal activity of Richking is investment holding. The principal activities and other particulars of the subsidiaries of Richking are set out in note 8.

The Financial Information is presented in United States dollars ("US$"), which is the functional currency of Richking Group.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by Richking Group is set out below.

(b) Basis of preparation

Pursuant to the Acquisition Agreement, Richking will undergo a corporate reorganisation exercise pursuant to which Mighty Pine and Crops & Land Development will be beneficially owned by Richking (the "Reorganisation").

The Financial Information is prepared on the basis that the Reorganisation is successfully completed.

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 18.

(c) Subsidiary and group financial information

Subsidiaries are entities controlled by Richking. Control exists when Richking has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the balance sheet of Richking, investments in subsidiaries are stated at cost less any impairment losses.

(d) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by Richking. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiaries in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over Richking's share of the net fair value of the subsidiaries' identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of Richking's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated statement of comprehensive income.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less any accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in accounting policy 2(f) below. Impairment losses of goodwill are recognised in the consolidated statement of comprehensive income and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

(e) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Constructed roads	30 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at each balance sheet date. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and Richking Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and any impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred. Other intangible assets that are acquired by Richking Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on the straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Forest exploitation rights – 70 years

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the intangible assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Operating leases

Assets that are held by Richking Group under leases which transfer to Richking Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Richking Group are classified as operating leases.

Where Richking Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(h) Other receivables

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of Richking Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

(i) Other payables

Other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Taxation

Income tax for the Relevant Period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payables in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(k) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when Richking Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Translation of foreign currencies

Foreign currency transactions during the Relevant Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair values were determined.

(m) Related parties

For the purposes of the Financial Information, a party is considered to be related to Richking Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Richking Group or exercise significant influence over Richking Group in making financial and operating policy decisions, or has joint control over Richking Group;

(ii) Richking Group and the party are subject to common control;

(iii) the party is a subsidiary, an associate of Richking Group or a joint venture in which Richking Group is a venturer;

(iv) the party is a member of key management personnel of Richking Group or Richking Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of Richking Group or of any entity that is a related party of Richking Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. TURNOVER

Richking Group has not yet commenced active operations and, therefore, did not generate any turnover during the Relevant Period.

4. DIRECTOR'S REMUNERATION

Richking Group did not pay any director's remuneration and did not incur any staff costs during the Relevant Period. There were no arrangements under which the directors waived or agreed to waive any remuneration during the Relevant Period.

5. TAXATION

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as Richking Group did not have any assessable profits for the period chargeable to Hong Kong Profits Tax.

(b) Cambodia Income Tax

No provision for Cambodia Tax on Profit has been made for Richking's subsidiary, Crops & Land Development, as Crops & Land Development did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

Crops & Land Development is subject to Cambodia income tax at 20% but intends to apply for investment incentives including tax holidays to the Council for the Development of Cambodia. According to the relevant income tax rules and regulations, Crops & Land Development is entitled 100% relief from Cambodian Income Tax, commencing from the earlier of the first profitable year or three years from the commencement of business (i.e. first sales). The duration of tax holiday periods range from 3 to 6 years.

(c) No reconciliation between taxation and loss before taxation is presented as Richking Group did not incur any profit or loss and taxation for the Relevant Period.

(d) There were no significant deferred tax assets and liabilities at the balance sheet date.

6. PROPERTY, PLANT AND EQUIPMENT

Richking Group

Constructed roads

	As at 31 July 2010 *US$*
Cost	
Additions through acquisition of subsidiaries (note 10)	446,568
Carrying amounts	446,568

7. INTANGIBLE ASSETS

Richking Group

Forest exploitation rights

	As at 31 July 2010 *US$*
Cost	
Additions through acquisition of subsidiaries (note 10)	10,567,593
Carrying amounts	10,567,593

On the basis that the Reorganisation was successfully completed, the balance represents the exclusive rights to exploit a forest located in Kratie District, Kratie Province, Cambodia, for a period of 70 years obtained by Richking through the Reorganisation as disclosed in note 2(b).

Amortisation of forest exploitation rights are charged to profit or loss on the straight-line basis over the assets' estimated useful lives of 70 years.

At 31 July 2010, the sole director of Richking reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on their assessment and the valuation report, the sole director of Richking is of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

8. INVESTMENTS IN SUBSIDIARIES

	As at 31 July 2010 *US$*
Unlisted shares, at cost	10,256,410

Particulars of the subsidiaries are as follows:

Name of subsidiary	**Place and date of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Proportion of equity interest attributable to and held by Richking** *Directly*	*Indirectly*	**Principal activities**
Mighty Pine Limited	BVI 1 July 2010	Ordinary share of US$1	100%	–	Investment holding
Crops & Land Development (Cambodia) Co., Ltd.	Cambodia 20 May 2008	Registered capital of US$1,000,000	–	100%	Processing of salvage logs into wood products and to develop a rubber tree plantation for the production of latex products

The investment in subsidiaries is accounted for on the basis that the Reorganisation was successfully completed.

9. DEPOSIT

The amount represented a payment by Crops & Land Development to the Cambodian government for obtaining the concession right for the development of the forest.

10. ACQUISITION OF SUBSIDIARIES

On the basis that the Reorganisation was successfully completed, the fair values of the net assets acquired were as follows:

	Fair value of Richking
	US$
Property, plant and equipment	446,568
Intangible assets – Forest exploitation rights	10,567,593
Deposit	72,000
Amount due to the sole director of Crops & Land Development	(785,634)
Other payable	(44,118)
Net assets acquired	10,256,409
Consideration satisfied by:	
Cash	10,256,409

The above acquisition has been accounted for as an acquisition of assets.

11. AMOUNT DUE FROM THE SOLE DIRECTOR OF RICHKING

The amount due is unsecured, interest-free and repayable on demand.

12. AMOUNT DUE TO THE SOLE DIRECTOR OF SUBSIDIARY

The amount was due to the sole director of Crops & Land Development and is expected to be settled within one year.

13. AMOUNTS DUE TO SHAREHOLDERS

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

14. OTHER PAYABLE

The amount was due to a PRC company pursuant to a cooperation agreement entered into between Crops & Land Development and that PRC company. Please refer to note 16 for further details.

15. SHARE CAPITAL

	As at 31 July 2010
	US$
Authorised	
50,000 ordinary shares of US$1 each	50,000
Issued and paid up	
100 ordinary shares of US$1 each	100

On incorporation, the authorised share capital of Richking was fixed at US$50,000 divided into 50,000 shares of US$1 par value each.

Subsequently, 100 ordinary shares were subscribed for and allotted.

16. CONTINGENT LIABILITIES

Pursuant to a cooperation agreement dated 27 April 2009 entered into between Crops & Land Development and a PRC company (the "Claimant"), Crops & Land Development agreed to grant the Claimant a right to process the timber exploited from a forest located in Cambodia. The representative of the Claimant alleged that he had paid RMB200,000 and US$500,000 to the owner of Crops & Land Development under the terms of the cooperation agreement. It was alleged by the representative of the Claimant that after payment of the said sums, Crops & Land Development had failed to comply with the terms of the cooperation agreement. The representative and the Claimant later lodged a claim in the PRC against the owner of Crops & Land Development for repayment of the said sums, and for damages incurred by the Claimant. This case is still being processed by the PRC courts and based on the legal advice from the PRC lawyer, no further provision has been made by Richking Group for any potential claims or liabilities in this respect.

17. CAPITAL MANAGEMENT

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

Richking Group monitors its capital structure on the basis of its gearing ratio. For this purpose, the Richking Group defines gearing ratio as total indebtedness divided by adjusted capital. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest bearing securities. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccepted proposed dividends.

The strategy of Richking Group has been to maintain the gearing ratio at 0% to 50%, and, in order to do so, Richking Group may adjust the amount of dividends paid to shareholders, issue new shares, repurchase shares, raise new debt financing or sell assets to reduce debt.

The gearing ratio of Richking Group was 0% as at the balance sheet date.

18. ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the accounting policies which are described in note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustments to the carrying amounts of assets.

(i) Impairment of intangible assets

In considering the impairment losses that may be required for Richking Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling prices and amount of operating costs. Richking Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volumes, selling prices and amounts of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

(ii) Depreciation and amortisation

Management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be charged for the Relevant Period. Management has determined that the useful life of the forest exploitation rights located in Cambodia is 70 years based on their expertise in the forestry industry. It should be recognised, however, that this could change significantly as a result of changes in market conditions. The useful lives of other assets are based on Richking Group's historical experience with similar assets. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

19. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective and which have not been adopted in the Financial Information.

Richking Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the results of operations and financial position of Richking Group.

C. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been produced by Richking Group in respect of any period subsequent to 31 July 2010.

Yours faithfully,
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

Choy Po Fong
Practising certificate number: P04688
Hong Kong

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

5/F, Ho Lee Commercial Building,
38-44 D'Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

17 September 2010

The Directors
China Asean Resources Limited
8/F, Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Crops & Land Development (Cambodia) Co., Ltd. ("Crops & Land Development"), including the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 20 May 2008 (date of incorporation) to 31 December 2008, the year ended 31 December 2009 and the seven months ended 31 July 2010 (the "Relevant Periods"), and the balance sheets as at 31 December 2008, 2009 and 31 July 2010 (collectively, the "Financial Information"), and the comparative financial information of Crops & Land Development, including the statement of comprehensive income for the seven months ended 31 July 2009 (the "2009 Comparative Information"), prepared for inclusion in the circular of China Asean Resources Limited (the "Company") dated 17 September 2010 (the "Circular").

Crops & Land Development was incorporated on 20 May 2008 as a limited liability company in the Kingdom of Cambodia ("Cambodia"). It has not carried on any business since the date of its incorporation.

BASIS OF PREPARATION

The Financial Information has been prepared by the sole director of Crops & Land Development based on the unaudited management financial statements for the Relevant Periods. The Financial Information is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

DIRECTORS' RESPONSIBILITY

The sole director of Crops & Land Development during the Relevant Periods is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. Except for the limitation in the scope of our work as explained below, we carried out appropriate audit procedures in respect of the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as are necessary in accordance with the Auditing guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. However, because of the matters described in the basis for disclaimer of opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

In respect of the 2009 Comparative Information, it is our responsibility to form an independent conclusion based on our review and to report our opinion to you. We conducted our review of the 2009 Comparative Information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. Our review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 2009 Comparative Information.

BASIS FOR DISCLAIMER OF OPINION

(i) Administrative expenses incurred for the Relevant Periods

The administrative expenses incurred for the Relevant Periods were paid by the sole director of Crops & Land Development. Due to lack of supporting evidence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the nature and amount of the reported administrative expenses incurred by Crops & Land Development for the Relevant Periods.

There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy and existence of administrative expenses incurred by Crops & Land Development for the Relevant Periods. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion thereon. Any adjustment to the amounts reported may have a consequential significant effect on the results for the Relevant Periods and the net assets at 31 December 2008, 2009 and at 31 July 2010.

(ii) Property, plant and equipment at 31 December 2009

The costs incurred for constructed road as included in property, plant and equipment were paid by the sole director of Crops & Land Development. Due to lack of supporting evidence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the accuracy of the costs incurred on constructed road appearing in the balance sheet in the amount of US$455,735 at 31 December 2009.

There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy of the costs incurred on the constructed road as included in property, plant and equipment. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion thereon. Any adjustments to the amount reported may have a consequential significant effect on the results for the year ended 31 December 2009 and for the period from 1 January 2010 to 31 July 2010 and the net assets at 31 December 2009 and 31 July 2010.

OPINION

(i) Disclaimer of opinion: disclaimer on view given by the Financial Information

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph above, we do not express an opinion on the Financial Information as set out below as to whether it gives a true and fair view of the state of affairs of Crops & Land Development as at 31 December 2008, 2009 and 31 July 2010, and of its results for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards.

(ii) Disclaimer of opinion: disclaimer on view given by the 2009 Comparative Information

Due to lack of supporting evidence to substantiate the administrative expenses, we do not provide any assurance on the 2009 Comparative Information.

A. FINANCIAL INFORMATION

Statement of Comprehensive Income

	Note	Period from 20 May 2008 (date of incorporation) to 31 December 2008 US$	Year ended 31 December 2009 US$	Period from 1 January to 31 July 2009 US$ (unaudited)	2010 US$
Turnover	3	–	–	–	–
Administrative expenses		(25,267)	(250,820)	(216,180)	(35,097)
Loss before taxation	4	(25,267)	(250,820)	(216,180)	(35,097)
Taxation	6	–	–	–	–
Loss for the year/period		(25,267)	(250,820)	(216,180)	(35,097)
Other comprehensive income for the year/period		–	–	–	–
Total comprehensive income for the year/period		(25,267)	(250,820)	(216,180)	(35,097)

The accompanying notes form part of the financial information.

Balance Sheet

		As at 31 December		As at 31 July
		2008	**2009**	**2010**
	Note	*US$*	*US$*	*US$*
Non-current assets				
Property, plant and equipment	*7*	–	455,735	446,568
Current assets				
Deposit	*8*	–	72,000	72,000
Amount due from the sole director	*9*	974,733	196,178	214,366
		974,733	268,178	286,366
Current liabilities				
Other payable	*10*	–	–	44,118
Net current assets		974,733	268,178	242,248
Net assets		974,733	723,913	688,816
Capital and reserves				
Share capital	*11*	1,000,000	1,000,000	1,000,000
Accumulated losses		(25,267)	(276,087)	(311,184)
Total equity		974,733	723,913	688,816

The accompanying notes form part of the financial information.

Statements of Changes in Equity

	Share capital *US$*	Accumulated losses *US$*	Total *US$*
Issue of shares	1,000,000	–	1,000,000
Total comprehensive income for the period	–	(25,267)	(25,267)
Balance at 31 December 2008	1,000,000	(25,267)	974,733
Total comprehensive income for the year	–	(250,820)	(250,820)
Balance at 31 December 2009	1,000,000	(276,087)	723,913
Total comprehensive income for the period	–	(35,097)	(35,097)
Balance at 31 July 2010	1,000,000	(311,184)	688,816

Statements of Cash Flows

Statements of Cash Flows have not been presented as Crops & Land Development did not operate any bank accounts or hold any cash and cash equivalents and has had no cash transactions during the Relevant Periods.

The accompanying notes form part of the financial information.

B. NOTES TO THE FINANCIAL INFORMATION

1. General

Crops & Land Development is a private limited liability company incorporated in the Kingdom of Cambodia ("Cambodia"). The address of its registered office and principal place of business is No. 52, St. 294, Sangkat Beung Keng Kong, 1 Khan Chamkarmon, Phnom Penh City, Cambodia.

Crops & Land Development is currently an investment company and intends to undertake forest clearing operations together with the processing of salvage logs into wood products and to develop a rubber tree plantation for the production of latex products. This is to be achieved under exclusive rights to exploit a designated forest area which is located at Kratie Province in Cambodia and is adjacent to the forests owned by the Group. Crops & Land Development has yet to commence active operations as at 31 July 2010.

The Financial Information is presented in United States dollars ("US$"), which is the functional currency of Crops & Land Development.

2. Significant accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Company is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and any impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives, as follows:

Constructed roads	30 years

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at each balance sheet date. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(d) Operating leases

Assets that are held by Crops & Land Development under leases which transfer to Crops & Land Development substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Crops & Land Development are classified as operating leases.

Where Crops & Land Development has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from a leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(e) Other receivables

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of Crops & Land Development about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

(f) Other payable

Other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Taxation

Income tax for the Relevant Periods comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the Relevant Periods, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payables in respect of previous years/periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Crops & Land Development has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the respective balance sheet dates. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value(s) were determined.

(j) Related parties

For the purposes of the Financial Information, a party is considered to be related to Crops & Land Development if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Crops & Land Development or exercise significant influence over Crops & Land Development in making financial and operating policy decisions, or has joint control over Crops & Land Development;

(ii) Crops & Land Development and the party are subject to common control;

(iii) the party is a subsidiary, an associate of Crops & Land Development or a joint venture in which Crops & Land Development is a venturer;

(iv) the party is a member of key management personnel of Crops & Land Development or Crops & Land Development's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of Crops & Land Development or of any entity that is a related party of Crops & Land Development.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. Turnover

Crops & Land Development has not yet commenced active operations and, therefore, did not generate any turnover during the Relevant Periods.

4. Loss before taxation

	Period from 20 May 2008 (date of incorporation) to 31 December 2008	**Year ended 31 December 2009**	**Period from 1 January to 31 July 2009**	**Period from 1 January to 31 July 2010**
	US$	*US$*	*US$* (unaudited)	*US$*
Loss before taxation is arrived at after charging:				
Operating lease charges	–	6,500	3,500	3,500
Depreciation	–	15,715	9,167	9,167

5. Director's remuneration

Crops & Land Development did not pay any director's remuneration and did not incur any staff costs during the Relevant Periods. There were no arrangements under which the sole director waived or agreed to waive any remuneration during the Relevant Periods.

6. Taxation

(a) No provision for Cambodia Tax on Profit has been made as Crops & Land Development did not have any assessable profits for the years/periods as determined in accordance with the relevant tax rules and regulations in Cambodia.

(b) Crops & Land Development is subject to Cambodia income tax at 20% but intends to apply for investment incentives including tax holidays to the Council for the Development of Cambodia. According to the relevant income tax rules and regulations, Crops & Land Development is entitled 100% relief from Cambodian Income Tax, commencing from the earlier of the first profitable year or three years from the commencement of business (i.e. first sales). The duration of tax holidays periods range from 3 to 6 years.

(c) Reconciliation between taxation and loss before taxation at applicable tax rate:

	Period from 20 May 2008 (date of incorporation) to 31 December 2008	Year ended 31 December 2009	Period from 1 January to 31 July 2009	
			2009	2010
	US$	*US$*	*US$* (unaudited)	*US$*
Loss before taxation	(25,267)	(250,820)	(216,180)	(35,097)
Notional tax on loss before taxation	(5,053)	(50,164)	(43,236)	(7,019)
Tax effect of non-deductible expenses	5,053	50,164	43,236	7,019
Taxation for the year/period	–	–	–	–

(d) There were no deferred tax assets or liabilities at the respective balance sheet dates.

7. Property, plant and equipment

Constructed roads	As at 31 December 2008	2009	As at 31 July 2010
	US$	*US$*	*US$*
Cost			
At beginning of the year/period	–	–	471,450
Additions	–	471,450	–
At end of the year/period	–	471,450	471,450
Depreciation			
At beginning of the year/period	–	–	15,715
Charge for the year/period	–	15,715	9,167
At end of the year/period	–	15,715	24,882
Carrying amounts	–	455,735	446,568

8. Deposit

The amount represented a payment by Crops & Land Development to the Cambodian government for obtaining the concession right for the development of the forest.

9. Amount due from the sole director

The amount due is unsecured, interest-free and repayable on demand.

10. Other payable

The amount was due to a PRC company pursuant to a cooperation agreement entered into between Crops & Land Development and that PRC company. Please refer to note 12 for further details.

11. Share capital

	As at 31 December		As at 31 July
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Registered and issued:			
1,000 ordinary shares of US$1,000 each	1,000,000	1,000,000	1,000,000

On incorporation, the registered capital of Crops & Land Development was fixed at US$1,000,000 divided into 1,000 shares of US$1,000 par value each.

Subsequently, all 1,000 shares were subscribed for and allotted but yet to be paid up. The amount of share capital receivable was included in the amount due from the sole director, who is the former shareholder of Crops & Land Development after the Reorganisation.

12. Contingent liabilities

Pursuant to a cooperation agreement dated 27 April 2009 entered into between Crops & Land Development and a PRC company (the "Claimant"), Crops & Land Development agreed to grant the Claimant a right to process the timber exploited from a forest located in Cambodia. The representative of the Claimant alleged that he had paid RMB200,000 and US$500,000 to the owner of Crops & Land Development under the terms of the cooperation agreement. It was alleged by the representative of the Claimant that after payment of the said sums, Crops & Land Development had failed to comply with the terms of the cooperation agreement. The representative and the Claimant later lodged a claim in the PRC against the owner of Crops & Land Development for repayment of the said sums, and for damages incurred by the Claimant. This case is still being processed by the PRC courts and based on the legal advice from the PRC lawyer, no further provision for any potential claims or liabilities has been made by Crops & Land Development in this respect.

13. Capital management

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

Crops & Land Development monitors its capital structure on the basis of its gearing ratio. For this purpose, Crops & Land Development defines gearing ratio as total indebtedness divided by adjusted capital. Total indebtedness includes bank overdrafts, bank loans, finance lease liabilities, bonds and other interest bearing securities. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccepted proposed dividends.

The strategy of Crops & Land Development has been to maintain the gearing ratio at 0% to 50%, and, in order to do so may adjust the amount of dividends paid to shareholders, issue new shares, repurchase shares, raise new debt financing or sell assets to reduce debt.

The gearing ratio of Crops & Land Development was 0% at the respective balance sheet dates.

14. Possible impact of amendments, new standards and interpretations issued but not yet effective

The HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective and which have not been adopted in the Financial Information.

Crops & Land Development is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the results of operations and financial position.

C. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been produced by Crops & Land Development in respect of any period subsequent to 31 July 2010.

Yours faithfully,
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

Choy Po Fong
Practising certificate number: P04688
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Set out herein is the pro forma financial information of the Enlarged Group (being the pro forma balance sheet of China Asean Resources Limited (the "Company") and its subsidiaries (the "Group"), and Richking Development Limited ("Richking") and its subsidiaries (the "Richking Group"), and the pro forma statement of comprehensive income and pro forma statement of cash flows of the Group and Crops & Land Development (Cambodia) Co., Ltd. ("Crops & Land Development"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of Richking by the Company (the "Acquisition") pursuant to an agreement entered into by the Company on 22 July 2010 as if it had taken place on 30 June 2010 for the pro forma balance sheet and 1 January 2009 for the pro-forma statement of comprehensive income and pro-forma statement of cash flows.

The pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, of the Enlarged Group had the Acquisition been completed as at 30 June 2010 or at any future date, and of the financial results and cash flows of the Enlarged Group had the Acquisition been completed as at 1 January 2009 or at any future date.

I. Unaudited pro forma balance sheet of the Enlarged Group

	The Group as at 30 June 2010	Richking Group as at 31 July 2010		Pro forma adjustments – Other adjustments #1	#2	#3	Unaudited pro forma balance sheet as at 30 June 2010
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	
Non-current assets							
Property, plant and equipment	22,152	446	3,483	–	–	–	25,635
Investments in subsidiaries	–	–	–	330,000	(330,000)	–	–
Intangible assets	485,188	10,568	82,428	–	243,871	–	811,487
	507,340	11,014	85,911	330,000	(86,129)	–	837,122
Current assets							
Inventories	1,726	–	–	–	–	–	1,726
Trade and other receivables	33,753	72	562	–	–	–	34,315
Cash at bank and on hand	7,336	–	–	–	–	30,000	37,336
	42,815	72	562	–	–	30,000	73,377
Current liabilities							
Trade and other payables	5,135	11,086	86,472	–	(86,128)	30,000	35,479
Tax payable	302	–	–	–	–	–	302
	5,437	11,086	86,472	–	(86,128)	30,000	35,781
Net current assets/ (liabilities)	37,378	(11,014)	(85,910)	–	86,128	–	37,596
Total assets less current liabilities	544,718	–	1	330,000	(1)	–	874,718
Non-current liabilities							
Convertible bonds	–	–	–	166,355	–	–	166,355
NET ASSETS	544,718	–	1	163,645	(1)	–	708,363
Capital and reserves							
Share capital	26,670	–	1	126,607	(1)	–	153,277
Reserves	518,048	–	–	37,038	–	–	555,086
TOTAL EQUITY	544,718	–	1	163,645	(1)	–	708,363

II. Unaudited pro forma statement of comprehensive income of the Enlarged Group

		Pro forma adjustments					
				Other adjustments			
	The Group for the year ended 31 December 2009	Crops & Land Development for the year ended 31 December 2009		#1	#2	#3	Unaudited pro forma statement of comprehensive income for the year ended 31 December 2009
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	
CONTINUING OPERATIONS							
Turnover	343	–	–	–	–	–	343
Cost of sales	(890)	–	–	–	–	–	(890)
Gross loss	(547)	–	–	–	–	–	(547)
Net effect of deconsolidation of a subsidiary	1,044	–	–	–	–	–	1,044
Other income	18	–	–	–	–	–	18
Selling and distribution expenses	(104)	–	–	–	–	–	(104)
Administrative expenses	(26,446)	(251)	(1,956)	–	–	–	(28,402)
Impairment loss recognised in respect of construction in progress	(2,600)	–	–	–	–	–	(2,600)
Finance costs	(1,381)	–	–	–	–	–	(1,381)
Loss before taxation	(30,016)	(251)	(1,956)	–	–	–	(31,972)
Taxation	–	–	–	–	–	–	–
Loss for the year from continuing operations	(30,016)	(251)	(1,956)	–	–	–	(31,972)
DISCONTINUED OPERATIONS							
Loss for the year from discontinued operations	(19,747)	–	–	–	–	–	(19,747)
LOSS FOR THE YEAR	(49,763)	(251)	(1,956)	–	–	–	(51,719)

	The Group for the year ended 31 December 2009	Pro forma adjustments: Crops & Land Development for the year ended 31 December 2009		Other adjustments: #1	#2	#3	Unaudited pro forma statement of comprehensive income for the year ended 31 December 2009
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	
Other comprehensive income for the year							
Exchange differences on translation of financial statements of overseas subsidiaries	(424)	–	–	–	–	–	(424)
Other comprehensive income for the year, net of tax	(424)	–	–	–	–	–	(424)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(50,187)	(251)	(1,956)	–	–	–	(52,143)

III. Unaudited pro forma statement of cash flows of the Enlarged Group

	The Group for the year ended 31 December 2009	Pro forma adjustments: Crops & Land Development for the year ended 31 December 2009		Other adjustments #1	#2	#3	Unaudited pro forma statement of cash flows for the year ended 31 December 2009
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	
Cash flows from operating activities							
Loss before taxation including discontinued operations	(49,763)	–	–	–	–	–	(49,763)
Adjustments for:							
Depreciation	834	–	–	–	–	–	834
Loss on disposal of property, plant and equipment	(5)	–	–	–	–	–	(5)
Impairment losses recognised in respect of:							
Medical research projects	1,799	–	–	–	–	–	1,799
Construction in progress	20,536	–	–	–	–	–	20,536
Amortisation of prepaid lease payments	91	–	–	–	–	–	91
Amortisation of forest exploitation rights	7,238	–	–	–	–	–	7,238
Share based payments	3,951	–	–	–	–	–	3,951
Bad debts written off	48	–	–	–	–	–	48
Bank interest income	(54)	–	–	–	–	–	(54)
Finance costs	1,381	–	–	–	–	–	1,381
Net effect of deconsolidation of a subsidiary	(1,044)	–	–	–	–	–	(1,044)
Operating loss before changes in working capital	(14,988)	–	–	–	–	–	(14,988)
Increase in inventories	(734)	–	–	–	–	–	(734)
Decrease in trade and other receivables	65,319	–	–	–	–	–	65,319
Increase in trade and other payables	7,502	–	–	–	–	–	7,502
Cash generated from operations	57,099	–	–	–	–	–	57,099
Income tax paid outside Hong Kong	–	–	–	–	–	–	–
Net cash from operating activities	57,099	–	–	–	–	–	57,099

	The Group for the year ended 31 December 2009	Pro forma adjustments: Crops & Land Development for the year ended 31 December 2009		Other adjustments: #1	#2	#3	Unaudited pro forma statement of cash flows for the year ended 31 December 2009
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	
Cash flows from investing activities							
Capital expenditure:							
Property, plant and equipment	(8,617)	–	–	–	–	–	(8,617)
Construction in progress	(3,168)	–	–	–	–	–	(3,168)
Interest received	54	–	–	–	–	–	54
Deconsolidation of a subsidiary	(9,775)	–	–	–	–	–	(9,775)
Net cash used in investing activities	(21,506)	–	–	–	–	–	(21,506)
Cash flows from financing activities							
Redemption of bonds	(66,300)	–	–	–	–	–	(66,300)
Working capital facility from the Vendors	–	–	–	–	–	30,000	30,000
Net cash from/(used in) financing activities	(66,300)	–	–	–	–	30,000	(36,300)
Net increase/ (decrease) in cash and cash equivalents	(30,707)	–	–	–	–	30,000	(707)
Cash and cash equivalents at beginning of the year	48,414	–	–	–	–	–	48,414
Effect of foreign exchange rate changes	(575)	–	–	–	–	–	(575)
Cash and cash equivalents at end of the year	17,132	–	–	–	–	30,000	47,132

IV. Notes to the unaudited pro forma financial information of the Enlarged Group

1. Basis of preparation

The pro forma balance sheet is prepared based on the consolidated balance sheet of the Group as at 30 June 2010 extracted from the Group's published interim report for the six months ended 30 June 2010, and the audited consolidated balance sheet of Richking Group as at 31 July 2010 extracted from the Accountants' Report set out in Appendix II to this Circular, after making certain pro forma adjustments that are summarised in note 2 below.

The pro forma statement of comprehensive income and pro forma statement of cash flows are prepared based on the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 extracted from the Group's published annual report 2009, and the audited statement of comprehensive income and statement of cash flows of Crops & Land Development for the year ended 31 December 2009 extracted from the Accountants' Report set out in Appendix III to this Circular, after making certain pro forma adjustments that are summarised in note 2 below.

For the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the audited consolidated balance sheet of Richking Group as at 31 July 2010 and the consolidated statement of comprehensive income of Crops & Land Development for the year ended 31 December 2009 were translated at the exchange rate of US$1.00 = HK$7.80 which approximates the exchange rate as at 31 July 2010.

2. Pro forma adjustments

(i) Funding for the Acquisition

The total funding for the Acquisition is HK$330,000,000 which is proposed to be satisfied as to HK$47,930,873 by the issue of 1,089,338,022 ordinary shares of HK$0.01 each (the "Consideration Shares") of the Company at the issue price of HK$0.044 per share and the remaining balance as to HK$282,069,127 by the issue of zero-coupon convertible bonds due on 2015 at the conversion price of HK$0.044 per share (the "Convertible Bonds") by the Company.

The share premium of HK$37,037,493 arising from the issuance of the Consideration Shares is recorded in reserves.

The fair values of the liability component and the equity conversion component of the Convertible Bonds are determined as if the Convertible Bonds had been issued at 30 June 2010. The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for a similar convertible bond. The residual amount, amounting to HK$115,714,460, representing the value of the equity conversion, is included in share capital.

The fair value of the liability component of the Convertible Bonds at 30 June 2010, amounting to HK$166,354,667, was calculated by using cash flows discounted at a rate based on the borrowing rate of 11.14%.

This adjustment is not expected to have a continuing effect on the Enlarged Group.

(ii) Elimination of investment in Richking Group and related shareholders' loan

On consolidation, the related investment cost of the Group in Richking Group amounting to HK330,000,000 is eliminated against the Group's entire equity interest in Richking Group, being the net asset value of Richking Group of approximately HK$1,000. In addition, the Group also agreed to acquire the shareholders' loan of Richking arising from the Acquisition. Accordingly, estimated goodwill amounting to approximately HK$243,871,000, representing the underlying cost of the forest exploitation rights is recognised as a result of the Acquisition. In view of the substance of the Acquisition in Richking Group represented by the exploitation rights of using the forest located at Kratie Province in Cambodia (the "Forest"), the amount is recognised as an intangible asset of the Enlarged Group, versus recognising it as goodwill.

The Group will apply the purchase method to account for the Acquisition whereby the identifiable assets and liabilities of Richking Group will be recorded at their fair values at the date of completion, and all the capital and reserves of Richking Group upon completion of the Acquisition will be eliminated.

This adjustment is not expected to have a continuing effect on the Enlarged Group.

(iii) Working capital facility from the Vendors

Upon Completion, the Vendors will provide the Working Capital Facility of HK$30 million to Richking Group and their fellow subsidiaries within the Group as general working capital for the future development of the forests. The Working Capital Facility is unsecured, interest-free and has a term of 70 years (which approximates the duration of the concession obtained by the Group for the First and the Second Forests and by Crops & Land Development for the Third Forest).

In order to ensure that the Group can effectively utilise such facility for development of its forestry and plantation business, the Vendors will have no rights to demand early repayment of or additional security for the Working Capital Facility in any circumstances.

This adjustment is expected to have a continuing effect on the Enlarged Group.

3. Impairment assessment on the intangible assets of the Enlarged Group

The directors of the Company have reviewed the carrying values of the intangible assets of the Enlarged Group, taking into account the independent valuation report as disclosed in Appendix V to the Circular. Based on the assessment and the valuation report, the directors of the Company are of the opinion that there are no indications that the values of the intangible assets of the Enlarged Group may be impaired.

The auditors of the Company will carry out impairment review of the intangible assets of the Enlarged Group with reference to the independent valuation report, which will be prepared under the same principal assumptions as disclosed in Appendix V to the Circular in the future.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

5/F, Ho Lee Commercial Building,
38-44 D'Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

17 September 2010

The Directors
China Asean Resources Limited
8/F, Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

We herein report on the unaudited pro forma balance sheet, the unaudited pro forma statement of comprehensive income and the unaudited pro forma statement of cash flows as set out in Section A of Appendix IV to the shareholders' circular of China Asean Resources Limited (the "Company") dated 17 September 2010 (together the "Unaudited Pro Forma Financial Information"), which have been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of a 100% equity interest in Richking Development Limited and its subsidiaries ("Richking Group") might have affected the consolidated statement of comprehensive income and consolidated statement of cash flows of the Company and its subsidiaries (hereinafter, collectively, referred to as the "Group") for the year ended 31 December 2009 and the consolidated balance sheet of the Group as at 30 June 2010. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of this appendix.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 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 reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 7.31(7) of the GEM Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information contained with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 7.31(1) of the GEM Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2010 or any future date; or

- the results of the Enlarged Group for the year ended 31 December 2009 or any future periods.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 7.31(1) of the GEM Rules.

Yours faithfully,
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

Choy Po Fong
Practising certificate number: P04688
Hong Kong

The following is the text of a report prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 July 2010 of the market value of a 100% equity interest in Crops & Land Development (Cambodia) Co., Ltd.

BMI APPRAISALS
BMI Appraisals Limited 中和邦盟評估有限公司
Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

17 September 2010

The Directors
China Asean Resources Limited
8th Floor, Teda Building
No. 87 Wing Lok Street
Sheung Wan
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from China Asean Resources Limited (referred to as the "Company") for us to provide our opinion on the market value of a 100% equity interest in Crops & Land Development (Cambodia) Co., Ltd. (referred to as "Crops & Land Development") as at the date of valuation on 31 July 2010.

This report presents the purpose and the basis of valuation, the background of Crops & Land Development, an industry overview, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

BASIS OF VALUATION

We have conducted our valuation in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005. This valuation has been carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF CROPS & LAND DEVELOPMENT

Crops & Land Development is a company incorporated in Cambodia with limited liability. It has been granted the 70-year exclusive exploitation right in respect of a forest (referred to as the "Third Forest") by the government of the Kingdom of Cambodia (referred to as "Cambodia") since 2008. The Third Forest is a forest with a site area of 11,500 hectares located in Kratie District, Kratie Province, Cambodia.

According to a resource assessment report, the technical report in Appendix VI, named 《柬埔寨桔井省 3號林地森林資源評估報告》 (referred to as the "Resource Assessment Report") prepared by 李意德 and 繆紳裕 (collectively referred to as the "Resource Assessor"), the timber resource of the Third Forest is as follows:

Timber Resource of the Third Forest

Class	Volume in sample plots (m^3)	Volume per hectare (m^3)	Stand volume of forest (m^3)	Stand volume of forest (m^3) of DBH (≥40cm)	Percentage ratio (%) of the timber volume of a DBH ≥40cm to the total volume
Top-class timber	68.1639	48.6885	350,557.20	279,673.20	79.78
First-class timber	129.6383	92.5988	666,711.26	269,589.09	40.44
Assortment timber	148.3022	105.9301	762,697.03	542,931.94	71.19
Total:	346.1044	247.2174	1,779,965.49	1,092,194.23	61.36

The above mentioned timber resource of the Third Forest is adopted in the valuation.

INDUSTRY OVERVIEW

The Forestry Industry

Located in Southeast Asia, Cambodia covers an area of 18.104 million hectares, with a population of 14 million (July 2008) of which about 85% to 90% lives in the rural areas. According to the Food and Agriculture Organization of the United Nations, the forest coverage in Cambodia was 55.7% in year 1997, declined 1.6% annually between year 1990 and year 1995. Global Witness, an international non-governmental organization, stated that the forest coverage in Cambodia is as low as 30%.

The forest estate in Cambodia is divided into categories of protected forest of 1.346 million hectares, protected areas of 3.273 million hectares, valid forest concession areas of 3.874 million hectares, cancelled forest concession areas of 3.001 million hectares and forest land under tree planting stations of 56,528 hectares. Protected areas amounting to 20% of the country's area in year 2002 and have been expanded rapidly under the Ministry of the Environment of Cambodia, although even these areas have been extensively logged according to Global Witness.

Cambodia has one of the worst deforestation rates in the world. According to Mongabay, an independent publisher of environmental data and statistics, Cambodia's primary rainforest coverage dropped from over 70% in year 1970 to 3.1% recently and the deforestation rate in Cambodia continue to accelerate. In total, Cambodia lost 2.5 million hectares of forest between year 1990 and year 2005, of which 334,000 hectares were primary forest, and currently less than 322,000 hectares of primary forest are remained.

The Rubber Industry

Natural rubber is made from latex obtained from rubber trees (Hevea brasiliensis). Latex is a complex mixture of organic compounds, including various gum resins, waxes, and in some instances, poisonous compounds, suspended in a watery medium with dissolved salts, sugars, tannins, alkaloids, enzymes and other substances from which the latex can be concentrated, coagulated and vulcanized. Rubber tree is indigenous to the Amazon basin. Since the twentieth century, rubber trees have since been planted in a number of tropical countries as a plantation crop.

Tapping of rubber trees starts in the fifth to seventh year after planting and then continues for 25 years to 30 years. A special knife is used to incise the bark so as to wound the resin canals without damaging the cambium. After 30 years a decline in latex production makes further tapping of the trees uneconomic. The trees are then removed and replaced with new seedlings.

Asia is currently the main source and largest consumer of natural rubber. Indonesia, Malaysia and Thailand are the three largest producing countries. Other Southeast Asia countries such as Vietnam and Cambodia had increased their production in recent years. To promote the planting of rubber trees, the Cambodia government decided to grant the concession of about 250,000 hectares of land for cities and provinces to grow them. The Cambodian government expects to grow rubber trees on 400,000 hectares of land between years 2008 and 2030.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational information in respect of Crops & Land Development provided by the senior management of the Company. The valuation required the consideration of all pertinent factors, including, but not limited to, the following:

- A feasibility study on the Third Forest prepared by Crops & Land Development, approved by the Ministry of Agriculture, Forestry and Fisheries of the Royal Government of Cambodia;

- The Resource Assessment Report on the Third Forest prepared by the Resource Assessor;

- The business nature of Crops & Land Development including the industry sector and the geographical location in which Crops & Land Development currently operates or will operate;

- The financial and operational information in respect of Crops & Land Development provided by the senior management of the Company;

- The specific economic environment and competition for the market in which Crops & Land Development currently operates or will operate; and

- The financial and business risks that will materially affect the business operation of Crops & Land Development.

SCOPE OF WORKS

In the course of our valuation work, the following processes have been conducted to evaluate the reasonableness of the adopted basis and assumptions provided by the senior management of the Company:

- Interviewed with the senior management of the Company and obtained all relevant financial and operational information in respect of Crops & Land Development;

- Examined the relevant bases and assumptions of the financial and operational information in respect of Crops & Land Development provided by the senior management of the Company;

- Conducted appropriate research to obtain sufficient market data and statistical figures and prepared the valuation based on generally accepted valuation procedures and practices; and

- Presented the purpose and the basis of valuation, the background of Crops & Land Development, an industry overview, the source of information, the scope of work, the valuation assumptions, the valuation methodology and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Due to the changing environment in which Crops & Land Development currently operates or will operate, the following assumptions had to be adopted in order to sufficiently support our conclusion of value:

- All licenses and permits issued by any authorized entities that will materially affect the business operation of Crops & Land Development have been obtained or can be obtained upon request;

- The actual life of the 70-year exclusive exploitation right of the Third Forest will not differ materially from that of expected, and no policy will be implemented by any authorized entities that will affect the continuity of the Third Forest;

- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where Crops & Land Development currently operates or will operate;

- There will be no material change in the taxation laws and regulations in the jurisdiction where Crops & Land Development currently operates or will operate;

- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;

- The core business operation of Crops & Land Development will not differ materially from those of present or expected;

- The financial and operational information in respect of Crops & Land Development have been prepared on a reasonable basis after due and careful considerations by the senior management of the Company;

- The information in respect of the Third Forest as stated in the Resource Assessment Report have been prepared on a reasonable basis after due and careful consideration by the Resource Assessor;

- The timber resource of the Third Forest will not differ materially from the amount stated in the Resource Assessment Report and the annual timber production will not differ materially from those of expected;

- Crops & Land Development has adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time; and

- Crops & Land Development has adopted appropriate contingency measures against any human disruptions or natural disasters that will materially affect the business operation of Crops & Land Development.

ON-SITE INSPECTION

In August 2010, an on-site inspection to the Third Forest with the Resource Assessor was conducted.

VALUATION METHODOLOGY

The Valuation Approaches

Three generally accepted valuation approaches have been considered in the valuation. They are the cost approach, the market approach and the income approach.

The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset. The market approach provides an indication of value by comparing the subject asset to similar businesses, business ownership interests or securities that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the comparable assets. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The income approach was considered to be the most appropriate valuation approach in this valuation, as it takes the future growth potential and company-specific issues of Crops & Land Development into consideration.

Under the income approach, the Discounted Cash Flow (DCF) method was adopted. In applying the DCF method, the free cash flows for each year in the future were determined. The results were then discounted using a discount rate, or the cost of capital, to determine the present value of the expected cash flows. The free cash flows for each year were computed using the following formula:

$$FCF = NI + NCE + Int\,(1 - T_{int}) - NCI - InvFA - InvWC$$

Where:

FCF	=	free cash flow
NI	=	net income
NCE	=	non-cash expenses
Int	=	interest expense
T_{int}	=	tax rate applied to interest expense
NCI	=	non-cash incomes
$InvFA$	=	investment in capital expenditure
$InvWC$	=	investment in net working capital

The Comparable Companies

The market value of Crops & Land Development was determined with reference to the financial and operational information of publicly listed companies that are considered to be comparable to Crops & Land Development (referred to as the "Comparable Companies"). Details of the Comparable Companies are as follows:

Comparable Company 1

Name of Company	:	Wijaya Baru Global Berhad
Bloomberg Ticker	:	WIJ MK
Core Business	:	Wijaya Baru Global Berhad is an investment holding company. It, through its subsidiaries, extracts and sells timber logs.

Comparable Company 2

Name of Company	:	Leweko Resources Berhad
Bloomberg Ticker	:	LEWE MK
Core Business	:	Leweko Resources Berhad is an investment holding company. It, through its subsidiaries, provides timber harvesting, processes and manufactures sawn and molded timber, and cultivates oil palm.

Comparable Company 3

Name of Company	:	Lingui Developments Berhad
Bloomberg Ticker	:	LING MK
Core Business	:	Lingui Developments Berhad is an investment holding company. Through its subsidiaries, it manufactures plywood and veneer, extracts and sells timber, and provides logistics services. It also operates quarries and oil palm plantations and manufactures rubber retread compounds.

Comparable Company 4

Name of Company	:	Samling Global Limited
Bloomberg Ticker	:	3938 HK
Core Business	:	Samling Global Limited is an integrated forest resource and wood products company. Its operations comprise timber harvesting and the management of natural forest concessions. Its wood products include logs, plywood, and veneer.

Comparable Company 5

Name of Company	:	PT Sumalindo Lestari Jaya Tbk
Bloomberg Ticker	:	SULI IJ
Core Business	:	PT Sumalindo Lestari Jaya Tbk manufactures timber, operates industrial timber plantations, and trades its products in the international and local markets. Through its subsidiaries, it also manufactures plywood.

Comparable Company 6

Name of Company	:	Samko Timber Ltd.
Bloomberg Ticker	:	SAMKO SP
Core Business	:	Samko Timber Ltd. produces processed timber products such as primary plywood, laminated veneer lumber, medium density fiberboard and piano parts. The company also offers a wide range of secondary processed timber products such as processed plywood, truck body components and solid wood moldings.

Comparable Company 7

Name of Company	:	Thong Nhat Rubber JSC
Bloomberg Ticker	:	TNC VN
Core Business	:	Thong Nhat Rubber JSC is a Vietnam-based company that manufactures and processes rubber products.

Comparable Company 8

Name of Company	:	Phuoc Hoa Rubber Company
Bloomberg Ticker	:	PHR VN
Core Business	:	Phuoc Hoa Rubber Company operates a rubber tree plantation, where it also processes and trades rubber wood harvested. It manufactures basic rubber products, such as latex and Standard Vietnamese Rubber (SVR) products.

Comparable Company 9

Name of Company	:	GMG Global Limited
Bloomberg Ticker	:	GMG SP
Core Business	:	GMG Global Limited is an investment holding company whose subsidiaries operate rubber plantations. It plants, grows, taps, processes, markets and exports of natural rubber.

The specific selection criteria of the Comparable Companies are as follows:

(1) The industry of the company is a forestry-related sector;

(2) Over 70% source of revenue derived from sales of timbers or rubbers and related products;

(3) Production and plantation areas of the company are located in Southeast Asia;

(4) Detailed operational and financial information in respect of the company are available; and

(5) The shares of the company are actively trading in a major stock exchange of the country.

Given the above selection criteria, we considered that the Comparable Companies are fair and representative samples.

The Discount Rate

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate for the valuation. It is calculated by multiplying the cost of each source of capital by its proportional weight. The WACC was computed using the following formula:

$$WACC = R_e\ (E / V) + R_d\ (D / V)\ (1 - T_c)$$

Where:

$WACC$	=	weighted average cost of capital
R_e	=	cost of equity
R_d	=	cost of debt
E	=	value of equity
D	=	value of debt
V	=	sum of values of equity and debt
T_c	=	corporate tax rate

The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity was determined using the Capital Asset Pricing Model (CAPM). The CAPM indicates the relationship between risk and expected return that investors require additional return to compensate for the additional risk assumed. The CAPM was computed using the following formula:

$R_e = R_f + \beta * MRP + IP$

Where:

R_e	=	cost of equity
R_f	=	risk-free rate
β	=	beta coefficient
MRP	=	market risk premium
IP	=	illiquidity premium

The yield rate of the 10-year United States Treasury Bonds of 2.91%, as extracted from Bloomberg was adopted as the risk-free rate in the valuation.

The market risk premium represents the additional return required by an investor as compensation for investing in equities rather than a risk-free instrument. In the valuation, the market risk premium of Cambodia of 10.01% was determined by the market risk premium of the United States and the country risk premium of Cambodia.

The beta coefficient measures the risk of an asset relative to the overall market. In the valuation, the beta coefficient for Crops & Land Development was determined as the average of the betas of the Comparable Companies, with adjustment for differences in corporate tax rates and leverage compositions.

To determine the beta coefficient of Crops & Land Development, the unlevered beta was calculated by removing the effects of the use of leverage on the capital structure of Crops & Land Development and the Comparable Companies.

The unlevered betas of the Comparable Companies for the timber concession operation are as follows:

	Comparable Company	**Unlevered Beta**
1.	Wijaya Baru Global Berhad	-0.132
2.	Leweko Resources Berhad	0.758
3.	Lingui Developments Berhad	0.791
4.	Samling Global Limited	0.336
5.	PT Sumalindo Lestari Jaya Tbk	0.398
6.	Samko Timber Ltd.	0.170
	Average of the Unlevered Betas:	**0.387**

The unlevered betas of the Comparable Companies for the rubber plantation operation are as follows:

	Comparable Company	Unlevered Beta
1.	Thong Nhat Rubber JSC	1.014
2.	Phuoc Hoa Rubber Company	1.079
3.	GMG Global Limited	0.737
	Average of the Unlevered Betas:	**0.943**

The average of the unlevered betas of the Comparable Companies for the timber concession operation of 0.387 and for the rubber plantation operation of 0.943 were then being relevered based on the specific corporate tax rate and the weight of debt applied to Crops & Land Development. The beta coefficient for Crops & Land Development was then calculated as 0.554 for the timber concession operation and 1.349 for the rubber plantation operation.

The illiquidity factor represents for the premium that investors would require for less liquid assets. In the valuation, 4.00% was added to the cost of equity as the illiquidity premium. As a result, the cost of equity was calculated as 13.86% for the timber concession operation and 21.93% for the rubber plantation operation.

The cost of debt of 7.00% was determined by the expected lending rate of Crops & Land Development. Since the interest paid on debts are tax-deductible, the cost of obtaining debt funds is less than the required rate of return of the suppliers of the debt capital. The after-tax cost of debt of 5.60% was calculated by multiplying one minus the corporate tax rate of Cambodia of 20.00% by the cost of debt.

The weight of debt of 35.00% was determined by the average of the weights of debt of the Comparable Companies, assuming that the weight of debt of Crops & Land Development moves toward that of the average of the Comparable Companies over time, and the weight of equity of 65.00% was calculated as one minus the weight of debt.

As a result, the WACC of Crops & Land Development was calculated as 10.97% for the timber concession operation and 16.21% for the rubber plantation operation.

SENSITIVITY ANALYSIS

A sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. In applying the sensitivity analysis, the changes in the market value of the 100% equity interest in Crops & Land Development in respect of a 1.00% and 2.00% increase or decrease in the discount rate, status quo, were determined. The results of the sensitivity analysis were as follows:

Change in Discount Rate	Discount Rate of Timber Concession Operation	Discount Rate of Rubber Plantation Operation	Market Value	Change in Market Value
(%)	*(%)*	*(%)*	*(HK$)*	*(%)*
+2.00%	12.97%	18.21%	1,170,000,000	-12.69%
+1.00%	11.97%	17.21%	1,250,000,000	-6.72%
–	10.97%	16.21%	1,340,000,000	–
–1.00%	9.97%	15.21%	1,430,000,000	6.72%
–2.00%	8.97%	14.21%	1,540,000,000	14.93%

REMARKS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company. We are unable to accept any responsibility and have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating this analysis.

Unless otherwise specified, all money amounts stated herein are in Hong Kong Dollars (HK$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, Crops & Land Development, the Resource Assessor or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of Crops & Land Development as at 31 July 2010 was **HK$1,340,000,000 (HONG KONG DOLLARS ONE THOUSAND THREE HUNDRED AND FORTY MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, Crops & Land Development, the Resource Assessor, the Resource Assessment Report, the Third Forest or the result reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ), FCIM, FRSM, SICME, SIFM, MHKIS, MCIAr, AFA, MASCE, MIET, MIEEE, MASME, MIIE, MASHRAE, MAIC
Managing Director

Marco T. C. Sze
B.Eng(Hon), PGD(Eng), MBA(Acct), CFA, AICPA/ABV, RBV
Director

Notes:

1. Dr. Tony C. H. Cheng serves as the Chairman of Institute of Mechanical Engineers, China and is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 5 years' experience in valuing similar assets or companies engaged in similar business activities as those of Crops & Land Development worldwide.

2. Mr. Marco T. C. Sze is a holder of Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation (ABV) by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 4 years' experience in valuing similar assets or companies engaged in similar business activities as those of Crops & Land Development worldwide.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from the Research Institute of Tropical Forestry of China Academy of Forestry (中國林業科學研究院熱帶林業研究所), a state-level scientific research institution appointed by China Asean Resources Limited to perform a technical review on a forest located at Kratie District, Kratie Province, the Kingdom of Cambodia.*

17 September 2010

The Directors
China Asean Resources Limited
8th Floor, Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

We are appointed by China Asean Resources Limited to conduct an asset evaluation of forest resources for a forest located at Kratie Province, Cambodia ("Forest Land No. 3"). This forest is primarily semi-dense woods covering an area of 11,500 hectares. Excluding the portion designated as protected areas by the Cambodian government, the forest land covered in this evaluation has an area of 7,200 hectares. The field data acquisition and sample plot survey for asset evaluation of these forest resources were jointly conducted by BMI Appraisals Limited and us in August 2010; while data collation and the evaluation report was prepared by us solely. The client defined 14 sample plots for field survey, totaling 14,000 square meters with each approximately 1,000 square meters.

The evaluation of Forest Land No. 3 was prepared in accordance with 森林資源規劃設計調查主要技術規定 (Principle Technical Regulations of Forest Resources Planning, Designing and Research) issued by 中華人民共和國國家林業部 (the State Forest Administration of the People's Republic of China), which is applicable for forest field surveying in Asia (including Cambodia) and is in conformity with internationally accepted standards.

1 ON-THE-SPOT SURVEY AND SAMPLE PLOT SURVEY

1.1 Sample plot selection

At the north-south direction to the center of Forest Land No. 3 (Figure 1), a new highway has been constructed by the owning company of the forest, thus greatly facilitating our field survey. Along the newly constructed highway, we selected one sample plot every 1.5-2 km on both sides of the highway (about >200 meters away from the highway), which helped ensure the randomness and representativeness of the samples. In fact, among the 14 sample plots, 3 of which are sparse woods, 9 are semi-dense woods and 2 are dense woods, the volume ratio represented by the sample plots therefore approximates to the ratio of different stand volume to the forest (see Table 3). Thus, the data obtained from the sample plots can reflect the overall conditions of the forest resources of the forest covering 7,200 hectares.

1.2 Sample plot survey

The diameter at breast height (DBH) threshold used in the sample plot survey was 10 cm.

The field measurement indicators included: species, timber grade, DBH (cm) and timber length (m). DBH was measured with a loggers tape while timber length was directly estimated (8-10 cm of head log was allowed); the results were filled in the field survey log sheet (see attached Table 1) and details such as sample plot location and GPS positioning were recorded (see Table 1 and Figure 1).

Table 1 Details of 14 sample plots

Plot No.	Plot area (m^2)	Crown density	Latitude (N)	Longitude (E)	Height (m)	Plot type
01	1,000	0.5	12°48.741’	106°33.719’	129	Semi-dense woods
02	1,000	0.4	12°48.770’	106°33.759’	134	Sparse woods
03	1,000	0.55	12°49.951’	106°33.720’	147	Semi-dense woods
04	1,000	0.45	12°50.064’	106°33.782’	140	Sparse woods
05	1,000	0.5	12°50.738’	106°33.712’	130	Sparse woods
06	1,000	0.6	12°50.732’	106°33.814’	132	Semi-dense woods
07	1,000	0.85	12°51.137’	106°33.762’	125	Dense woods
08	1,000	0.85	12°50.722’	106°33.767’	120	Dense woods
09	1,000	0.6	12°51.687’	106°33.746’	130	Semi-dense woods
10	1,000	0.7	12°51.686’	106°33.786’	140	Semi-dense woods
11	1,000	0.4	12°52.215’	106°33.746’	120	Semi-dense woods
12	1,000	0.7	12°52.204’	106°33.783’	128	Semi-dense woods
13	1,000	0.75	12°52.618’	106°33.741’	124	Semi-dense woods
14	1,000	0.85	12°52.621’	106°33.789’	118	Semi-dense woods

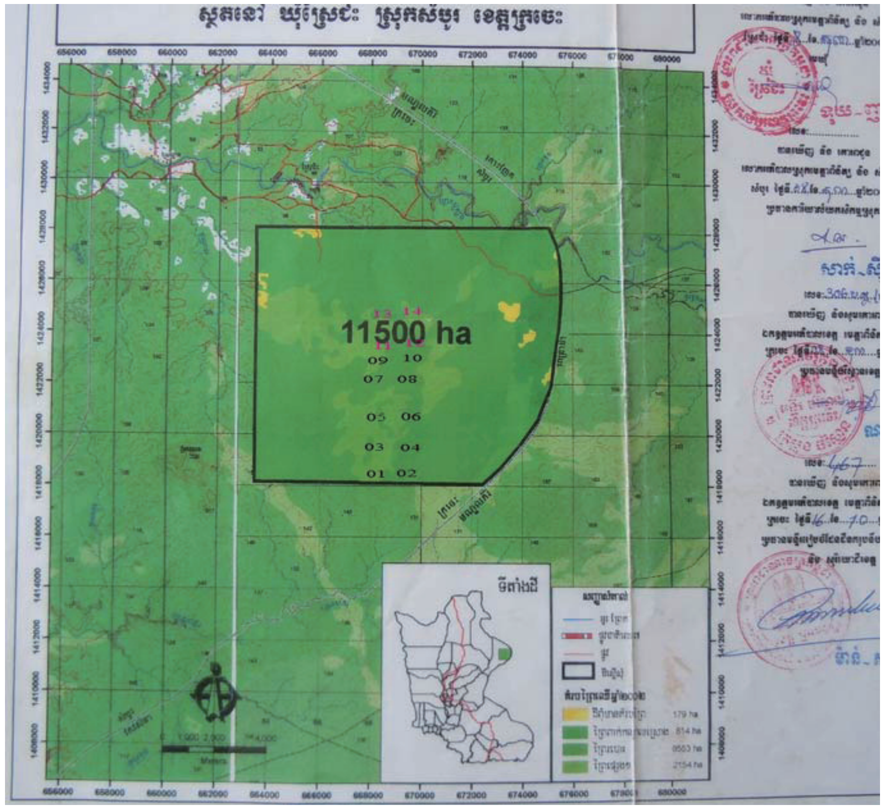


Figure 1 Location map of 14 sample plots

2 TIMBER GROUPING

Different types of timbers were grouped by their economic values (see Table 2) with reference to the National Standard for Rosewood GB/T 18107-2000 and the timber markets in Cambodia and China. Three classes were defined: top-class timber (rosewood, non-rosewood), first-class timber and assortment timber.

Table 2 Grouping of different timber classes at field survey

No.	Class		Species or Genera
1	Top-class timber	Rosewoods	Dalbergia sp., Pterocarpus sp.
2		Non-rosewoods	Sindora cochinensis
3	First-class timber		Hopea, Shorea obtusa
4			Pyinkado, Laurel
5			……
6	Assortment timber (Second-class timber)		Keruing, Meranti
7			Cratonxylon ligustrinum, Garcinia
8			Mangifera spp., Adina cordifolia
9			Aphanamiris polytachya, Albizia kalkora……

3 FOREST VEGETATION COMPOSITION

Forest Land No. 3 was basically flat without obvious slopes, generally with slope below 3°. This forest primarily consists of semi-dense woods, which represented 74.37% of the forest. Details are given in Table 3. The survey of the sample plots was conducted during Cambodia's rainy season; dense vegetation, predominantly bamboo of different species, was found beneath the woods (see attached pictures 1 and 2).

Table 3 Area and percentage of four stand types of the forest

Stand types	**Area of four stand types** *(ha)*	**Percentage** *(%)*
Non-wood stand	112	1.56
Sparse woods	1,349	18.73
Semi-dense woods	5,355	74.37
Dense woods	384	5.34

During the on-the-spot survey of this forest and resurvey of the sample plots, the detected top-class timbers (rosewoods) included plants of Dalbergia sp. and Pterocarpus sp. with the majority belonging to Dalbergia sp., such as Pyinkado, Dalbergin bariensis Pierre and Dalbergia cochinchinensis (see attached picture 3), which are of certain quantity; non-rosewood top-class timbers were not found. The first-class timbers were mainly represented by Shorea obtuse and Hopea odorata of Dipterocarpaceae. Assortment timbers (second-class timbers) were mainly composed of plants of Keruing and Meranti of Dipterocarpaceae, and Firmiana, Aphanamiris polytachya, Sinuolao (transliteration).

There were 459 plants in total in the 14 sample plots, of which those with DBHs within the range of 10 – 20 cm were of the largest quantity, which accounted for 34.6% of all plants; followed by those with DBHs within the range of 20 – 30 cm, accounting for 31.6%. Those with DBHs within the range of 30 – 40 cm accounted for 19% of all plants, and those with DBHs over 40 cm only accounted for 14.8% (see Figure 2). As for the timber length distribution at the 14 sample plots, those with timber length within the range of 8 – 10 m were of the largest quantity, which accounted for 22.9% of all plants; followed by those with timber length within the range of 6 – 8 m, accounting for 22.2%; those with timber length over 10 m only accounted for 19.8% of all plants (see Figure 3). The above description indicated that trees in Forest Land No. 3 were dominated by those within small to medium DBH range, with not many giant trees; timber length ranged mostly between 8 – 10 m.

Figure 2 DBH distribution at 14 sample plots

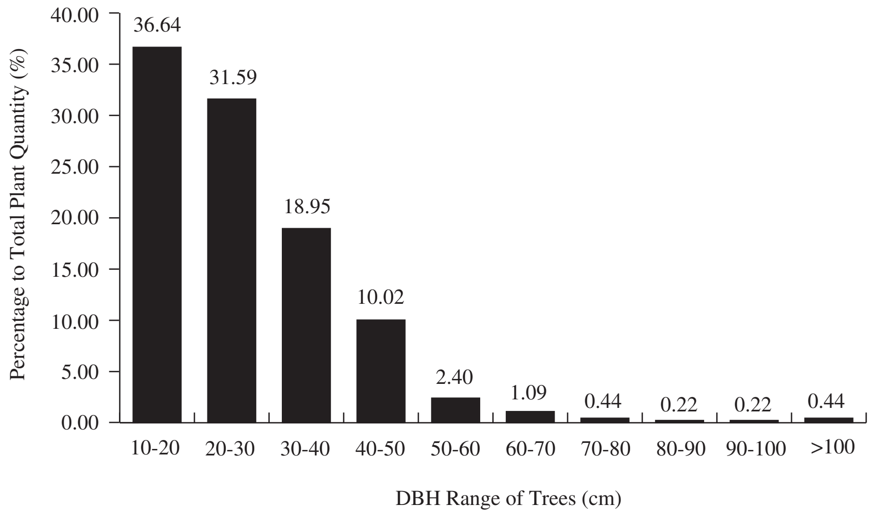
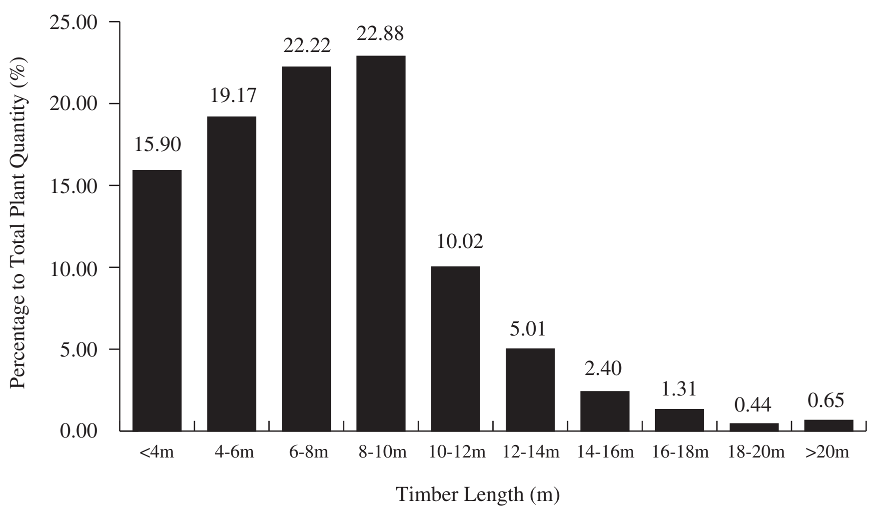


Figure 3 Timber length distribution at 14 sample plots



4 CALCULATION OF STAND VOLUME

4.1 Calculation of plant quantity and timber volume in sample plots

The calculation of log volume of the timbers of three classes were carried out in accordance with an evaluation standard which was consistent with the standard originally applied by us in all of the forest land in Cambodia and was also the international generally accepted method and procedure for forest resource survey. In the beginning, field sample plots (numbers and areas) were identified in accordance with the situation of the subject forest land (areas, landscape conditions, vegetation distribution, etc.). Then, a complete enumeration was carried out to record the results of the field survey. The data was processed in a statistical analysis afterwards, of which there were two major works: identification of timber classes, which relied on the experience of the botanists and forest scientists who had field survey experience, and log volume calculation. The calculation method and the standard applied in this evaluation were as same as those used in the previous evaluations. As there is no log volume calculation equation in Cambodia, we, instead, used the calculation equation issued by Forestry Administration, Thailand, which is commonly used in Southeast Asia. We have tested the equation for many times and we also use the equations used for Chinese tropical forests and the forests of the Philippines to verify the effectiveness of the equation. The deviation of the equation is very small, basically within +/-5%, and is completely permissible in a forest resource survey. The equation used is as follows:

$$V = \frac{0.08\ X\ \pi^2\ X\ D^2\ X\ L}{10{,}000}$$

Where, D (in cm) is the DBH at 1.3m; L (m) is the timber length; V (m^3) is the volume.

The survey data of the 14 sample plots was consolidated and sorted out. The quantity of the plants of the three classes within various DBH ranges were worked out and filled into Table 4.

It can be noted in Table 4 that there were totally 459 plants in the 14 sample plots with a total area of 14,000 m^2 and the largest part of which were in the DBH range of 20 – 30 cm. 391 plants had a DBH lower than 40 cm (85.19%) whereas 68 over 40 cm (14.81%). 64 plants were top-class timber (13.94%); first-class timber was of the largest quantity, with 240 plants (52.29%); there were 155 plants (33.77%) in the assortment class.

Table 4 Quantity of plants of the three classes in 14 sample plots

		Quantity of plants					
	Total	Top-class timber		First-class timber		Assortment timber	
DBH range *(cm)*	**number of plants**	**Quantity of plants**	**Percentage %(1)**	**Quantity of plants**	**Percentage %(1)**	**Quantity of plants**	**Percentage %(1)**
10-20	159	20	31.25	78	32.50	61	39.35
20-30	145	19	29.69	78	32.50	48	30.97
30-40	87	7	10.94	54	22.50	26	16.77
40-50	46	10	15.63	25	10.42	11	7.10
50-60	11	4	6.25	5	2.08	2	1.29
60-70	5	2	3.13	0	0.00	3	1.94
70-80	2	1	1.56	0	0.00	1	0.65
80-90	1	0	0.00	0	0.00	1	0.65
90-100	1	1	1.56	0	0.00	0	0.00
Above 100	2	0	0.00	0	0.00	2	1.29
Total	459	64	100.00	240	100.00	155	100.00
Percentage to total number of plants(2)	**100.00**	**–**	**13.94**	**–**	**52.29**	**–**	**33.77**

(1): Refers to the percentage ratio (%) of the quantity of timber plants at this DHB to the quantity of total number of plants in this class;

(2): Refers to the percentage ratio (%) of the quantity of timber plants in this class to the total number of plants.

The stand volume of plants at each DBH was derived by multiplying the quantity of plants at each DBH in each class by their corresponding individual volume. Then the stand volume of plants at each DBH was consolidated into the volume within each DBH range and filled into Table 5. Finally, the total stand volume of plants in each class was worked out by summing up the volume of plants within each DBH range in each class.

It can be noted in Table 5 that there was a total volume of 346.1044 m^3 within the 14,000m^2 sample plots. The stand volume of plants at a DBH lower than 40 cm was 133.7333 m^3 whereas the stand volume of plants at a DBH larger than 40 cm was 212.3711 m^3. Within Forest Land No. 3, the volume of timbers in top-class was the largest, which was 67.1639 m^3 (19.69%); volume of timbers in the first-class was 129.6383 m^3 (37.46%); the volume of timbers in assortment class was 148.3022 m^3 (42.85%).

Table 5 Volume of plants of the three classes in 14 sample plots

		Timber volume (m^3)					
		Top-class timber		First-class timber		Assortment timber	
DBH range *(cm)*	**Total volume** *(m^3)*	**Timber volume** *(m^3)*	**Percentage** *%(1)*	**Timber volume** *(m^3)*	**Percentage** *%(1)*	**Timber volume** *(m^3)*	**Percentage** *%(1)*
10-20	12.3969	1.051	1.54	6.6973	5.17	4.6486	3.13
20-30	50.6527	6.3796	9.36	24.7136	19.06	19.5595	13.19
30-40	70.6837	6.3524	9.32	45.8073	35.33	18.524	12.49
40-50	78.4019	22.5801	33.13	40.8386	31.50	14.9832	10.10
50-60	29.9922	12.4215	18.22	11.5815	8.93	5.9892	4.04
60-70	20.1232	8.2994	12.18	0	0.00	11.8238	7.97
70-80	12.7582	6.7643	9.92	0	0.00	5.9939	4.04
80-90	12.0691	0	0.00	0	0.00	12.0691	8.14
90-100	4.3156	4.3156	6.33	0	0.00	0	0.00
Above 100	54.7109	0	0.00	0	0.00	54.7109	36.89
Total	346.1044	68.1639	100.00	129.6383	100.00	148.3022	100.00
Percentage to total volume(2)	**100.00**	–	**19.69**	–	**37.46**	–	**42.85**

(1): Refers to the percentage ratio (%) of the volume of timber plants at this DHB to the total volume of plants in this class;

(2): Refers to the percentage ratio (%) of the volume of timber plants in this class to the total volume of plants.

4.2 Calculation of forest volume

After the volume of plants in each class within each DBH range in the 14,000 m^2 sample plots was worked out (Table 5), the stand volume per hectare was obtained by dividing it by 1.4 and was filled into Table 6.

The stand volume per hectare of this forest was 247.2174 m^3, among which, the volume in top-class was 48.6885 m^3 (19.69%); volume of first-class timbers was 92.5988 m^3 (37.46%); the volume of timbers in assortment class was 105.9301 m^3 (42.85%).

Table 6 The stand volume per hectare of forest

DBH range	Stand volume per hectare	Stand volume (m^3) Top-class timber Volume	Top-class timber Percentage	First-class timber Volume	First-class timber Percentage	Assortment timber Volume	Assortment timber Percentage
(cm)	*(m^3)*	*(m^3)*	*%*(1)	*(m^3)*	*%*(1)	*(m^3)*	*%*(1)
10-20	8.8549	0.7507	1.54	4.7838	5.17	3.3204	3.13
20-30	36.1805	4.5569	9.36	17.6526	19.06	13.9711	13.19
30-40	50.4884	4.5374	9.32	32.7195	35.33	13.2314	12.49
40-50	56.0014	16.1286	33.13	29.1704	31.50	10.7023	10.10
50-60	21.4230	8.8725	18.22	8.2725	8.93	4.2780	4.04
60-70	14.3737	5.9281	12.18	0.0000	0.00	8.4456	7.97
70-80	9.1130	4.8316	9.92	0.0000	0.00	4.2814	4.04
80-90	8.6208	0.0000	0.00	0.0000	0.00	8.6208	8.14
90-100	3.0826	3.0826	6.33	0.0000	0.00	0.0000	0.00
Above 100	39.0792	0.0000	0.00	0.0000	0.00	39.0792	36.89
Total	247.2174	48.6885	100.00	92.5988	100.00	105.9301	100.00
Percentage to total volume(2)	**100.00**	**–**	**19.69**	**–**	**37.46**	**–**	**42.85**

(1): Refers to the percentage ratio (%) of the volume of timber plants at this DHB to the total volume of plants in this class;

(2): Refers to the percentage ratio (%) of the volume of timber plants in this class to the total volume.

The total volume of each class within each DBH range and the total volume of the forest were derived by multiplying the volume per hectare with the total forest area of 7,200 hectares. These figures were filled into Table 7 and Table 8.

Table 7 The total volume of forest

DBH range	Total stand volume	Stand volume (m^3) Top-class timber Per hectare	Top-class timber Forest	First-class timber Per hectare	First-class timber Forest	Assortment timber Per hectare	Assortment timber Forest
(cm)	*(m^3)*						
10-20	63,755.49	0.7507	5,405.14	4.7838	34,443.26	3.3204	23,907.09
20-30	260,499.60	4.5569	32,809.37	17.6526	127,098.51	13.9711	100,591.71
30-40	363,516.17	4.5374	32,669.49	32.7195	235,580.40	13.2314	95,266.29
40-50	403,209.77	16.1286	116,126.23	29.1704	210,027.09	10.7023	77,056.46
50-60	154,245.60	8.8725	63,882.00	8.2725	59,562.00	4.2780	30,801.60
60-70	103,490.74	5.9281	42,682.63	0.0000	0.00	8.4456	60,808.11
70-80	65,613.60	4.8316	34,787.83	0.0000	0.00	4.2814	30,825.77
80-90	62,069.66	0.0000	0.00	0.0000	0.00	8.6208	62,069.66
90-100	22,194.51	3.0826	22,194.51	0.0000	0.00	0.0000	0.00
Above 100	281,370.34	0.0000	0.00	0.0000	0.00	39.0792	281,370.34
Total	1,779,965.49	48.6885	350,557.20	92.5988	666,711.26	105.9301	762,697.03
Total (DBH≥ 40cm)	1,092,194.23		279,673.20		269,589.09		542,931.94
Percentage to total stand volume (DBH ≥ 40cm)	**61.36**		**79.78**		**40.44**		**71.19**

Table 8 Volume summary of timbers in three classes

Class	**Volume in sample plots (m^3)**	**Volume per hectare (m^3)**	**Stand volume of forest (m^3)**	**Stand volume of forest (m^3) of DBH (≥ 40cm)**	**Percentage ratio (%) of the timber volume of DBH ≥ 40cm to the total volume**
Top-class timber	68.1639	48.6885	350,557.20	279,673.20	79.78
First-class timber	129.6383	92.5988	666,711.26	269,589.09	40.44
Assortment timber	148.3022	105.9301	762,697.03	542,931.94	71.19
Total	346.1044	247.2174	1,779,965.49	1,092,194.23	61.36

It can be noted in Table 7 and Table 8 that the total stand volume of this forest was 1,779,965.49 m^3, among which, the volume in top-class was 350,557.20 m^3; the volume of first-class timbers was 666,711.26 m^3; the volume of timbers in assortment class was 762,697.03 m^3.

5 COMMENTS ON RATIONALE OF EVALUATION

Based on accessibility and composites of the forest, 14 sample plots were surveyed to investigate the resources of the whole forest covering 7,200 hectares in this evaluation.

The conclusion of this evaluation is based on the survey results of the 14 sample plots which covered 14,000 m^2. The analysis procedure complies with existing calculation method and the methodology is solid. The area ratio of sparse woods, semi-dense woods and dense woods approximate to the sample quantity ratio of different stand volumes; therefore, the results obtained from those 14 sample plots can basically reflect the overall conditions of forest resources of the forest land.

Li Yide, *research fellow*
Research Institute of Tropical Forestry, China Academy of Forestry
Miao Shenyu , *Professor*
School of Life Sciences, Guangzhou University

Note:

1. Mr. Li Yide enrolled in the Forestry Faculty of Central South Forestry University (currently known as "the Resources and Environment School of Central South Forestry University of Forestry and Technology") in 1978. He has been working in the Research Institute of Tropical Forestry in China Academy of Forestry since his graduation with a bachelor's degree in July 1982. He has been studying the ecosystem of tropical forest, with a focus on forest botany, forest ecology, the reservation and monitoring of biodiversity, nature Reservation, etc. He was successively promoted as an assistant researcher and a deputy researcher in August 1988 and July 1993 respectively. Later, he was approved as a mentor to postgraduates by China Academy of Forestry in 1994, and he was promoted as a researcher in July 1998. From April to July 1994, he stayed in Smithsonian Institution in the United States to study the technological cooperation of the biodiversity monitoring of tropical and subtropical forest. In December 1999, he went to the LTER (the Long Term Ecology Research Network) in the United States to study the long term monitoring technology of forest ecosystem. In March 2003, he went to Thailand to attend the training for the vegetation restoration technology of tropical secondary forest, which was jointly organized by IUCN/ITTO. He currently acts as a researcher of China Academy of Forestry, the chief expert in the monitoring and evaluation of forest ecological efficiency research, the director of the "State Pilot Station of Key Field Scientific Observations – State Field Scientific Observation and Research Station of Jianfengling Forest Ecosystem in Hainan" (the State Key Field Laboratory) operated by the Ministry of Science and Technology and State Forestry Administration, and a member of the Academic Committee of the Research Institute of Tropical Forestry. Besides, he also holds office as a director of Ecological Society of China and a member of the Long-term Ecology Committee under Ecological Society of China, an executive member of the Forest Ecology Committee of Chinese Society of Forestry, and a director of Ecological Society of Guangdong, a member of Japanese Society of Tropical Ecology and a member of the Evaluation Committee of Guangdong Nature Protection Zone.

2. Dr. Miao Shenyu, a professor and a tutor for postgraduate students in Guangzhou University, is currently a standing director of Botanical Society of Guangdong Province, a member of the Expert Committee on Protected Areas in Guangdong Province (廣東省自然保護區專家委員會), and the standing deputy editor-in-chief of Journal of Guangzhou University (Natural Science edition) (《廣州大學學報》 (自然科學版)). He was an undergraduate who graduated from the Biology Department of Jiangxi University (nowadays Nanchang University) in July 1986; and he graduated as a master majoring in Botany from Sun Yat-sen University in July 1991 and as a doctor majoring in Botany from Sun Yat-sen University in 1994. He was the senior visiting scholar of Louisiana State University from June 2004 to December 2005. He chaired and completed several research projects such as "國家保護植物廣東松的保育和結構發育研究" of Guangdong Natural Science Fund Committee (2004.10-2006.9), "廣東省自然保護區可持續發展能力建設研究" of 廣東省科技計劃項目 (2005.1-2006.12) and 國家教育部留學回國人員科研啟動基金項目1項 (2008.1-2010.12). He participated in the researches of National Natural Science Foundation of China and National 863 Program. He has published over 60 theses, 5 of which were included in SCI. He has edited and participated in the editorial works of around 8 monographs and teaching materials. Since 2000, he participated in the baseline surveys and resources evaluations of plant resources and forest vegetation of over 20 protected areas upgrade and general planning adjustment in Guangdong Province. In August 2009, he participated in the outdoor inspection and evaluation works in the forest vegetation in Snoul, southeast of Kratie Province, Cambodia.

APPENDIX

Table 1 Field Sample Plot Investigation Record Sheet

Table 1 Field Sample Plot Investigation Record Sheet
(Top-Class Timber = 0, First-Class Timber = 1, and Assortment Timber = 2)

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
01	01	57	18.1	6	0.1558	1
01	02	64	20.4	5	0.1637	1
01	03	65	20.7	5	0.1688	1
01	04	37	11.8	4	0.0438	1
01	05	46	14.6	4.5	0.0761	1
01	06	67	21.3	6	0.2153	1
01	07	67	21.3	7	0.2511	1
01	08	35	11.1	2.5	0.0245	1
01	09	71	22.6	6.5	0.2619	1
01	10	53	16.9	4.5	0.1010	1
01	11	100	31.8	8	0.6394	1
01	12	68	21.6	5	0.1848	1
01	13	64	20.4	3.5	0.1146	1
01	14	86	27.4	6.5	0.3842	1
01	15	46	14.6	2.5	0.0423	1
01	16	150	47.7	9	1.6184	1
01	17	52	16.6	2.5	0.0540	1
01	18	79	25.1	3.5	0.1746	1
01	19	64	20.4	6	0.1964	1
01	20	56	17.8	4.5	0.1128	1
01	21	93	29.6	10	0.6912	1
01	22	64	20.4	6	0.1964	1
01	23	120	38.2	11	1.2659	1
01	24	84	26.7	9	0.5075	1
01	25	99	31.5	8.5	0.6658	1
01	26	55	17.5	2.5	0.0604	2
01	27	118	37.6	11	1.2241	1
01	28	112	35.7	8	0.8020	1
01	29	71	22.6	7	0.2820	1
01	30	98	31.2	9	0.6908	1
01	31	118	37.6	10	1.1128	1
01	32	39.5	12.6	2	0.0249	2
01	33	31.4	10.0	2	0.0158	2

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
01	34	69	22.0	8	0.3044	1
01	35	105	33.4	8	0.7049	2
01	36	62	19.7	4.5	0.1382	2
01	37	111	35.3	4	0.3939	2
01	38	70	22.3	6.5	0.2545	2
02	1	97	30.9	4	0.3008	1
02	10	56	17.8	8	0.2005	1
02	11	39	12.4	2.5	0.0304	1
02	12	88	28.0	8	0.4951	1
02	13	73	23.2	8	0.3407	1
02	14	38	12.1	1.5	0.0173	1
02	15	57	18.1	4	0.1039	1
02	16	63	20.1	4.5	0.1427	1
02	17	63	20.1	6	0.1903	1
02	18	94	29.9	9	0.6355	1
02	19	72	22.9	6	0.2486	1
02	2	65	20.7	4	0.1351	1
02	20	37	11.8	3	0.0328	1
02	21	52	16.6	5.5	0.1189	1
02	22	49	15.6	6	0.1151	1
02	23	107	34.1	4.5	0.4117	2
02	24	95	30.2	6.5	0.4688	2
02	25	95	30.2	10	0.7213	2
02	26	78	24.8	8.5	0.4133	2
02	27	64	20.4	8	0.2619	2
02	28	38	12.1	3.5	0.0404	1
02	29	82	26.1	8	0.4299	1
02	3	104	33.1	6.5	0.5619	1
02	30	47	15.0	4	0.0706	1
02	31	98	31.2	5.5	0.4221	1
02	32	92	29.3	5	0.3382	1
02	4	58	18.5	4	0.1075	1
02	5	89	28.3	7	0.4431	1
02	6	83	26.4	8	0.4404	1
02	7	64	20.4	4	0.1309	1
02	8	74	23.6	5	0.2188	1
02	9	42	13.4	5	0.0705	1
03	1	55	17.5	5	0.1209	2
03	10	77	24.5	7	0.3317	2
03	11	89	28.3	9	0.5697	2

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
03	12	63	20.1	7	0.2220	2
03	13	33	10.5	1.5	0.0131	2
03	14	75	23.9	8	0.3596	1
03	15	67	21.3	6	0.2153	1
03	16	81	25.8	8	0.4195	2
03	17	35	11.1	3.5	0.0343	2
03	18	134	42.7	9.5	1.3633	1
03	19	95	30.2	10	0.7213	1
03	2	46	14.6	2.5	0.0423	2
03	20	144	45.8	12	1.9886	1
03	21	39	12.4	3	0.0365	1
03	22	75	23.9	12	0.5395	1
03	23	33	10.5	3	0.0261	1
03	24	63	20.1	6.5	0.2062	1
03	25	191	60.8	15	4.3733	2
03	26	38	12.1	4	0.0462	2
03	3	71	22.6	5.5	0.2216	1
03	4	106	33.7	8	0.7184	1
03	5	70	22.3	6	0.2350	2
03	6	70	22.3	6.5	0.2545	1
03	7	42	13.4	5	0.0705	2
03	8	97	30.9	8	0.6016	2
03	9	96	30.6	8.5	0.6261	2
04	1	44	14.0	4.5	0.0696	1
04	10	51	16.2	3.5	0.0728	1
04	11	50	15.9	3	0.0599	2
04	12	53	16.9	4	0.0898	1
04	13	60	19.1	6.5	0.1870	1
04	14	82	26.1	9	0.4836	2
04	15	83	26.4	10	0.5506	2
04	16	76.5	24.4	8	0.3742	1
04	17	36	11.5	3	0.0311	0
04	18	57	18.1	5	0.1298	2
04	19	139	44.2	10	1.5441	0
04	2	43	13.7	4	0.0591	1
04	20	78	24.8	11	0.5348	1
04	21	61	19.4	7	0.2082	1
04	22	127	40.4	14	1.8046	2
04	23	77	24.5	9	0.4265	2
04	24	121	38.5	13	1.5211	1

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
04	3	40	12.7	4	0.0511	1
04	4	101	32.1	9	0.7337	0
04	5	55	17.5	9	0.2176	1
04	6	99	31.5	13	1.0183	1
04	7	42	13.4	3.5	0.0493	1
04	8	99	31.5	9	0.7050	1
04	9	148	47.1	11	1.9256	1
05	1	89	28.3	7.5	0.4748	2
05	10	81	25.8	6.5	0.3408	1
05	11	61	19.4	6	0.1784	1
05	12	96	30.6	8.5	0.6261	1
05	13	104	33.1	14	1.2102	1
05	14	74	23.6	7.5	0.3282	2
05	15	71	22.6	10	0.4029	2
05	16	59	18.8	9	0.2504	1
05	17	38	12.1	3	0.0346	1
05	18	32	10.2	2	0.0164	1
05	19	47	15.0	5.5	0.0971	1
05	2	105	33.4	4.5	0.3965	2
05	20	32	10.2	2	0.0164	0
05	21	66	21.0	9	0.3133	1
05	22	35	11.1	3.5	0.0343	1
05	23	44	14.0	6	0.0928	1
05	24	31.5	10.0	2	0.0159	0
05	25	79	25.1	8.5	0.4240	1
05	26	57	18.1	8.5	0.2207	1
05	27	50	15.9	6	0.1199	1
05	28	113	36.0	8.5	0.8674	1
05	29	33	10.5	3.5	0.0305	1
05	3	69	22.0	11	0.4185	2
05	30	83	26.4	9	0.4955	2
05	31	63	20.1	7	0.2220	2
05	32	57	18.1	6	0.1558	1
05	33	70	22.3	10	0.3916	2
05	34	75	23.9	9.5	0.4271	0
05	35	67	21.3	8.5	0.3049	1
05	36	68	21.6	8	0.2956	1
05	37	43	13.7	4	0.0591	2
05	38	54	17.2	6.5	0.1515	1
05	39	56	17.8	5	0.1253	1

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
05	4	67	21.3	8	0.2870	2
05	40	87	27.7	9.5	0.5747	2
05	5	45	14.3	7	0.1133	1
05	6	72	22.9	7.5	0.3107	1
05	7	75	23.9	7	0.3147	2
05	8	37	11.8	4	0.0438	1
05	9	36	11.5	3.5	0.0363	1
06	1	141	44.9	12	1.9066	2
06	10	150	47.7	8	1.4385	1
06	11	106	33.7	7	0.6286	1
06	12	32	10.2	2.5	0.0205	2
06	13	166	52.8	13	2.8629	1
06	14	141	44.9	10	1.5889	1
06	15	126	40.1	9	1.1419	1
06	16	159	50.6	12	2.4245	1
06	17	113	36.0	6.5	0.6633	2
06	18	47	15.0	4	0.0706	1
06	19	93	29.6	7.5	0.5184	1
06	2	108	34.4	6	0.5593	1
06	20	64	20.4	4.5	0.1473	1
06	21	76	24.2	12	0.5539	1
06	22	66	21.0	6	0.2089	1
06	23	67	21.3	9	0.3229	2
06	24	77	24.5	7.5	0.3554	1
06	25	57	18.1	7	0.1818	1
06	26	67	21.3	9	0.3229	2
06	27	63	20.1	8	0.2538	1
06	28	47	15.0	4.5	0.0794	1
06	29	33	10.5	4.5	0.0392	1
06	3	120	38.2	9	1.0357	1
06	30	88	28.0	7.5	0.4642	2
06	31	38	12.1	3.5	0.0404	1
06	32	57	18.1	6	0.1558	2
06	33	85	27.1	8	0.4619	1
06	34	56	17.8	4	0.1003	1
06	35	51	16.2	8	0.1663	2
06	36	77	24.5	8.5	0.4028	2
06	37	85	27.1	7	0.4042	2
06	38	111	35.3	9.5	0.9354	1
06	39	130	41.4	8	1.0805	1

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
06	4	79	25.1	9	0.4489	1
06	40	94	29.9	7	0.4943	1
06	41	65	20.7	6.5	0.2195	1
06	42	106	33.7	12	1.0776	1
06	43	45	14.3	4	0.0647	1
06	44	97	30.9	7	0.5264	1
06	45	34	10.8	3.5	0.0323	2
06	46	44	14.0	5	0.0774	2
06	47	35	11.1	3	0.0294	2
06	48	72	22.9	4	0.1657	1
06	49	145	46.2	12	2.0164	1
06	5	149	47.4	14	2.4840	1
06	50	85	27.1	8	0.4619	2
06	51	151	48.1	5	0.9111	2
06	52	132	42.0	8	1.1140	1
06	53	63	20.1	6	0.1903	0
06	6	136	43.3	9	1.3304	1
06	7	76	24.2	4	0.1846	1
06	8	72	22.9	4.5	0.1864	2
06	9	131	41.7	13	1.7829	1
07	1	90	28.6	6	0.3884	2
07	10	350	111.4	20	19.5801	2
07	11	43	13.7	4.5	0.0665	2
07	12	36	11.5	5	0.0518	2
07	13	40	12.7	4	0.0511	2
07	14	190	60.5	10	2.8851	2
07	15	101	32.1	8	0.6522	2
07	16	45	14.3	4.5	0.0728	2
07	17	59	18.8	7.5	0.2086	2
07	18	48	15.3	6	0.1105	2
07	19	154	49.0	16	3.0326	0
07	2	68	21.6	7.5	0.2772	2
07	20	150	47.7	16	2.8771	0
07	21	262	83.4	22	12.0691	2
07	22	38	12.1	5.5	0.0635	2
07	23	44	14.0	6	0.0928	2
07	24	52	16.6	6.5	0.1405	2
07	3	62	19.7	4.5	0.1382	2
07	4	45	14.3	6	0.0971	2
07	5	144	45.8	9	1.4915	2

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
07	6	176	56.0	18	4.4560	0
07	7	130	41.4	16	2.1610	0
07	8	161	51.2	16	3.3145	2
07	9	88	28.0	8	0.4951	2
08	1	193	61.4	19	5.6561	0
08	10	74	23.6	8	0.3501	2
08	11	86	27.4	9.5	0.5615	2
08	12	230	73.2	16	6.7643	0
08	13	50	15.9	7	0.1399	2
08	14	170	54.1	15	3.4645	0
08	15	119	37.9	11	1.2449	2
08	16	98	31.2	11	0.8443	0
08	17	149	47.4	15	2.6614	0
08	18	84	26.7	10	0.5639	0
08	2	97	30.9	7	0.5264	1
08	3	447	142.3	22	35.1307	2
08	4	150	47.7	17	3.0569	0
08	5	210	66.8	7.5	2.6433	0
08	6	70	22.3	12	0.4699	2
08	7	48	15.3	4	0.0737	2
08	8	48	15.3	4.5	0.0829	2
08	9	85	27.1	9	0.5197	2
09	1	167	53.2	12	2.6746	2
09	10	47	15.0	4.5	0.0794	2
09	11	87	27.7	4.5	0.2722	0
09	12	152	48.4	14	2.5850	1
09	13	120	38.2	6.5	0.7480	1
09	14	78	24.8	4	0.1945	0
09	15	112	35.7	7	0.7018	1
09	16	40	12.7	3.5	0.0448	0
09	17	123	39.2	10	1.2091	2
09	18	33	10.5	3	0.0261	2
09	19	54	17.2	6	0.1398	2
09	2	54	17.2	4	0.0932	1
09	20	40	12.7	3.5	0.0448	2
09	3	45	14.3	4.5	0.0728	2
09	4	114	36.3	10	1.0386	0
09	5	82	26.1	6	0.3224	0
09	6	39	12.4	2	0.0243	0
09	7	54	17.2	4.5	0.1049	0

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
09	8	58	18.5	6	0.1613	1
09	9	202	64.3	14	4.5654	2
10	1	88	28.0	3	0.1857	0
10	10	80	25.5	11	0.5626	2
10	11	78	24.8	8	0.3890	1
10	12	104	33.1	10	0.8644	2
10	13	70	22.3	10	0.3916	1
10	14	90	28.6	12	0.7768	2
10	15	70	22.3	6	0.2350	0
10	16	40	12.7	4	0.0511	0
10	17	84	26.7	8	0.4511	0
10	18	156	49.7	14	2.7229	0
10	19	109	34.7	10	0.9495	2
10	2	116	36.9	9	0.9678	2
10	20	37	11.8	3	0.0328	0
10	21	34	10.8	3	0.0277	2
10	22	31.5	10.0	3.5	0.0278	0
10	23	41	13.1	4.5	0.0605	0
10	24	96	30.6	8	0.5892	2
10	25	61	19.4	7	0.2082	2
10	26	89	28.3	8	0.5064	0
10	27	62	19.7	7	0.2150	0
10	28	160	50.9	14	2.8643	0
10	29	48	15.3	4	0.0737	2
10	3	83	26.4	10	0.5506	2
10	30	95	30.2	9	0.6491	2
10	31	38	12.1	4	0.0462	2
10	32	77	24.5	8	0.3791	0
10	33	40	12.7	4	0.0511	1
10	34	38	12.1	3	0.0346	2
10	35	55	17.5	2	0.0484	0
10	36	42	13.4	2.5	0.0352	1
10	37	43	13.7	3.5	0.0517	2
10	38	35	11.1	2	0.0196	1
10	39	139	44.2	7	1.0809	2
10	4	34	10.8	3	0.0277	2
10	40	73	23.2	5	0.2129	2
10	41	60	19.1	2.5	0.0719	2
10	5	66	21.0	7	0.2437	0
10	6	61	19.4	6.5	0.1933	2

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
10	7	78	24.8	6.5	0.3160	2
10	8	78	24.8	11	0.5348	2
10	9	84	26.7	8	0.4511	2
11	1	40	12.7	6	0.0767	1
11	10	38	12.1	4	0.0462	1
11	11	42	13.4	3	0.0423	2
11	12	46	14.6	5	0.0846	2
11	13	84	26.7	3	0.1692	0
11	14	131	41.7	9	1.2343	1
11	15	130	41.4	10.5	1.4182	2
11	16	90	28.6	6.5	0.4208	2
11	17	250	79.6	12	5.9939	2
11	18	53	16.9	6	0.1347	2
11	19	48	15.3	5.5	0.1013	1
11	2	110	35.0	10	0.9670	1
11	20	76	24.2	6	0.2770	1
11	21	96	30.6	8	0.5892	2
11	22	46	14.6	4	0.0676	1
11	23	104	33.1	10	0.8644	1
11	24	34	10.8	2.5	0.0231	1
11	25	114	36.3	9	0.9348	1
11	26	121	38.5	7	0.8191	1
11	27	76	24.2	8	0.3693	1
11	28	77	24.5	3.5	0.1658	1
11	29	42	13.4	2	0.0282	1
11	3	32	10.2	3	0.0246	1
11	30	50	15.9	4.5	0.0899	2
11	31	62	19.7	4.5	0.1382	2
11	4	114	36.3	10	1.0386	1
11	5	32	10.2	3.5	0.0286	1
11	6	36	11.5	4.5	0.0466	1
11	7	50	15.9	6	0.1199	1
11	8	54	17.2	5.5	0.1282	1
11	9	120	38.2	11	1.2659	1
12	1	102	32.5	10	0.8315	1
12	10	82	26.1	10	0.5374	2
12	11	116	36.9	8.5	0.9141	2
12	12	152	48.4	6	1.1079	2
12	13	140	44.6	8	1.2531	2
12	14	77	24.5	3	0.1422	0

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
12	15	300	95.5	6	4.3156	0
12	16	154	49.0	6	1.1372	0
12	17	37	11.8	3	0.0328	2
12	18	112	35.7	10	1.0025	2
12	19	108	34.4	8.5	0.7923	1
12	2	132	42.0	12	1.6710	1
12	20	104	33.1	10	0.8644	2
12	21	140	44.6	13	2.0363	0
12	22	45	14.3	3	0.0486	1
12	23	135	43.0	6	0.8739	2
12	24	52	16.6	4	0.0864	2
12	25	42	13.4	4	0.0564	2
12	26	54	17.2	6	0.1398	1
12	27	53	16.9	6	0.1347	1
12	28	98	31.2	8.5	0.6524	2
12	29	92	29.3	11	0.7441	0
12	3	85	27.1	10	0.5774	1
12	30	72	22.9	7	0.2900	0
12	31	97	30.9	9	0.6768	2
12	32	98	31.2	3	0.2303	2
12	33	114	36.3	10	1.0386	0
12	4	110	35.0	9	0.8703	1
12	5	60	19.1	5	0.1439	1
12	6	44	14.0	5	0.0774	0
12	7	114	36.3	9	0.9348	1
12	8	130	41.4	10	1.3506	0
12	9	144	45.8	10	1.6572	2
13	1	106	33.7	10	0.8980	2
13	10	90	28.6	8	0.5179	1
13	11	45	14.3	2	0.0324	2
13	12	160	50.9	9.5	1.9436	1
13	13	80	25.5	8.5	0.4348	1
13	14	125	39.8	11	1.3736	1
13	15	44	14.0	2	0.0309	2
13	16	112	35.7	9	0.9023	1
13	17	100	31.8	8	0.6394	1
13	18	150	47.7	11	1.9780	1
13	19	32	10.2	2	0.0164	2
13	2	160	50.9	8	1.6367	0
13	20	40	12.7	3.5	0.0448	2

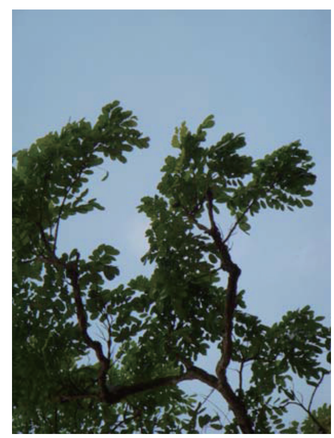
Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
13	21	40	12.7	3.5	0.0448	0
13	22	66	21.0	5	0.1741	2
13	23	138	43.9	8	1.2176	1
13	24	68	21.6	4.5	0.1663	1
13	25	111	35.3	8	0.7877	1
13	26	63	20.1	8	0.2538	0
13	27	79	25.1	9	0.4489	2
13	28	35	11.1	3	0.0294	2
13	29	89	28.3	7.5	0.4748	2
13	3	102	32.5	7	0.5820	2
13	30	87	27.7	8	0.4839	0
13	31	81	25.8	7.5	0.3933	2
13	32	33	10.5	3	0.0261	1
13	33	46	14.6	3	0.0507	1
13	34	42	13.4	3.5	0.0493	1
13	35	75	23.9	6	0.2697	1
13	36	134	42.7	10	1.4350	1
13	37	61	19.4	4.5	0.1338	1
13	38	93	29.6	7.5	0.5184	1
13	39	42	13.4	4	0.0564	1
13	4	136	43.3	10	1.4782	2
13	40	124	39.5	8	0.9831	1
13	41	82	26.1	8	0.4299	1
13	42	33	10.5	2.5	0.0218	0
13	43	116	36.9	5	0.5377	0
13	44	105	33.4	8	0.7049	1
13	5	158	50.3	9.5	1.8953	1
13	6	107	34.1	8	0.7320	1
13	7	106	33.7	8.5	0.7633	1
13	8	160	50.9	12	2.4551	1
13	9	122	38.8	9	1.0706	1
14	1	112	35.7	6	0.6015	0
14	10	111	35.3	9	0.8862	1
14	11	66	21.0	7	0.2437	1
14	12	66	21.0	7	0.2437	1
14	13	70	22.3	8	0.3133	1
14	14	128	40.7	8	1.0475	1
14	15	72	22.9	6	0.2486	1
14	16	86	27.4	5.5	0.3251	0
14	17	99	31.5	8	0.6266	1

Sample plot no.	Plant no.	Girth at Breast Height *(cm)*	Diameter at Breast Height *(cm)*	Length of Timber *(m)*	Volume of Timber *(m^3)*	Class of timber
14	18	90	28.6	6.5	0.4208	1
14	19	78	24.8	7.5	0.3647	1
14	2	42	13.4	3	0.0423	0
14	20	96	30.6	7	0.5156	1
14	21	114	36.3	7	0.7270	1
14	22	140	44.6	9	1.4098	1
14	23	71	22.6	7	0.2820	1
14	24	118	37.6	14	1.5579	0
14	25	134	42.7	12	1.7220	1
14	26	108	34.4	12	1.1186	1
14	27	124	39.5	12	1.4746	1
14	28	73	23.2	4.5	0.1916	1
14	29	39	12.4	3	0.0365	0
14	3	69	22.0	4.5	0.1712	1
14	30	49	15.6	3.5	0.0672	0
14	31	46	14.6	4	0.0676	0
14	32	146	46.5	12	2.0443	1
14	33	36	11.5	2	0.0207	0
14	34	108	34.4	7	0.6525	1
14	35	129	41.1	11	1.4629	1
14	4	106	33.7	8	0.7184	1
14	5	74	23.6	6	0.2626	1
14	6	68	21.6	6	0.2217	1
14	7	150	47.7	12	2.1578	1
14	8	40	12.7	3.5	0.0448	2
14	9	72	22.9	6	0.2486	1

Pictures 1-3 Field Investigation Photos

Picture 1 Photo of the semi-dense woods and the dense bamboo underneath

Picture 2 Photo of the dense woods and the dense bamboo underneath



Picture 3 Top-class timber – Dalbergia plants

(Left: Next to the 2 Sinuolao (transliteration) are 2 Pyinkado with large DBH; middle: Dalbergin bariensis Pierre; right: branches and leaves of Dalbergia plants)

China Asean Resources Limited
8/F., TEDA BLDG., 87 WING LOK STREET, SHEUNG WAN, HONG KONG
電話: (852) – 2543 8223 傳真: (852) – 2854 1121

Date: 17 September 2010

The Stock Exchange of Hong Kong Limited
11th Floor,
One International Finance Centre
1 Harbour View Street,
Hong Kong

Dear Sir/Madam,

Discounted Cash Flow Forecasts of 100% of interest in Crops & Land Development

We, the undersigned, being the directors of China Asean Resources Limited (the "Company"), hereby confirm that, in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), have reviewed the calculations for discounted cash flow forecasts in the valuation report issued by BMI Appraisals Limited (the "Valuer") regarding the fair values of 100% interest in Crops & Land Development (Cambodia) Co. Ltd. as at 31 July 2010 (the "Valuation Report") for which the Valuer is solely responsible for.

Pursuant to the Rule 19.62 of the GEM Listing Rules, the reporting accountants of the Company, KLC Kennic Lui & Co. Ltd., have reviewed the arithmetical accuracy of the calculation of the Valuation Report in accordance with the Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

We hereby confirm that the discounted cash flow forecast made pursuant to the Valuation Report as set out in Appendix V to the circular of the Company dated 17 September 2010 is made by the directors of the Company after due and careful enquiry.

Yours faithfully,
For and on behalf of
the board of directors of
China Asean Resources Limited
Leung Sze Yuan, Alan
Executive Director

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

5/F, Ho Lee Commercial Building,
38-44 D'Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

17 September 2010

The Directors
China Asean Resources Limited
8/F, Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

We herein report on the calculations of the profit forecasts underlying the business valuation of Crops & Land Development (Cambodia) Co., Ltd. ("Crops & Land Development") (the "Valuation") dated 17 September 2010 prepared by BMI Appraisals Limited (the "Valuer") as of 31 July 2010 as set out in Appendix V of the circular of China Asean Resources Limited (the "Company") dated 17 September 2010 (the "Circular") in connection with the very substantial acquisition of a third forestry involving the acquisition of the entire equity interests in Crops & Land Development.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY, THE VALUER AND THE REPORTING ACCOUNTANTS

The directors of the Company and the Valuer are solely responsible for the preparation of the discounted cash flows for the Valuation which is regarded as a profit forecast under 19.61 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").

It is our responsibility to report, as required by 19.62(2) of the GEM Listing Rules, on the calculations of the discounted cash flows on which the Valuation is based. The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. We have not reviewed, considered or conducted any work on the appropriateness and validity of the assumptions and express no opinion on the appropriateness and validity of the assumptions on which the discounted cash flows, and thus the Valuation, are based.

BASIS OF OPINION

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Reports on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants. We reviewed the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the directors of the Company in evaluating whether the Valuation, so far as the calculations are concerned, has been properly compiled and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work. Our work does not constitute a valuation of Crops & Land Development.

OPINION

Based on our review of the arithmetical accuracy of the Valuation, so far as the calculations are concerned, the Valuation has been properly compiled in accordance with the bases and assumptions made by the Valuer as set out in the “Valuation Assumptions” and “Valuation Methodology” sections of the Valuation, respectively.

Yours faithfully
KLC Kennic Lui & Co. Ltd.
Certified Public Accountants (Practising)

Choy Po Fong
Practising certificate number: P04688
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company, together with changes proposed in this circular, are as follows:

Authorised share capital

Shares		*HK$*
5,000,000,000	(as at the Latest Practicable Date)	50,000,000

After completion of Share Consolidation and increase in the authorised share capital:

Shares		*HK$*
4,000,000,000		200,000,000

Issued and fully paid up share capital (assuming the Share Consolidation has become effective)

Shares		*HK$*
533,400,000	Existing Shares after Share Consolidation	26,670,000
1,500,000,000	Consideration Shares and Conversion Shares to be issued (assuming the Convertible Bonds are converted into Consolidated Shares in full, which is for illustration purpose only since there are restrictions on conversion of the Convertible Bonds)	75,000,000
2,033,400,000		101,670,000

3. DISCLOSURE OF INTERESTS

(a) Disclosure of interests by the Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the underlying 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	Personal	3.81%
	46,857,143	Share Option granted but not yet exercised	
Mr. Zhang Zhenzhong	136,640,000	Personal	6.88%
	46,857,143	Share Option granted but not yet exercised	
Mr. Li Tai To, Titus	22,995,134	Personal	0.86%

(b) Particulars of Directors' Service Contracts

On 25 June 2008, the executive director Mr. Li Tai To, Titus was re-designated as non-executive director and entered into a service contract with the Company, renewable every three years. On 23 May 2008, Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were appointed as executive directors and entered into service contracts with the Company, renewable every three years. Messrs. Leung Sze Yuan, Alan and Zhang Zhenzhong were subsequently appointed as chairman and chief executive officer of the Group on 25 June 2008 and 18 June 2008 respectively. The executive Directors are committed by the respective service contracts to devote themselves exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of their conduct of business affairs, among other commitments.

The independent non-executive Directors have entered into service contracts with the Company. The service contracts of Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel were renewed for a term of one year commencing on 1 December 2009, 30 September 2009 and 16 June 2010, respectively.

Save as aforesaid and as at the Latest Practicable Date, there are no existing or proposed service contracts of Directors with the Enlarged Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)).

(c) Save as disclosed herein, as at the Latest Practicable Date:

(i) none of the Directors and chief executive held 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 the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange;

(ii) none of the Directors had any direct or indirect interests in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to any members of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any members of the Enlarged Group; and

(iii) none of the Directors is materially interested in any contract or arrangement entered into with any members of the Enlarged Group which contract or arrangement subsists at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

4. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies were interested in 5% or more in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of substantial shareholder	Number of shares held	Capacity	Percentage of interests
Mr. Li Wo Hing	34,090,267	Beneficial owner	1.28%
	270,704,000	Interest of controlled corporation *(Note)*	10.15%
	304,794,267		11.43%
PMM	270,704,000	Beneficial owner *(Note)*	10.15%
Mr. Zhang Zhenzhong	136,640,000	Beneficial owner	5.12%

Note: Mr. Li personally holds 34,090,267 Shares, representing approximately 1.28% of the Company's issued share capital. In addition, People Market Management Limited ("PMM") owns 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 (i) approximately 70.58% by Mr. Li Wo Hing; (ii) approximately 19.61% by Mr. Li Nga Kuk, James; and (iii) approximately 9.81% by Mr. Li Tai To, Titus, a non-executive Director. Accordingly, Mr. Li Wo Hing is deemed to hold indirect interest in the 270,704,000 Shares through PMM under the SFO.

Save as disclosed above, so far as was known to the Directors, there were no other persons (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

5. LITIGATION

As announced in the Company's announcements dated 9 September 2010, 9 June 2009 and 26 March 2009 relating to the unauthorized disposal (the "**Unauthorized Disposal**") of the Company's 65% interest in Sinnowa Medical Science & Technology Co., Ltd (南京神州英諾華醫療科技有限公司) ("**Sinnowa**"), the Company has lodged a request for administrative review for reviewing the governmental approval of the Unauthorized Disposal and registration of the unauthorized sale and purchase agreements. In the midst of the administrative review, the Company was notified in October 2009 that one of the current registered owners of Sinnowa, Innova Science & Technology Co. Ltd. (南京英諾華科技有限公司) ("**Innova**"), filed a civil claim against the Group in the courts of Nanjing, PRC so as to seek the court's declaration that the transfer of the Company's 65% interest in Sinnowa is legal and valid. On 1 September 2010, the Company and the registered owners of Sinnowa (i.e. Innova and Great Profit Enterprises Limited) entered into settlement agreements in relation to the civil claim, pursuant to which the Company will apply for termination of the administrative review and will not pursue against the current registered owners of Sinnowa in respect of the transfer of 65% interest in Sinnowa, while Innova will pay a sum of RMB4,000,000 to the Company as full and final settlement of the dispute. Such settlement agreement was endorsed by the PRC courts and the relevant court has issued a settlement certificate regarding this dispute on 2 September 2010. By virtue of such settlement agreement, the Company has confirmed the disposal of 65% interest in Sinnowa and will not have any interests in Sinnowa as at the Latest Practicable Date. For further details, please refer to the Company's announcement dated 9 September 2010.

Secondly, pursuant to a cooperation agreement dated 27 April 2009 and entered into between Crops & Land Development and a PRC company (the "**Claimant**"), Crops & Land Development agreed to grant the Claimant a right to process the timber exploited from a forest located in Cambodia. The representative of the Claimant alleged that he had paid RMB200,000 and US$500,000 (which was alleged to be equivalent to RMB3,000,000 according to the relevant agreement) to the owner of Crops & Land Development under the terms of the cooperation agreement. It was alleged by the representative of the Claimant that after payment of the said sums, Crops & Land Development had failed to comply with the terms of the cooperation agreement. The representative and the Claimant later lodged a claim in the PRC against the owner of Crops & Land Development and Mr. Zhang Zhenzhong (who is an executive Director and was a consultant to Crops & Land Development) for repayment of the said sums, and for damages incurred by the Claimant. As advised by the PRC lawyers to the Company, the defendant of this case should be Crops & Land Development instead of the owner of Crops & Land Development and Mr. Zhang. If the Claimant later decides to claim against Crops & Land Development, Crops & Land Development could be liable for repayment of sums received from the representative of the Claimant (less the sums that have been repaid by Crops & Land Development of RMB2.7 million), as well as related damages suffered by the Claimant.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. QUALIFICATION AND CONSENT OF EXPERT

The following are the experts, and their qualifications, who have given opinions contained in this circular:

Name	Qualification
KLC Kennic Lui & Co. Ltd.	Certified Public Accountants
BMI Appraisals Limited	Independent Valuer
中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry of China Academy of Forestry*)	Technical Adviser

Each of KLC Kennic Lui & Co. Ltd., BMI Appraisals Limited and The Research Institute of Tropical Forestry of China Academy of Forestry have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their reports, letters or opinions as set out in this circular and references to their names in the form and context in which they appear.

As at the Latest Practicable Date, none of KLC Kennic Lui & Co. Ltd., BMI Appraisals Limited and The Research Institute of Tropical Forestry of China Academy of Forestry were beneficially interested in the share capital of any member of the Enlarged Group, nor did they have any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any direct or indirect interest in any assets which were, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interests in businesses which compete or may compete with the businesses of the Enlarged Group.

* *for identification purpose only*

8. MATERIAL CONTRACTS

The following contracts were entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) during the period of two years immediately preceding the Latest Practicable Date and are or may be material:

(1) the master sale and purchase agreement dated 2 March 2010 entered into between the Company as vendor and Chen Guoqiang as purchaser in relation to the disposal of the entire equity interests in CB Pharmaceutical (Nanjing) Co., Ltd. (南京神州佳美製藥有限公司) and 75% equity interests in Medical China Technology Limited at an aggregate consideration of HK$12,000,000, together with (i) the individual sale and purchase agreement dated 2 March 2010 entered into between the Company as vendor and Chen Guoqiang as purchaser in relation to the disposal of the entire equity interests in CB Pharmaceutical (Nanjing) Co., Ltd. (南京神州佳美製藥有限公司) at a consideration of HK$11,999,990; and (ii) the individual sale and purchase agreement dated 2 March 2010 entered into between the Company as vendor and Chen Guoqiang as purchaser in relation to the disposal of 75% equity interests in Medical China Technology Limited at an aggregate consideration of HK$10;

(2) the Acquisition Agreement;

(3) the settlement agreement dated 1 September 2010 entered into between the Company and Innova in relation to the settlement of the dispute relating to the Unauthorized Disposal in consideration of Innova paying RMB4,000,000 to the Company; and

(4) the settlement agreement dated 1 September 2010 entered into between the Company and Great Profit Enterprises Limited in relation to the settlement of the dispute relating to the Unauthorized Disposal in consideration of Innova paying RMB4,000,000 to the Company.

9. MISCELLANEOUS

(i) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(ii) The head office and principal place of business of the Company in Hong Kong is 8th Floor, Teda Building, 87 Wing Lok Street, Hong Kong.

(iii) The compliance officer of the Company is Mr. Leung Sze Yuan, Alan, an executive Director.

(iv) The secretary of the Company is Mr. Lam Kam Ming, Simon, who is a member of the Hong Kong Institute of Certified Public Accountants.

(v) The Company has established an audit 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 the Latest Practicable Date, the committee comprises three independent non-executive Directors, namely, Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Chan Kim Chung, Daniel. Mr. Fan Wan Tat is the chairman of the audit committee.

Mr. Fan Wan Tat is a medical doctor in Hong Kong.

Mr. Tam Wai Leung, Joseph is currently the President to the Executive Committee of the Hong Kong Institute of Business Management Ltd. and the Macau Association of Higher Education. He holds a Doctor of Philosophy degree from Preston University, U.S.A. and is a fellow member of the Institute of Cost and Executive Accountants in the U.K. and the Association of Taxation and Management Accountants in Australia.

Mr. Chan Kim Chung, Daniel, is currently the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in software testing and quality assessment. He holds a Doctor of Philosophy degree in computer sciences from the University of Glasgow, United Kingdom and is a Chartered Engineer and a Chartered Information Technology professional of the Engineering Council of the United Kingdom.

(vi) The branch share registrar and transfer agent of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(vii) In the event of any inconsistencies, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents of the Enlarged Group will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at 8th Floor, Teda Building, 87 Wing Lok Street, Hong Kong, from 17 September 2010 up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2008 and 2009;

(c) the Accountants' reports on the Target Group and Crops & Land Development, the text of which are set out in Appendix II and Appendix III to this circular;

(d) the unaudited pro forma financial information and the report thereon issued by KLC Kennic Lui & Co. Ltd. in relation to the Acquisition, the text of each of which is set out in Appendix IV to this circular;

(e) the written consents as referred to in the paragraphs headed "Qualification and Consent of Expert" in this appendix;

(f) the material contracts as referred to in the paragraphs headed "Material Contracts" in this appendix;

(g) the Valuation Report prepared by the Independent Valuer, the text of which is set out in Appendix V to this circular;

(h) the reports on forecasts underlying the Valuation prepared by KLC Kennic Lui & Co. Ltd. and the Company, the text of both of which are set out in Appendix VII to this circular;

(i) the service contracts of the Directors as referred to in the paragraphs headed "Particulars of Directors' Service Contracts" in this appendix; and

(j) the Technical Report prepared by the Technical Adviser, the text of which is set out in Appendix VI to this circular.

China Asean Resources Limited
神州東盟資源有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 8186)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of China Asean Resources Limited ("Company") will be held at 10:00 a.m. on Wednesday, 6 October 2010 at Falcon Room II, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

   the increase in the authorized share capital of the Company from HK$50,000,000 (divided into 5,000,000,000 shares of HK0.01 each (the "**Shares**") in the share capital of the Company) to HK$200,000,000 (divided into 20,000,000,000 Shares each in the share capital of the Company) by the creation of additional 15,000,000,000 Shares each ranking pari passu in all respects with the existing Shares of the Company be and is hereby approved, and any one or more director(s) of the Company (the "Director(s)") be and is/are hereby authorized to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the increase in the authorized share capital of the Company."

2. "**THAT**

   (a) subject to and conditional upon the passing of the ordinary resolution no. 1 and The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Consideration Shares and the Conversion Shares, the acquisition agreement (the "**Acquisition Agreement**") dated 22 July 2010 entered into among Forest Glen Group Limited (the "**Forest Glen**"), a wholly-owned subsidiary of the Company, as the purchaser and the assignee, the Company as the guarantor, and United Sky Investments Limited and Jethero International Limited as the vendors (the "**Vendors**") and the assignors in relation to, among other matters, the sale and purchase of the entire issued share capital of Richking Development Limited (the "**Target Company**", and together with its subsidiaries the "**Target Group**") and the assignment of all of the shareholders' loan due from the Target Group to the Vendors as at completion (the "**Completion**") of the Acquisition Agreement (a copy of which is marked "A" and produced to the SGM and signed by the chairman of the SGM for identification purpose) be and is hereby ratified, confirmed and approved and any one or more Director(s) of the Company be and is/are hereby authorized to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder;

(b) subject to and conditional upon The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Consideration Shares and the Conversion Shares, the issue and allotment of the 1,089,338,022 new Shares of HK$0.01 each in the share capital of the Company (or 217,867,605 new consolidated shares of HK$0.05 each (the "**Consolidated Shares**") in the share capital of the Company if the Share Consolidation (as defined below) becomes effective prior to Completion) (the "**Consideration Shares**") to the Vendors or their nominees at the issue price of HK$0.044 per Share (or HK$0.22 per Consolidated Share if the Share Consolidation (as defined below) becomes effective prior to Completion) be and is hereby approved and any one or more Directors be and is/are hereby authorized to allot and issue the Consideration Shares in accordance with the terms of the Acquisition Agreement and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the allotment and issue of the Consideration Shares; and

(c) subject to and conditional upon The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Consideration Shares and the Conversion Shares, the issue of the zero-coupon convertible bonds (the "**Convertible Bonds**") due 2015 in the principal amount of HK$282,069,127 which entitles the holder(s) thereof to convert the principal amount outstanding into conversion Shares (the "**Conversion Shares**") at the initial conversion price of HK$0.044 per Conversion Share (or HK$0.22 per Conversion Share if the Share Consolidation (as defined below) becomes effective prior to Completion), and the issue and allotment of the Conversion Shares upon exercise of the conversion rights attached thereto be and is hereby approved, and any one or more Directors be and is/are hereby authorized to issue the Convertible Bonds in accordance with the terms of the Acquisition Agreement and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the issue of the Convertible Bonds, and any one or more Directors be and is/are hereby authorized to issue the Conversion Shares in accordance with the terms of the Convertible Bonds and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the allotment and issue of the Conversion Shares."

3. “**THAT**

subject to and conditional upon The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Consolidated Shares, every five issued and unissued Shares of HK$0.01 each in the share capital of the Company be consolidated into one Consolidated Share of HK$0.05 (the “**Share Consolidation**”) with effect from the business day immediately following the day on which this resolution is approved by the shareholders of the Company, and any one or more Directors be and is/are hereby authorized to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Share Consolidation (including but not limited to the issue of the new share certificates for the Consolidated Shares).”

By order of the board of directors of
China Asean Resources Limited
Leung Sze Yuan, Alan
Chairman

Hong Kong, 17 September 2010

Registered office:
Canon’s Court,
22 Victoria Street,
Hamilton HM 12,
Bermuda

Head office and principal place of business in Hong Kong:
8th Floor,
Teda Building,
87 Wing Lok Street,
Hong Kong

Notes:

1. A form of proxy to be used for the meeting is enclosed.

2. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

4. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company’s registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting.

5. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

6. No shareholders will abstain from voting for resolutions nos. 1 to 3.