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CHINA TIMBER RESOURCES GROUP LIMITED

中國木業資源集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 269)

**VERY SUBSTANTIAL ACQUISITION
INVOLVING
THE ISSUE OF NEW SHARES
AND
CONVERTIBLE BONDS,
INCREASE IN AUTHORISED SHARE CAPITAL
AND
RESUMPTION OF TRADING**

Financial Advisor to the Company



ASIAN CAPITAL

(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

THE S&P AGREEMENT

Reference is made to the announcement of the Company dated 15 April 2009 in relation to the Framework Agreement. The Board is pleased to announce that on 9 May 2009, the Company, Best Idea and China Alliance entered into the S&P Agreement, pursuant to which Best Idea agreed to purchase or appoint a nominee company to purchase and China Alliance agreed to procure to sell the entire equity interest of the Target Company for a total consideration of HK\$986 million.

The Consideration for the Acquisition shall be satisfied as to (i) HK\$50 million by payment in cash; (ii) HK\$280 million by the Promissory Note; (iii) HK\$186 million by the issue and allotment of Consideration Shares; and (iv) HK\$470 million by the issue of the Convertible Bonds.

* *for identification purpose only*

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The S&P Agreement together with the transactions contemplated thereunder will be subject to, among other things, the approval of the Shareholders by way of poll at the EGM.

THE SHARE SUBSCRIPTION AGREEMENT

Based on the S&P Agreement, the Company and China Alliance entered into the Share Subscription Agreement dated 9 May 2009, pursuant to which the Company agreed to issue and allot 4,275,862,068 Consideration Shares at the Subscription Price of HK\$0.0435 each to China Alliance or its nominee(s).

THE CB SUBSCRIPTION AGREEMENT

Based on the S&P Agreement, the Company and China Alliance entered into the CB Subscription Agreement dated 9 May 2009, pursuant to which the Company agreed to issue the Convertible Bonds in the principal amount of HK\$470 million to China Alliance or its nominee(s).

The Conversion Price of the Convertible Bonds is HK\$0.056 per Conversion Share. Upon full exercise of the Conversion Rights attaching to the Convertible Bonds, a total of 8,392,857,142 Conversion Shares will be issued by the Company.

Conversion Rights attaching to the Convertible Bonds will be restricted such that (i) any conversion of the Convertible Bonds shall not result in the aggregate voting rights in the Company being held by the Bondholder and parties acting in concert with it exceeding 29.9% (or such percentage that will trigger a mandatory general offer under the Takeovers Code); and (ii) any conversion of the Convertible Bonds shall not result in the public float of the Shares falling below the minimum requirements under the Listing Rules.

INCREASE IN AUTHORIZED SHARE CAPITAL

The Board proposes to increase the authorized share capital of the Company from HK\$200,000,000 to HK\$400,000,000 by the creation of an additional 20,000,000,000 new Shares.

GENERAL

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement and the proposed increase of the authorized share capital of the Company.

A circular will be despatched to the Shareholders in accordance with the requirements of the Listing Rules which will contain, among other things, details of the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement, the proposed increase of the authorized share capital of the Company, the valuation report regarding the Property Project prepared by a qualified Hong Kong valuer and the notice of the EGM.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 11 May 2009 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 22 May 2009.

INTRODUCTION

Reference is made to the announcement of the Company dated 15 April 2009 in relation to the Framework Agreement. The Board is pleased to announce that on 9 May 2009, the Company, Best Idea (a wholly-owned subsidiary of the Company) and China Alliance entered into the S&P Agreement, pursuant to which Best Idea agreed to purchase or appoint a nominee company to purchase and China Alliance agreed to procure to sell the entire equity interest of the Target Company for a total consideration of HK\$986 million. Accordingly, China Alliance and the Company entered into the Share Subscription Agreement and the CB Subscription Agreement both dated 9 May 2009 in relation to the issue of the Consideration Shares and Convertible Bonds for the settlement of part of the Consideration under the S&P Agreement.

THE S&P AGREEMENT

Date : 9 May 2009

Parties : (a) The Company

(b) Best Idea

(c) China Alliance

China Alliance is an investment holding company incorporated in Hong Kong. As at the date of this announcement, China Alliance and the Target Company are both wholly-owned subsidiaries of China Alliance United, the ultimate beneficial owners of which are Mr. Zhang Lei, Mr. Qiao Zengzhou and Mr. Xu Chaoping.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Company, China Alliance, China Alliance United and their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Assets to be acquired

The entire equity interest of the Target Company, a company incorporated in the PRC with limited liability. Upon Completion, the Target Company will become an indirectly wholly-owned subsidiary of the Company.

Further information on the Target Company and the Property Project are set out in the paragraph headed “INFORMATION ABOUT THE TARGET COMPANY AND THE PROPERTY PROJECT” below.

Consideration

The total consideration for the Acquisition is HK\$986 million, which shall be satisfied by the Company in the following manner:

- (i) HK\$50 million in cash being paid by the Company to China Alliance’s appointed account within seven (7) business days after the signing of the S&P Agreement;
- (ii) HK\$280 million by the issue of the Promissory Note to China Alliance or its nominee(s) by the Company within 3 months after the signing of the S&P Agreement or on the Completion Date, whichever is later;
- (iii) HK\$186 million by the issue and allotment of the Consideration Shares to China Alliance or its nominee(s) by the Company at Completion pursuant to the terms of the Share Subscription Agreement; and
- (iv) HK\$470 million by the issue of the Convertible Bonds to China Alliance or its nominee(s) by the Company at Completion pursuant to the terms of the CB Subscription Agreement.

Conditions precedent of the S&P Agreement

Pursuant to the terms and conditions of the S&P Agreement, Completion is subject to satisfaction (unless waived) of the following conditions:

- (i) a due diligence investigation on the Target Company and/or its associate companies if any having been completed to the satisfaction of the Company at its sole discretion;
- (ii) the Listing Committee granting the listing of and permission to deal in the Consideration Shares and the Conversion Shares;
- (iii) the due disclosure of the relevant information by the Company regarding the S&P Agreement pursuant to the Listing Rules;

- (iv) all other consents or approvals from any relevant PRC governmental authorities, regulatory bodies or other relevant third parties in Hong Kong or elsewhere which are required for the entry into and implementation of the S&P Agreement (including the Share Subscription Agreement and the CB Subscription Agreement) having been obtained by China Alliance or the Company, all filings with any relevant governmental authorities or other relevant third parties in Hong Kong or elsewhere which are required for the entry into and implementation of the S&P Agreement (including the Share Subscription Agreement and the CB Subscription Agreement) having been made;
- (v) the passing by the board and shareholders of the Target Company of resolutions to approve the S&P Agreement and the transactions contemplated thereunder;
- (vi) China Alliance procuring the Target Company to provide the relevant financial statements of the Target Company and/or its associate companies if any;
- (vii) legal opinion from the PRC lawyer engaged by China Alliance having been obtained to the satisfaction of Best Idea on (including but not limited to):
 - (a) due compliance with the PRC laws and regulations in respect of the Target Company's incorporation, existence as a going concern, business registration, taxes, foreign exchange and annual returns;
 - (b) the property rights, development project proposals and the development and construction approvals of the Property Project being in compliance with relevant regulations and laws in the PRC and all taxes in relation thereto having been fully settled;
 - (c) the terms and conditions and the transactions under the S&P Agreement being lawful, legally binding and enforceable in accordance with the regulations and/or laws in the PRC;
 - (d) the approvals for the sale of the entire equity interest of the Target Company from relevant government authorities and completion of the relevant registration with the business registration bureau and other relevant governmental authorities for the transferring of the entire equity interest of the Target Company having been obtained, and Best Idea or its nominee having been duly registered as the legal and beneficial owner of the Target Company;

- (viii) the passing by the Shareholders of resolutions to approve the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder including but not limited to the issue of the Consideration Shares, the Convertible Bonds, the Conversion Shares upon the exercise of conversion rights thereunder and the increase of the authorised share capital of the Company in accordance with the Listing Rules; and
- (ix) settlement of all outstanding debts of the Target Company incurred before Completion by the shareholders of the Target Company.

Termination and refund

All parties shall use their best endeavor to procure the fulfillment of the conditions stipulated in the S&P Agreement. If the conditions precedent of the S&P Agreement cannot be fulfilled and all parties do not agree to waive them on or before the Long Stop Date (or such other date as agreed among all parties), Best Idea and/or the Company has the right to terminate the S&P Agreement.

Best Idea and/or the Company also has the right to terminate the S&P Agreement if prior to Completion:

- (i) the Company is not satisfied with the result of the due diligence investigation on the Target Company and/or its associate companies, if any, and notifies China Alliance in writing to terminate the S&P Agreement;
- (ii) any of the conditions precedent of the S&P Agreement is not fulfilled or waived on or before the Long Stop Date (or such other date as agreed among all parties in writing);
- (iii) Best Idea/the Company becomes aware of the fact that any of the representations or warranties contained in the S&P Agreement is, when given, untrue, misleading or contains material omissions;
- (iv) China Alliance was in breach of any of its obligations under the S&P Agreement; or
- (v) there is occurrence of any event that, in the absolute opinion of the Company, will adversely affect the prospects of the business and financial positions of the Target Company,

In the event of termination, the cash portion of the Consideration of HK\$50 million shall be refunded by China Alliance to Best Idea within three (3) business days and the S&P Agreement shall become null and void.

Completion of the S&P Agreement

Completion of the S&P Agreement shall take place within seven (7) business days after the date on which all of the conditions precedent shall have been satisfied or waived (or such other time and date as may be agreed among all parties in writing).

THE PROMISSORY NOTE

The principal terms of the Promissory Note are as follows:

- Issuer: the Company
- Principal amount: HK\$280,000,000
- Issue date: within 3 months after the signing of the S&P Agreement (or on the Completion Date, whichever is later)
- Repayment: by 14 installments of HK\$20,000,000 each together with the interest accrued thereon payable on the last day of every three (3) months after the issue of the Promissory Note
- Interest rate: 1.5% per annum on the outstanding principal amount
- Early repayment: the Company may, by giving not less than ten (10) business days' written notice, repay in whole or in part of the outstanding Promissory Note (in the multiples of HK\$20,000,000), at any time and from time to time after the date of issue of the Promissory Note. If the Company fails to pay any amount due in accordance with the S&P Agreement, China Alliance shall have the right to request to revert the transfer of part of the entire equity interest of the Target Company proportionate to the outstanding amount of the Promissory Note against the total consideration of HK\$986 million (i.e., percentage of entire equity interest of the Target Company to be transferred back to China Alliance = $\frac{\text{outstanding amount of the Promissory Note}}{\text{HK\$986 million}} \times 100\%$)
- Transferability: unless agreed by the Company, the Promissory Note is not transferable except for the repayment of any debts incurred by China Alliance in the course of the Acquisition

As disclosed in its 2008 unaudited interim report, the Company has approximately HK\$95 million in cash as at 30 September 2008. In order to settle the Promissory Note pursuant to the repayment terms set out in the S&P Agreement, the Company may consider borrowing from banks and financial institutions in Hong Kong or the PRC or raising funds from the equity market.

THE SHARE SUBSCRIPTION AGREEMENT

Based on the S&P Agreement, the Company and China Alliance entered into the Share Subscription Agreement dated 9 May 2009, pursuant to which 4,275,862,068 Consideration Shares will be issued and allotted by the Company to China Alliance or its nominee(s) at the Subscription Price of HK\$0.0435 per Consideration Share to satisfy part of the Consideration. The principal terms of the Shares Subscription Agreement are set out below.

Number of the Consideration Shares

As at the date of this announcement, there are 10,137,064,686 Shares in issue. The total number of the Consideration Shares represents:

- (i) approximately 42.18% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 29.67% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and
- (iii) approximately 18.75% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds.

Subscription Price of the Consideration Shares

The Subscription Price of HK\$0.0435 per Consideration Share represents:

- (i) a discount of approximately 60.45% to the unaudited net assets value attributable to equity Shareholders of approximately HK\$0.11 per Share as at 30 September 2008;
- (ii) a discount of approximately 48.21% to the closing price of HK\$0.084 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 44.94% to the average closing price of approximately HK\$0.079 per Share based on the average closing price as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 42.76% to the average closing price of approximately HK\$0.076 per Share based on the average closing price as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

Conditions precedent of the Share Subscription Agreement

Pursuant to the terms and conditions of the Share Subscription Agreement, completion of the Share Subscription Agreement will be subject to satisfaction of the following conditions:

- (i) The Listing Committee granting the listing of and permission to deal in the Consideration Shares;
- (ii) the passing by the Shareholders of the resolutions to approve the S&P Agreement (including the Share Subscription Agreement and CB Subscription Agreement) at the EGM; and
- (iii) satisfaction of all other conditions precedent under the S&P Agreement.

Completion of the Share Subscription Agreement

Subject to the fulfillment of all the conditions precedent of the Share Subscription Agreement, completion of the Share Subscription Agreement shall take place on the Completion Date.

Application for the listing of the Consideration Shares

An application will be made by the Company to the Listing Committee for the listing of and permission to deal in the Consideration Shares. The Consideration Shares will be allotted and issued under a specific mandate to be granted to the Directors by the Shareholders at the EGM.

Ranking of the Consideration Shares

The Consideration Shares, when issued, will rank *pari passu* in all respects with the Shares on the date of the issue of the Consideration Shares.

THE CB SUBSCRIPTION AGREEMENT

Based on the S&P Agreement, the Company and China Alliance entered into the CB Subscription Agreement dated 9 May 2009, pursuant to which an aggregate principal amount of HK\$470,000,000 of Convertible Bonds will be issued by the Company to China Alliance or its nominee(s) to satisfy part of the Consideration.

The principal terms of the Convertible Bonds are summarized as follows:

- Issuer : the Company
- Principal Amount : HK\$470,000,000
- Issue Date : Completion Date
- Conversion Price : HK\$0.056 per Conversion Share which is subject to adjustments including the following:
- (i) an alteration of the nominal value resulting from any share consolidation or subdivision;
 - (ii) an issue of the Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (iii) a capital distribution being made by the Company to the Shareholders (in their capacity as such);
 - (iv) an offer of new Shares by way of subscription, rights, or grant of options or warrants to subscribe for new Shares being made by the Company to Shareholders (in their capacity as such) at the subscription price which is less than 90% of the prevailing market price;
 - (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share initially receivable for such securities is less than the greater of either 90% of the prevailing market price or the conversion price in effect;
 - (vi) an issue of new Shares for cash at a subscription price or at the effective subscription price (whichever is higher) per Share which is less than 90% of the prevailing market price (excluding the employee option scheme(s));
 - (vii) an issue of new Shares for an acquisition of assets at a subscription price or the effective subscription price (whichever is higher) per Share which is less than 90% of the prevailing market price.

Conversion Price cannot be adjusted to the price which is less than the nominal value of each Share. Fractions of Shares will not be issued on conversion.

- Denomination : HK\$10,000,000
- Transferability : the Convertible Bonds may not be transferred to any person unless prior writing consent has been obtained from and a written notice has been received by the Company; and any transfer and assignment of outstanding principal amounts of the Convertible Bonds shall be done in multiples of HK\$10,000,000
- Status : the Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank *pari passu* with all its other present and future unsecured unsubordinated obligations
- Coupon Rate : 2.15% per annum
- Maturity Date : the date falling three (3) years after the date of the issue of the Convertible Bonds
- Conversion Shares : a total number of 8,392,857,142 Conversion Shares will be issued upon full conversion of the Convertible Bonds on the basis of the Conversion Price of HK\$0.056 per Conversion Share. The Conversion Shares shall rank *pari passu* in all respects with the Shares in issue as at the date of conversion
- Voting : the Bondholder will not be entitled to receive notices of, or right to attend or vote at any general meetings of the Company by reason of only being a Bondholder
- Listing : no application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange, but an application will be made for the listing of the Conversion Shares on the Stock Exchange

- Conversion Rights : the Bondholders will have the right to convert their Convertible Bonds into Conversion Shares at any time during the conversion period, i.e., the period commencing from the day immediately following the expiration of a period of twelve (12) months from the date of the issue of the Convertible Bonds up to 4:00 p.m. on the Maturity Date
- Redemption : there is no restriction on early redemption in whole or in part of the Convertible Bonds by the Company at any time prior to the maturity date of the Convertible Bonds
- Redemption for prolonged suspension : following the occurrence of the trading of the Shares being suspended for more than 45 consecutive Trading Days, the Company shall, upon demand by the Bondholder, redeem in whole or in part of the Convertible Bonds for the outstanding principal amounts (together with accrued interest)
- Conversion restriction : Conversion Rights attaching to the Convertible Bonds will be restricted such that (i) any conversion of the Convertible Bonds shall not result in the aggregate voting rights in the Company being held by the Bondholder and parties acting in concert with it exceeding 29.9% (or such percentage that will trigger off a mandatory general offer under the Takeovers Code); and (ii) any conversion of the Convertible Bonds shall not result in the public float of the Shares falling below the minimum requirements under the Listing Rules

Conversion Shares

As at the date of this announcement, there are 10,137,064,686 Shares in issue. Upon full conversion of the Convertible Bonds at the Conversion Price of HK\$0.056 per Conversion Share, a total number of 8,392,857,142 Conversion Shares will be issued which will represent:

- (i) approximately 82.79% of the issued share capital of the Company as at the date of this announcement;
- (ii) approximately 45.29% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares; and
- (iii) approximately 36.80% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds.

Conversion Price

The Conversion Price of HK\$0.056 per Conversion Share represents:

- (i) a discount of approximately 49.09% to the unaudited net assets value attributable to equity Shareholders of approximately HK\$0.11 per Share as at 30 September 2008;
- (ii) a discount of approximately 33.33% to the closing price of HK\$0.084 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 29.11% to the average closing price of approximately HK\$0.079 per Share based on the average closing price as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 26.32% to the average closing price of approximately HK\$0.076 per Share based on the average closing price as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

Application for listing of the Conversion Shares

An application will be made by the Company to the Listing Committee for the listing of and permission to deal in the Conversion Shares. The Conversion Shares will be allotted and issued under a specific mandate to be granted to the Directors by the Shareholders at the EGM.

Ranking of the Conversion Shares

The Conversion Shares, when issued, will rank *pari passu* in all respects with the Shares on the date of the issue of the Conversion Shares.

Conditions precedent of the CB Subscription Agreement

Pursuant to the terms and conditions of the CB Subscription Agreement, completion of the CB Subscription Agreement will be subject to the satisfaction of the following conditions:

- (i) the Listing Committee granting the listing of and permission to deal in the Conversion Shares;
- (ii) the passing by the Shareholders of resolution to approve the S&P Agreement (including the Share Subscription Agreement and the CB Subscription Agreement) at the EGM; and
- (iii) satisfaction of all other conditions precedent under the S&P Agreement.

Completion of the CB Subscription Agreement

Subject to the fulfillment of the conditions above, completion of the CB Subscription Agreement shall take place on the Completion Date.

BASIS OF THE CONSIDERATION

The Consideration was determined after arm's length negotiations among Best Idea, the Company and China Alliance based on normal commercial terms with reference to (i) the estimated market value of approximately RMB847 million based on a preliminary valuation report issued by a PRC valuer (who is independent of the Company and China Alliance) on the parcel of land owned by the Target Company. The Company has engaged a qualified and independent valuer in Hong Kong to prepare a valuation report as part of the Company's due diligence exercises on the Property Project and to confirm that the value of the parcel of land owned by the Target Company not to have material deviation from the aforesaid estimated market value; (ii) the prevailing land market price of approximately RMB1 million per mu in Yichang City, Hubei Province as disclosed in the public website of local land resources bureau; (iii) the development potential of the Property Project vis-a-vis the prospect of the property market in the PRC, especially in inland cities of the PRC; and (iv) the market performance of the Shares as well as the current state of the equity market. Accordingly, the Directors are of the view that the terms of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

In respect of the deep discount on the issue price of HK\$0.0435 per Consideration Share and the Conversion Price of HK\$0.056 per Conversion Share, as when parties were in negotiation in respect of the terms of the Acquisition in February 2009, reference was made to the then average market price of approximately HK\$0.05 per Share (even though the Share price may have been stimulated by the news in relation to a possible acquisition announced by the Company on 26 April 2009 without any material changes regarding the financial situation of Company), the Directors are of the view that such discount is fair and reasonable.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out (i) the existing shareholding structure of the Company; (ii) the shareholding structure of the Company on an enlarged basis upon issue of the Consideration Shares; (iii) the shareholding structure of the Company on an enlarged basis upon issue of the Consideration Shares and partial conversion of the Convertible Bonds pursuant to the terms and conditions of the CB Subscription Agreement; and (iv) the shareholding structure of the Company on an enlarged basis upon full conversion of the Convertible Bonds and assuming China Alliance or its nominee(s) fully exercises the conversion right of the Convertible Bonds and holds all of the Conversion Shares (for illustration purpose only).

	Existing shareholding structure		Upon issue of the Consideration Shares		Upon issue of the Consideration Shares and partial conversion of the Convertible Bonds		Upon issue of the Consideration Shares and full conversion of the Convertible Bonds (Note 3)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
China Alliance or its nominee(s)	—	—	4,275,862,068	29.67%	4,323,797,919	29.90%	12,668,719,210	55.55%
Directors' interests								
Ocean Gain Limited (Note 1)	1,055,500,000	10.41%	1,055,500,000	7.32%	1,055,500,000	7.29%	1,055,500,000	4.63%
Fung Tsun Pong	1,047,262,449	10.33%	1,047,262,449	7.27%	1,047,262,449	7.23%	1,047,262,449	4.59%
Lau Sing Hung, Stephen	14,000,000	0.14%	14,000,000	0.10%	14,000,000	0.10%	14,000,000	0.06%
Tsang Kam Ching, David	66,624,499	0.66%	66,624,499	0.46%	66,624,499	0.46%	66,624,499	0.29%
Chow Ki Shui, Louie	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
	2,184,386,948	21.55%	2,184,386,948	15.16%	2,184,386,948	15.09%	2,184,386,948	9.58%
Allkeen Investments Limited								
(Note 2)	1,016,000,000	10.02%	1,016,000,000	7.05%	1,016,000,000	7.02%	1,016,000,000	4.46%
Liu Feng Lei	513,833,992	5.07%	513,833,992	3.57%	513,833,992	3.55%	513,833,992	2.25%
Other public Shareholders	6,422,843,746	63.36%	6,422,843,746	44.56%	6,422,843,746	44.36%	6,422,843,746	28.16%
Total	10,137,064,686	100%	14,412,926,754	100.00%	14,460,862,605	100.00%	22,805,783,896	100.00%

Note:

- Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong.
- Allkeen Investments Limited is wholly-owned by Mr. Huang Wei Guang.
- For illustration purpose only as China Alliance or its nominee(s) or successors of the Bondholders individually will not directly or indirectly control or be interested in Shares of 30% or more in the Company pursuant to the terms of the S&P Agreement and the CB Subscription Agreement.

INFORMATION ABOUT THE TARGET COMPANY AND THE PROPERTY PROJECT

The Target Company is a company incorporated in the PRC in 2006 with limited liability and as at the date of this announcement is 100% owned by Shoukong (Beijing) Management Consulting Company Limited, which in turn is a wholly-owned subsidiary of China Alliance United, the ultimate beneficial owners of which are Mr. Zhang Lei, Mr. Qiao Zengzhou and Mr. Xu Chaoping.

The Target Company is principally engaged in property development, property management, asset management and investment consultation. In the end of 2006, the Target Company, through a public auction, acquired a parcel of land with an area of approximately 587,726 square meters (approximately 882 mu) located in Meiziya Village, Yiling District, Yichang City, Hubei Province, the PRC. The land use rights certificate issued by the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) in respect of the legal title of such parcel of land was obtained by the Target Company in March 2007. Subsequently, in 2008, the Yichang Development and Planning Commission (宜昌市發展和改革委員會) issued approval letters to the Target Company approving

the Target Company to develop the Property Project. Pursuant to the approval letters, the Property Project will include the Yichang Three Gorges International Exhibition Centre and the Three Gorges Guobin Garden Commercial Property (including high-end residential property and commercial property) with construction area of approximately 34,907 square meters and 522,379 square meters respectively.

The table below sets out certain unaudited financial information of the Target Company which is prepared based on the management accounts of the Target Company provided by China Alliance:

	For the year ended	
	31 December	
	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net loss before tax	4	(11,347)
Net loss after tax	4	(11,347)
	<u><u>4</u></u>	<u><u>(11,347)</u></u>
	As at 31 December	
	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Total assets	122,037	135,365
Total liabilities	119,033	126,708
Net assets value	3,004	8,657
	<u><u>3,004</u></u>	<u><u>8,657</u></u>

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in forest operation and management, logging, timber processing and trading, and cold storage warehouse management.

At present, the Group owns forestry resources in Guyana of South America and Guangdong Province, the PRC covering an aggregate area of approximately 257,000 hectares and approximately 95,000 mu respectively. The Directors are optimistic about the prospect of the property market in the PRC, especially in inland cities. As the Group has abundant resources of timbers which are construction materials, the Directors consider that there will be a synergy effect on the business operation of the Group as a result of the Acquisition, while at the same time, the Acquisition will also provide a good opportunity for the Group to diversify into the property development market in the PRC and expand the income basis of the Group in the future for the benefit of the Company and the Shareholders.

According to the approval letters issued by Yichang Development and Planning Commission, the total investment on the Yichang Three Gorges International Exhibition Centre and the Three Gorges Guobin Garden Commercial Property is estimated to be approximately RMB147 million and RMB939 million respectively. The Target Company has been approached by some PRC banks regarding the possible bank loans for development of the Property Project. After Completion, the Directors, with the assistance of the current management of the Target Company, will have further discussions with those banks regarding the possible loan facilities to finance the Property Project. The Company may also consider borrowing from banks in Hong Kong and/or raising funds through the equity market as and when appropriate. As the PRC property market is recovering and the Property Project will be developed in phases, the Directors consider that there will be enough resources of fund to support the development of the Property Project. The Company also intends to keep the current key management of the Target Company after Completion.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$200,000,000 divided into 20,000,000,000 Shares, of which 10,137,064,686 Shares have been issued and fully-paid up. In order to accommodate the future expansion and growth of the Group as well as to accommodate the issue of the Consideration Shares and the Conversion Shares, the Board proposes to increase the authorised share capital of the Company from HK\$200,000,000 divided into 20,000,000,000 Shares to HK\$400,000,000 divided into 40,000,000,000 Shares by the creation of an additional 20,000,000,000 new Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

IMPLICATION OF THE LISTING RULES

As certain of the applicable percentage ratios prescribed under Rule 14.07 of the Listing Rules exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement together with the transactions contemplated thereunder will be subject to, among other things, the approval of the Shareholders by way of poll at the EGM.

GENERAL

A circular will be despatched to the Shareholders in accordance with the Listing Rules which will contain, among other things, details of the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement together with the transactions thereunder, the valuation report regarding the Property Project prepared by a qualified Hong Kong valuer and the notice of the EGM.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 11 May 2009 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 22 May 2009.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition”	the proposed acquisition of the entire equity interest of the Target Company pursuant to the S&P Agreement
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Best Idea”	Best Idea International Investment Limited (佳創國際投資有限公司), a company incorporated in the BVI with limited liability, being a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“business day”	any day except Saturdays and Sundays on which banks in Hong Kong are open for business
“BVI”	British Virgin Islands
“CB Subscription Agreement”	the subscription agreement entered into between the Company and China Alliance dated 9 May 2009 in relation to the issue of the Convertible Bonds
“China Alliance”	China Alliance International Holding Group Limited* (中聚國際控股集團有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of China Alliance United

“China Alliance United”	China Alliance United Holding Company Limited* (中聚聯合控股有限公司), a company incorporated in the PRC with limited liability, the ultimate beneficial owners of which are Mr. Zhang Lei, Mr. Qiao Zengzhou and Mr. Xu Chaoping
“Company”	China Timber Resources Group Limited (stock code: 269), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the S&P Agreement in accordance with the terms and conditions set out therein
“Completion Date”	the date on which completion of the S&P Agreement takes place pursuant to the terms and conditions set out therein
“connected person(s)”	the meaning ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration payable by Best Idea to China Alliance or its nominee(s) for the Acquisition under the S&P Agreement
“Consideration Shares”	a total number of 4,275,862,068 Shares to be issued by the Company as part of the Consideration pursuant to the terms and conditions set out in the S&P Agreement and the Share Subscription Agreement
“Conversion Price”	the subscription price (subject to adjustments) of the Conversion Shares in effect upon exercise of the Conversion Rights by the Bondholder(s)
“Conversion Rights”	the rights of the Bondholder(s) to convert the principal amount outstanding under the Convertible Bonds into Conversion Shares
“Conversion Shares”	the Shares to be issued by the Company upon exercise of the Conversion Rights
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$470,000,000 to be issued by the Company pursuant to the terms and conditions set out in the S&P Agreement and the CB Subscription Agreement to satisfy part of the Consideration
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, to approve, among other things, the S&P Agreement, the Share Subscription Agreement, CB Subscription Agreement together with the transactions contemplated thereunder and the increase in the authorized share capital of the Company
“Framework Agreement”	the framework agreement dated 13 April 2009 entered into between Best Idea and China Alliance in relation to the principal terms regarding the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	third party(ies) independent of the Company as defined under the Listing Rules
“Last Trading Date”	8 May 2009, being the last trading day for the Shares on the Stock Exchange before the release of this announcement
“Listing Committee”	the sub-committee of the board of directors of the Stock Exchange responsible for listing
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	being 9 August 2009
“PRC”	the People’s Republic of China
“Promissory Note”	the promissory note in the aggregate principal amount of HK\$280 million to be issued by the Company to China Alliance or its nominee(s) to satisfy part of the Consideration pursuant to the terms and conditions in the S&P Agreement

“Property Project”	the property project to develop the Yichang Three Gorges International Exhibition Centre* (宜昌三峽國際會展中心) and Three Gorges Guobin Garden Commercial Property* (三峽國賓花園商品房) on the parcel of land located in Meiziya Village (梅子垭村), Yiling District (夷陵區), Yichang City (宜昌市), Hubei Province, the PRC
“S&P Agreement”	the sale and purchase agreement dated 9 May 2009 entered into among the Company, Best Idea, and China Alliance which sets out the terms and conditions in relation to the Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Subscription Agreement”	the share subscription agreement entered into between the Company and China Alliance dated 9 May 2009 in relation to the issue of the Consideration Shares
“Share(s)”	fully paid ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.0435 per Consideration Share
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Company”	Yichang Xinshougang Property Development Company Limited* (宜昌新首鋼房地產開發有限公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of Shoukong (Beijing) Management Consulting Company Limited* (首控(北京)管理諮詢有限公司) as at the date of this announcement
“Trading Day”	a day when the Stock Exchange is open for dealing business, provided that if no closing price for the Shares is reported for one or more consecutive dealing days, such day or days will be disregarded

“mu”	Chinese acre(s), one Chinese acre is equal to approximately 666.67 square meters
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

Unless otherwise specified in this announcement, conversion of RMB into HK\$ is made in this announcement, for illustration purpose only, at the rate of RMB1 to HK\$1.1357. No representation is made that any amount in RMB could have been or could be converted at such rate or any other rates.

By order of the Board of
CHINA TIMBER RESOURCES GROUP LIMITED
Tsang Kam Ching, David
Director

Hong Kong, 21 May 2009

As at the date of this announcement, the Board comprises four executive Directors, namely Messer Fung Tsun Pong, Lau Sing Hung, Stephen, Tsang Kam Ching, David and Chow Ki Shui, Louie; and three independent non-executive Directors, namely Messer Yip Tak On, Jing Baoli and Bao Liang Ming.