China Asean Resources Limited

神州東盟資源有限公司

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

First Quarterly Report 2011

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

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This report, for which the directors (the "Directors") of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

— No turnover was generated by the Group for the three months ended 31 March 2011 (2010: HK$133,000).

— The Group's loss attributable to equity shareholders of the Company for the three months ended 31 March 2011 amounted to approximately HK$17,712,000 (2010: HK$11,460,000).

— The Group's basic loss per share is 1.48 Hong Kong cents (2010: basic and diluted loss per share of 3.00 Hong Kong cents (restated)).

— The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2011 (2010: Nil).

— Reference is made to the announcement of the Company dated 29 December 2010 and 7 January 2011. The placing of new shares was completed and the Company successfully raised net proceeds of approximately HK$62,000,000 from the placing.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of China Asean Resources Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2011, together with the unaudited comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 31 March	
	Note	**2011** ***HK$'000*** **(Unaudited)**	2010 *HK$'000* (Unaudited)
CONTINUING OPERATIONS			
Turnover	*2*	**—**	133
Cost of sales		**—**	(62)
Gross profit		**—**	71
Other income		**2**	1
Selling and distribution expenses		**(195)**	(38)
Administrative expenses		**(13,147)**	(7,912)
Finance costs	*3*	**(4,372)**	—
Loss before taxation		**(17,712)**	(7,878)
Taxation	*4*	**—**	—
Loss for the period from continuing operations		**(17,712)**	(7,878)
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	*5*	**—**	(3,582)
LOSS FOR THE PERIOD		**(17,712)**	(11,460)
Other comprehensive income for the period			
Exchange differences on translation of financial statements of overseas subsidiaries		**—**	(112)
Other comprehensive income for the period, net of tax		**—**	(112)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(17,712)**	(11,572)

	Note	For the three months ended 31 March	
		2011	2010
		HK Cents	*HK Cents*
			(Restated)
Basic loss per share	6		
From continuing operations		**(1.48)**	(2.06)
From discontinued operations		**—**	(0.94)
		(1.48)	(3.00)
Diluted loss per share	6		
From continuing operations		**N/A**	(2.06)
From discontinued operations		**N/A**	(0.94)
		N/A	(3.00)

Note:

1. **BASIS OF PREPARATION**

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

The financial information has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements.

This consolidated quarterly financial information has not been audited.

2. **TURNOVER**

Turnover recognised during the respective period is analysed as follows:

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Sales of wood products	**—**	133

3. **FINANCE COSTS**

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Imputed interest expenses	**4,372**	—

Imputed interest expense is calculated using the effective interest method by applying the effective interest rate of 9.97% per annum to the liability component of the convertible bonds that were issued by the Company on 26 November 2010.

4. TAXATION

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2011 (2010: HK$Nil) as the Group did not have any assessable profits in Hong Kong for the period.

(b) PRC Income Tax

No provision for PRC income tax has been made for the subsidiaries of the Company did not have any assessable profits for the three months ended 31 March 2011 (2010: HK$Nil) determined in accordance with the relevant income tax rules and regulations in the PRC.

(c) Cambodia Tax on Profits

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the three months ended 31 March 2011 (2010: HK$Nil) determined in accordance with the relevant tax rules and regulations in Cambodia.

(d) Deferred taxation

No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the three months ended 31 March 2011 (2010: HK$Nil).

5. LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS

Disposal of medical research and development of drugs business

On 24 June 2010, the Group disposed of the entire capital of CB Pharmaceutical (Nanjing) Co., Ltd（南京神州佳美製藥有限公司）and Medical China Technology Ltd. for a consideration of HK$12,000,000.

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

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Revenue	—	5
Expenses	—	(3,587)
Loss before taxation	—	(3,582)
Taxation	—	—
Loss for the period from discontinued operations	—	(3,582)

6. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2011 is based on the loss attributable to equity shareholders of the Company of approximately HK$17,712,000 (2010: loss of HK$11,460,000) divided by weighted average number of 1,192,961,000 (2010: 381,000,000 (restated)) ordinary shares in issue during the period.

No diluted loss per share has been presented for the period ended 31 March 2011 as the exercise of share options and the conversion of outstanding convertible bonds would result in an anti-dilutive effect. The diluted loss per share for the three months ended 31 March 2010 was the same as basic loss per share because the exercise prices of the Company's share options were higher than the average market price for shares.

The basic loss per share and diluted loss per share for the three months ended 31 March 2010 have been restated as a result of the share consolidation by the Company.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2011 (2010: HK$Nil).

8. RESERVES

	Share premium	Contributed surplus	Share options reserve	Exchange reserve	Capital reserve	Retained profits/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2010	497,783	5,265	9,197	12,069	—	1,994	526,308
Transactions with owners							
Recognition of equity-settled share based payments	—	—	355	—	—	—	355
Total transactions with owners	—	—	355	—	—	—	355
Comprehensive income							
Loss for the period	—	—	—	—	—	(11,460)	(11,460)
Other comprehensive income for the period	—	—	—	(112)	—	—	(112)
Total comprehensive income	—	—	—	(112)	—	(11,460)	(11,572)
Balance at 31 March 2010	497,783	5,265	9,552	11,957	—	(9,466)	515,091

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share options reserve *HK$'000*	Exchange reserve *HK$'000*	Capital reserve *HK$'000*	Retained profits/ (Accumulated losses) *HK$'000*	Total *HK$'000*
Balance at 1 January 2011	**604,213**	**5,265**	**8,243**	**2,043**	**104,407**	**(29,843)**	**694,328**
Transactions with owners							
Issue of placing share	**58,674**	—	—	—	—	—	**58,674**
Conversion of convertible bonds	**73,231**	—	—	—	**(35,841)**	—	**37,390**
Exchange difference arising on translation of foreign operation	—	—	—	**(18)**	—	—	**(18)**
Recognition of equity-settled share based payments	—	—	**406**	—	—	—	**406**
Total transactions with owners	**131,905**	—	**406**	**(18)**	**(35,841)**	—	**96,452**
Comprehensive income							
Loss for the period	—	—	—	—	—	**(17,712)**	**(17,712)**
Other comprehensive income for the period	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	**(17,712)**	**(17,712)**
Balance at 31 March 2011	**736,118**	**5,265**	**8,649**	**2,025**	**68,566**	**(47,555)**	**773,068**

FINANCIAL REVIEW

No turnover was generated by the Group for the three months ended 31 March 2011 (2010: HK$133,000) from sales of wood products in Cambodia.

The loss attributable to equity shareholders of the Company for the three months ended 31 March 2011 amounted to approximately HK$17,712,000 (2010: HK$11,460,000). The increase of losses was primarily the result of increase in administrative expenses as well as the finance costs. Additional professional fees for shares placement, salaries and allowances, amortisation cost and imputed interest expenses on convertible bonds were incurred by the Group for the period. The loss per share for the three months ended 31 March 2011 was 1.48 Hong Kong cents (2010: loss per share of 3.00 Hong Kong cents (restated)).

The administrative expenses for the three months ended 31 March 2011 increased by approximately 66.2% from HK$7,912,000 to HK$13,147,000 as compared to the corresponding period of last year. The increase in administrative expenses was primarily due to more professional staff being employed by the Group for the mineral resources business as well as to cope with the additional forest in Cambodia acquired by the Group last year, and the additional professional fees for shares placement and increase of amortisation cost due to acquisition of the additional forest in Cambodia.

At 31 March 2011, the Group had no bank loan outstanding (2010: Nil).

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

At 31 March 2011, the Group had no outstanding hedging instruments (2010: Nil).

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

BUSINESS REVIEW

Forestry, wood product manufacturing and plantation

We discontinued domestic sawn timber sale in 2011, as current low selling prices rendered the domestic sale business unprofitable. Following the completion of the export wood flooring factory, the Group will focus on the sale of higher margin wood flooring products. We have continued to clear additional forest land in preparation for the field planting of 1,500 hectares of rubber seedlings in mid-2011.

Mineral Resources

The Company is now strategically positioned to venture into the mineral resources business. As announced on 23 January 2011, the Company entered into the Strategic Investment Agreement with Beijing Poly-LongMa Asset Management Co Ltd ("Poly Longma"), for Poly Longma's exclusive cooperation with the Company to jointly invest in forest and/or mineral resources project.

On 28 January 2011, the Company announced the acquisition of Inner Mongolia Huayue Mining Company Limited ("Inner Mongolia Mining") which is principally engaged in provision of coal related logistics service.

Prospect

The Group has finished the construction of a wood flooring factory with annual capacity of 10,000 cubic meters. Trial production has begun and we expect to ramp up production and generate significant export sales from the middle of this calendar year.

The Group now has two major business lines under its principal business of natural resources – forestry and mineral resources. With the introduction of additional Directors, new business opportunities are being introduced to the Board. Following the strategic investment agreement with Poly-Longma and the acquisition of Inner Mongolia Mining, the Company will speed up the process to develop the mineral resources business and continue to seek new investment opportunities to broaden its income stream and improve its operating results.

OTHER INFORMATION

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

As at 31 March 2011, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name	Capacity of interest	Number of ordinary shares held	Number of underlying shares held	Approximate percentage of shareholding in the Company
Mr. Leung Sze Yuan, Alan	Beneficial owner	10,950,917	—	0.83%
		—	9,371,428 *(note 1)*	0.71%
Mr. Zheng Zhenzhong	Beneficial owner	27,328,000	—	2.07%
		—	9,371,428 *(note 2)*	0.71%
Jethero International Limited ("Jethero") *(Note 3)*	Beneficial owner	—	465,000,000 *(note 4)*	35.33%

Notes:

1. Mr. Leung Sze Yuan, Alan granted 9,371,428 share option but not yet exercised.

2. Mr. Zhen Zhenzhong granted 9,371,428 share option but not yet exercised.

3. Jethero is wholly and beneficially owned by Mr. Gong Ting, an executive director of the Company.

4. 465,000,000 shares of convertible bonds held by Jethero.

Save as disclosed above, as at 31 March 2011, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

The Company has granted Share Option of 10,286,000 shares, 9,257,000 shares and 13,300,000 shares to directors and employees of the Group on 12 October 2007, 31 March 2008 and 4 June 2010 at exercise prices of HK$1.75, HK$0.815 and HK$0.365 per share respectively for exercise during the 3rd and the 4th year from the date of grant pursuant to the Share Option Scheme. Subsequently, 1,029,000 shares granted to the former director and 7,557,000 share options granted to the senior employees have been cancelled after their resignation.

As at 31 March 2011, details of the outstanding options were as follows:

Date of grant	**Exercise period**	**Outstanding as at 1 January 2011 and 31 March 2011** *'000*
12/10/2007	12/10/2009 to 11/10/2011	6,171
31/3/2008	31/03/2010 to 31/03/2012	5,786
4/6/2010	04/06/2010 to 03/06/2014	12,300
		24,257

Save as disclosed above, as at 31 March 2011, no other directors or the chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2011, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had any interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity of interest	Number of ordinary Shares held	Number of underlying shares held	Approximate percentage of shareholding in the Company
Jethero International Limited ("Jethero") *(note 2)*	Beneficial owner	—	465,000,000 *(note 1)*	35.33%
United Sky Investments Limited ("United Sky") *(note 3)*	Beneficial owner	105,367,605	—	8.01%
		—	254,545,455 *(note 1)*	19.34%
Mr. Cai Guo Sheng	Beneficial owner	75,500,000	—	5.73%
		—	104,545,454 *(note 1)*	7.94%

Notes:

1. Number of shares represent respective convertible bonds held.

2. Jethero is wholly and beneficially owned by an executive director Mr. Gong Ting.

3. United Sky is wholly and beneficially owned by Mr. Ruan Mansheng.

Save as disclosed above, as at 31 March 2011, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the three months ended 31 March 2011.

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

During the three months ended 31 March 2011, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the three months ended 31 March 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

As required by the Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deals with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors.

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

During the three months ended 31 March 2011, the Committee held one meeting for the purpose of reviewing the Company's reports and financial statements, and providing advice and recommendations to the board of directors.

The Committee members have reviewed the Company's quarterly report for the three months ended 31 March 2011, which was of the opinion that the preparation of such results complied with applicable accounting standards. The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the three months ended 31 March 2011. The Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the three months ended 31 March 2011.

By order of the Board
Leung Sze Yuan Alan
Chairman

Hong Kong, 12 May 2011