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

If you have sold or transferred all your shares in **China Timber Resources Group Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of **China Timber Resources Group Limited**.

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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

Financial Adviser to China Timber Resources Group Limited



ASIAN CAPITAL

(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

A letter from the board of directors of China Timber Resources Group Limited is set out on pages 7 to 37 of this circular. A notice convening the extraordinary general meeting of China Timber Resources Group Limited to be held at 11:30 a.m. on Tuesday, 12 January 2010, at 7th Floor, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you intend to attend the extraordinary general meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned thereof (as the case may be) should you so wish.

* For identification purposes only

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the entire equity interest of the Target Holding Company pursuant to the S&P Agreement
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 21 May 2009 in relation to, among other things, the Acquisition
“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 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

DEFINITIONS

“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
“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 in the S&P Agreement
“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 conversion price of HK\$0.056 (subject to adjustments) per Conversion Share 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 subject to the terms and conditions of the S&P Agreement and the CB Subscription Agreement

DEFINITIONS

“Conversion Shares”	the Shares to be issued by the Company upon exercise of the Conversion Rights pursuant to the terms and conditions of the S&P Agreement and the CB Subscription Agreement
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$470 million 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 on Tuesday, 12 January 2010 at 7th Floor, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China for the Shareholders to consider and, if thought fit, to approve, among other things, the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement together with the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by 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 Main Board of the Stock Exchange before the release of the Announcement
“Latest Practicable Date”	21 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein

DEFINITIONS

“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
“Long Stop Date”	being 31 December 2009
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular, excludes Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC
“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 which entails developing 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 which mainly includes the Yichang Three Gorges International Convention Centre* (宜昌三峽國際會展中心), the Three Gorges State Guest House* (三峽國賓館) and the Three Gorges State Guest Garden Commercial Property* (三峽國賓花園商品房)
“Qualified and Independent Valuer”	LCH (Asia-Pacific) Surveyors Limited, an independent firm of valuers
“S&P Agreement”	the sale and purchase agreement dated 9 May 2009 (as supplemented by the Supplemental Agreement) entered into among the Company, Best Idea, and China Alliance which sets out the terms and conditions in relation to the Acquisition

DEFINITIONS

“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)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Subscription Price”	the subscription price of HK\$0.0435 per Consideration Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Shenzhen Shuren”	Shuren Timber (Shenzhen) Limited* (樹人木業 (深圳) 有限公司), a company incorporated in the PRC indirect wholly-owned by the Company
“Supplemental Agreement”	the supplemental agreement dated 15 September 2009 entered into among the Company, Best Idea and China Alliance to supplement the terms of the S&P Agreement
“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
“Target Group”	the Target Holding Company and the Target Company

DEFINITIONS

“Target Holding Company”	Shoukong (Beijing) Management Consulting Company Limited* (首控 (北京) 管理咨询有限公司), a company incorporated in the PRC with limited liability, which is the immediate holding company of the Target Company
“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

* for identification purposes only

For the purpose of this circular, unless otherwise specified, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1:HK\$1.134. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at any relevant dates at the above rates or at any other rates at all.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Fung Tsun Pong (*Chairman*)

Mr. Lau Sing Hung, Stephen

Mr. Tsang Kam Ching, David

Mr. Chow Ki Shui, Louie

Registered office:

The Office of Caledonian

Bank & Trust Limited

Caledonian House, George Town

Cayman Islands

Independent non-executive Directors:

Mr. Yip Tak On

Mr. Jing Baoli

Mr. Bao Liang Ming

Principal office of business:

Room 1606

Office Tower Convention Plaza

1 Harbour Road

Wan Chai, Hong Kong

23 December 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION INVOLVING THE ISSUE OF NEW SHARES AND CONVERTIBLE BONDS

INTRODUCTION

Reference is made to the announcements dated 21 May 2009, 11 June 2009, 17 July 2009, 5 August 2009, 16 September 2009 and 30 November 2009 issued by the Company in relation to, among other things, the Acquisition.

* For identification purposes only

LETTER FROM THE BOARD

On 9 May 2009, the Company, Best Idea and China Alliance entered into the S&P Agreement (which was subsequently supplemented by the Supplemental Agreement entered into among the same parties on 15 September 2009) pursuant to which, Best Idea agreed to procure Shenzhen Shuren, an indirect wholly-owned subsidiary of the Company to purchase, and China Alliance agreed to procure to sell the entire equity interest of the Target Holding Company, the immediate holding company of the Target Company, for a total consideration of HK\$986 million.

The Consideration shall be satisfied as to (i) HK\$50 million by payment in cash; (ii) HK\$280 million by the issue of the Promissory Note; (iii) HK\$186 million by the issue and allotment of the Consideration Shares; and (iv) HK\$470 million by the issue of the Convertible Bonds. Accordingly, China Alliance and the Company entered into the Share Subscription Agreement and the CB Subscription Agreement both dated 9 May 2009. Upon Completion, both the Target Holding Company and the Target Company will become indirect wholly-owned subsidiaries of the Company.

The purpose of this circular is to provide you with, among other things, details of the Acquisition, the S&P Agreement, the Share Subscription Agreement and the CB Subscription Agreement and to give you the notice of the EGM.

THE ACQUISITION

The S&P Agreement

Date : 9 May 2009 (supplemented by supplemental agreement dated 15 September 2009)

Parties : (a) The Company
(b) Best Idea
(c) China Alliance

China Alliance is an investment holding company incorporated in Hong Kong. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Holding Company, China Alliance, and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Best Idea is a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

Assets to be acquired

Best Idea will procure Shenzhen Shuren, an indirect wholly-owned subsidiary of the Company, to purchase, and China Alliance agreed to procure to sell, the entire equity interest of the Target Holding Company, the immediate holding company of the Target Company. Upon Completion, the Target Holding Company and the Target Company will become indirect wholly-owned subsidiaries of the Company.

Further information on the Target Group and the Property Project is set out in the section headed “INFORMATION ABOUT THE TARGET GROUP AND THE PROPERTY PROJECT” below.

Consideration

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

- (i) HK\$50 million by cash paid by the Company;
- (ii) HK\$280 million by the issue of the Promissory Note to China Alliance or its nominee(s) by the Company within three (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 Date pursuant to the terms of the S&P Agreement and 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 Date pursuant to the terms of the S&P Agreement and the CB Subscription Agreement.

Conditions precedent of the S&P Agreement

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

- (i) a due diligence investigation on the Target Holding Company and/or its associate companies (if any) having been completed to the satisfaction of the Company at its sole discretion;

LETTER FROM THE BOARD

- (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 entering 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 entering 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 Holding Company of resolutions to approve the S&P Agreement and the transactions contemplated thereunder;
- (vi) China Alliance procuring the Target Holding Company to provide the relevant financial statements of the Target Holding 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 Holding Company's incorporation, existence as a going concern, business registration, taxes, foreign exchange and annual returns;
 - (b) the property rights, project development 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; and

LETTER FROM THE BOARD

- (d) the approvals for the sale of the entire equity interest of the Target Holding Company from relevant government authorities and completion of the relevant registration with the business registration bureau and other relevant governmental authorities for the transfer of the entire equity interest of the Target Holding Company having been obtained, and Best Idea or its nominee having been duly registered as the legal and beneficial owner of the Target Holding 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 and the Conversion Shares upon the exercise of the Conversion Rights in accordance with the Listing Rules; and
- (ix) settlement of all outstanding debts of the Target Holding Company incurred before Completion by the shareholders of the Target Holding 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 may be 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 Holding 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 may be agreed among all parties);

LETTER FROM THE BOARD

- (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 Holding 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 three (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. 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 Holding 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 Holding Company to be transferred back to China Alliance equals the outstanding amount of the Promissory Note divided by HK\$986 million and multiplied by 100%) |

LETTER FROM THE BOARD

- 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 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
- Transferability : unless agreed by the Company, the Promissory Note is not transferable except for the repayment of any debt incurred by China Alliance in the course of the Acquisition

As disclosed in its 2009 audited financial statements, the Company has approximately HK\$43 million cash as at 31 March 2009. 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.

LETTER FROM THE BOARD

Number of the Consideration Shares

As at the Latest Practicable Date, there were 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 Latest Practicable Date;
- (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 70.00% to the closing price of HK\$0.145 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (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 45.08% to the average closing price of approximately HK\$0.0792 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.

LETTER FROM THE BOARD

Conditions precedent of the Share Subscription Agreement

Pursuant to the Share Subscription Agreement, completion of which 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 the 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 above, 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.

LETTER FROM THE BOARD

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 upon occurrence of adjustment events, which mainly include the following: (i) an alteration of the nominal value of the Shares resulting from any share consolidation or subdivision; (ii) an issue of the Shares credited as fully paid by way of capitalisation 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;

LETTER FROM THE BOARD

- (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)); or
- (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 will not 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 written 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 <i>pari passu</i> 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 <i>pari passu</i> with all its other present and future unsecured unsubordinated obligations
Coupon rate	:	2.15% per annum

LETTER FROM THE BOARD

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 <i>pari passu</i> 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 the Convertible Bonds by the Company at any time prior to the Maturity Date
Redemption for prolonged suspension	:	following the occurrence of the trading of the Shares having being suspended for more than 45 consecutive trading days, the Company shall, upon demand by the Bondholder, redeem in whole or in part the Convertible Bonds for the outstanding principal amounts (together with accrued interest)

LETTER FROM THE BOARD

Conversion restriction : exercise of the Conversion Rights 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 Latest Practicable Date, there were 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 represents:

- (i) approximately 82.97% of the issued share capital of the Company as at the Latest Practicable Date;
- (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.

Conversion Price

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

- (i) a discount of approximately 61.38% to the closing price of HK\$0.145 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (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

LETTER FROM THE BOARD

- (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 CB Subscription Agreement, completion of which 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.

LETTER FROM THE BOARD

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; (ii) the prevailing market price of the land of approximately RMB1 million per mu in Yichang City, Hubei Province as published in the 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 for inland cities of the PRC; and (iv) the market performance of the Shares as well as the current state of the equity market.

The Company has engaged the Qualified and Independent Valuer, to prepare a valuation report as part of the Company's due diligence exercises on the Property Project. The valuation report prepared by the Qualified and Independent Valuer, which is set out in Appendix V to this circular, gives a market value of approximately RMB868 million to the parcel of land owned by the Target Company, which is higher than the aforesaid estimated market value. 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.

The Qualified and Independent Valuer adopted both the market approach and the investment approach in deriving the appraised value of the properties of the Enlarged Group. After reviewing the bases of the valuer in adopting the aforesaid valuation methods, the Directors concur with the views of the valuer and are of the view that the use of each of the valuation methods is the most appropriate in reflecting the value of the properties of the Enlarged Group.

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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 was 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 the 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 as at the Latest Practicable Date, (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 exercise of the Conversion Rights, and (iv) the shareholding structure of the Company on an enlarged basis upon issue of the Consideration Shares and assuming China Alliance or its nominee(s) fully exercises the Conversion Rights and holds all of the Conversion Shares (for illustration purpose only).

	As at the Latest Practicable Date		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)	
	Shares	%	Shares	%	Shares	%	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	7.30	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	7.24	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	0.00
	2,184,386,948	21.55	2,184,386,948	15.16	2,184,386,948	15.11	2,184,386,948	9.58
Public:								
Allkeen Investments Limited (Note 2)	1,016,000,000	10.02	1,016,000,000	7.05	1,016,000,000	7.03	1,016,000,000	4.46
Liu Feng Lei	513,833,992	5.07	513,833,992	3.56	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	44.42	6,422,843,746	28.16
	7,952,677,738	78.45	7,952,677,738	55.17	7,952,677,738	55.00	7,952,677,738	34.87
Total	10,137,064,686	100.00	14,412,926,754	100.00	14,460,862,605	100.00	22,805,783,896	100.00

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Notes:

1. Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong.
2. Allkeen Investments Limited is wholly-owned by Mr. Huang Wei Guang.
3. For illustration purposes only as China Alliance or its nominee(s) or successors of the Bondholders individually will not directly or indirectly control or be interested in 30% or more of the voting rights in the Company upon full or partial conversion of the outstanding Convertible Bonds pursuant to the terms of the S&P Agreement and the CB Subscription Agreement.

INFORMATION ABOUT THE TARGET GROUP AND THE PROPERTY PROJECT

The Target Holding Company is a company incorporated in the PRC with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Holding Company owned the entire equity interest of the Target Company with 5% of which are being held on trust by an independent third party of the Company and its connected persons (as defined in the Listing Rules). Upon Completion, save for its equity interest in the Target Company, the Target Holding Company will not hold any other material assets, rights over assets and liabilities.

The Target Company is a company incorporated in the PRC in 2006 with limited liability and is principally engaged in property development, property management, asset management and investment consultation. As at the Latest Practicable Date, the Target Company is a subsidiary of the Target Holding Company. Upon Completion, the Target Holding Company and the Target Company will become indirect wholly-owned subsidiaries of the Company.

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, which is approximately seven kilometers away from the town center of Yichang City. 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 and 2009, the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會) and the Tourism Bureau of Yichang City (宜昌市旅遊局) issued approval letters to the Target Company respectively, approving the Target Company to develop the Property Project. Pursuant to the approval letters, the Property Project will include the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), the Three Gorges State Guest House (三峽國賓館) and the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房) with gross floor areas of approximately 34,907 square meters, 48,800 square meters and 522,379 square meters respectively.

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Latest development and planning of the Property Project

A professional property development consultant was engaged in June 2009 and an architectural design and research institute was engaged in September 2009 to assist the Target Company in formulating the overall development plan and obtaining the necessary approvals from relevant local government department(s) for the commencement of the construction of the main project of the Property Project. Pursuant to the consent given to commence the phase 1 site formation works of the Property Project (一期土方工程) (the “Consent”) issued by The Committee of Land Requisition and Reconstruction, New Developing Area of Yiling District of Yichang City (夷陵區發展新區征地拆遷建設工作指揮部) (the “Committee”) in November 2009, the Target Company has commenced the site formation works for the Property Project including the construction of supporting utilities and road networks. As at the Latest Practicable Date, the site investigation and mapping works had been completed and the Target Company is in the process of applying the relevant permits (including the Construction Planning Permit (建設工程規劃許可證) and the Permit to Commence Construction (建築工程施工許可證)) for the commencement of construction works of the main project.

According to the latest development planning (the “Planning”) prepared and proposed by the property development consultant of the Target Company in August 2009, the Property Project would be developed in four phases. The phase 1, according to the Planning, would mainly include the development of low density luxury houses and townhouses with development cost of approximately RMB160 million and is expected to be completed by the end of 2010. It is also indicated in the Planning that the Target Company would start generating an operating income in 2010 through sales of the residential properties developed in phase 1. According to the Planning, the proposed exhibition and convention centre and the 5-star hotel will be completed in 2011 (end of phase 2) and will start generating an operating income in 2011. The construction of the remaining residential properties (mainly medium to high density condominiums) will be completed in 2013 (end of the last phase of development), according to the Planning. The construction program set out in the Planning is in its preliminary stage and will be subject to relevant local government’s approval if adopted by the Target Company; it will also be subject to changes depending on, among other things, the property market performance in Yichang City, availability of sufficient funds for the Enlarged Group to develop the Property Project, and the economy of the PRC. The Enlarged Group will monitor the projected cashflow of the Property Project from time to time and will revise the development plan and construction program if necessary.

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As at the Latest Practicable Date, the Target Company has obtained (i) the Planning Permit for Using Construction Usage Land No. Yi Shi Gui Yong Di (2007) 012 Hao (建設用地規劃許可證：宜市規用地(2007)012號) dated 9 April 2007; (ii) an approval letter dated 20 May 2008 issued by the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會) for the development of Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心) ; (iii) an approval letter dated 23 May 2008 issued by the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會) for the development of the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房) ; (iv) an approval letter dated 12 January 2009 issued by the Tourism Bureau of Yichang City (宜昌市旅游局) for the development of the Three Gorges State Guest House (三峽國賓館) ; and (v) the Consent.

Summary of the audited financial information of the Target Group

The table below sets out a summary of the audited financial information of the Target Group under the Hong Kong Financial Reporting Standards as extracted from Appendix IIA to this circular:

	For the year ended 31 December		For the 6 months ended
	2007	2008	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue	—	—	—
Net loss before taxation	527	11,018	7,115
Net loss after taxation	527	11,018	7,117
	<u> </u>	<u> </u>	<u> </u>
	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Total assets	2,528	238,924	254,744
Total liabilities	1,053	244,920	268,264
Net assets (liabilities) value	1,475	(5,996)	(13,520)
	<u> </u>	<u> </u>	<u> </u>

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Disclosure of the reconciliation of net book value and the valuation of the Target Group as required under Rule 5.07 of the Listing Rules is set out below:

The Target Group

	<i>RMB</i>	<i>RMB</i>
Valuation of the property interests as at 30 September 2009 as set out in the valuation report included in Appendix V to this circular		868,000,000
Net book value of the property interests as at 30 June 2009 (<i>Note</i>)	220,375,000	
<i>Less:</i> Amortisation for the period from 1 July 2009 to 30 September 2009	<u>(976,000)</u>	
Net book value of the property interests as at 30 September 2009		<u>219,399,000</u>
Net revaluation surplus		<u><u>648,601,000</u></u>

Note: Net book value of the property interests as at 30 June 2009 represents net book value of the prepaid lease premium for land.

REASONS FOR THE ACQUISITION

Introduction

Yichang City is the second largest city in Hubei Province and occupies a total area of approximately 21,000 square kilometers with a population of over four million. Due to its strategic geographical location, which is situated on the dividing line between the upriver and middle reaches of the Yangtze River, Yichang City has long been a major transit port and distribution center that connects eastern and western parts of China. Owing to the construction of the Three Gorges Project, together with Gezhouba Dam (葛洲壩水電站), Yichang City is known as the “World’s Hydropower City (世界水電之都)” which attracts many tourists from different places within and outside of China every year. According to the Domestic Economic and Social Development Statistics of Yichang City Announcement (2008) 《2008年宜昌市國民經濟和社會發展統計公報》 published by the People’s Government of Yichang City (宜昌市人民政府) on March 2009 (the “Yichang City Government Announcement”), Yichang City recorded a GDP of approximately RMB102.7 billion

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(based on a preliminary statistical report), representing approximately 14.6% growth as compared with 2007 and is the fifth consecutive year of double digit GDP growth. Based on the resident population of Yichang City, its GDP per capita in 2008 amounted to approximately RMB25,445.

Tourism of Yichang City

According to the Tourism Bureau of Yichang City (宜昌市旅遊局), approximately 10 million domestic and foreign tourists visited Yichang City in 2008 generating a gross income of approximately RMB6.5 billion, representing 6.3% of the GDP of Yichang City in 2008. The Tourism Bureau of Yichang City (宜昌市旅遊局) also reported that the Yichang City's major tourism economic indicators in 2008 were the top among the other cities of Hubei Province. Furthermore, according to the Tourism Development Planning of Yichang City 《宜昌市旅遊業發展總體規劃綱要》 published by Yichang City in 2008 (the "Tourism Development Planning"), the demand for hotel rooms in Yichang City was predicted to increase by 14,400 rooms in 2010, 22,900 rooms in 2015, and 33,400 rooms in 2020 due to the increasing number of tourists visiting Yichang City and the increasing preference for star-rated hotel rooms by the tourists.

The Report on Tourism Statistics of Yichang City 2008 《2008年宜昌市旅遊業統計公報》 published by Tourism Bureau of Yichang City (宜昌市旅遊局) in March 2009 (the "Tourism Statistics") shows that, compared with 2007, the approximate average hotel room rates in Yichang City in 2008 were (i) increased by RMB24.46 to RMB271.13 for a 4-star hotel room; (ii) increased by RMB1.34 to RMB142.15 for a 3-star hotel room; (iii) decreased by RMB8.31 to RMB98.04 for a 2-star hotel room; and (iv) increased by RMB1.19 to RMB74.82 for a 1-star hotel room.

Property market in the Yiling District of Yichang City

A report published by the Property Authority of the Yiling District (夷陵區房產管理局) regarding the property market in the Yiling District of Yichang City shows approximately RMB800 million of property investment was completed in the year of 2008 within the district, representing a growth of approximately 27% as compared with 2007. There were 11 new projects commenced in 2008 with a gross floor area of approximately 343,500 square meters.

The Property Authority of the Yiling District (夷陵區房產管理局) also reported in August 2009 that based on the analysis conducted by the property industry of the Yiling District of Yichang City, Yiling District as the "backyard" of Yichang City, has all the elements to become a new city core of Yichang City. With the quality of living within the Yiling District is improving, Yiling District will attract more and more residential property buyers from other districts of Yichang City.

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The city planning of Yichang City and reasons for the Acquisition

According to Yichang City Planning (2005-2020) 《宜昌市城市總體規劃 (2005-2020年)》 approved by the People's Government of the Hubei Province (湖北省人民政府) in May 2006 (the "Yichang City Planning"), apart from being a hydropower energy base of the world, one of the goals of the local government was to build Yichang City into a "famous tourist city" in China leveraging on the Three Gorges Project. The Yichang City Planning clearly states that Yichang City functions as: (i) a famous hydropower energy base of the world; (ii) a famous travel destination leveraging on the beautiful scenes of the Three Gorges and the developed hydropower hub; (iii) the transportation and logistic center for the middle and upper reach of the Yangtze River; (iv) an important production base located in the middle and upper reach of the Yangtze River; and (v) the important base for Hubei Province's finance, culture, education, science and technology, public health, and information services.

Based on the information available to the Directors, there is currently no 5-star hotel nor an international exhibition and convention centre in Yichang City. The Directors are of the view that, based on the positive prospects of the tourism market and the increasing commercial activities in Yichang City, the development of the Property Project which includes the Three Gorges State Guest House (三峽國賓館), a 5-star hotel, will capture the increasing demand for superior quality hotel rooms in Yichang City and will enjoy the increasing hotel room rates for star-rated hotels in Yichang City as reported in the Tourism Development Planning and the Tourism Statistics. Furthermore, according to the Yichang City Planning, it is the goal of Yichang City to develop an exhibition and conventional industry and to build an international exhibition and convention centre in the city. The development of the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心) will allow Yichang City to achieve such goal and will remove the constraints on the future development of Yichang City by providing a very much needed world-class exhibition and convention facility in the city.

With reference to the above, the Directors consider that the development of the Property Project conforms to the Yichang City Planning and will serve well the increasing local market in its demand for exhibition centres, superior quality hotel rooms and commercial properties.

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. The Company's annual report for the year ended 31 March 2009 disclosed that the Group has abundant resources of timber which can be used as construction materials. Since the construction of the Property Project may require the

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consumption of a substantial amount of timber, the Directors consider that there could be a synergy effect on the existing business and operation of the Group as a result of the Acquisition as the development of the Property Project may generate a stable source of demand for the Group's timber resources. However, as at the Latest Practicable Date, the Directors have yet to formulate a detailed plan on how to utilise the Group's timber resources for the development of the Property Project, therefore, the synergy effect as a result of the Acquisition may or may not be significant and is subject to further analysis.

Given (i) the expanding tourism market in Yichang City which creates an increase in demand for superior quality hotel rooms and drives up the room rate for star-rated hotels; (ii) the growing demand for commercial properties in Yiling District where the Property Project is located; and (iii) the need for an international exhibition and convention centre in Yichang City pursuant to the Yichang City Planning, the Directors see this as a good opportunity for the Group to diversify its business to property development in the PRC and to expand the income base of the Group for the benefit of the Company and its Shareholders.

RISK FACTORS RELATING TO THE ACQUISITION

Entering into a new business

The Acquisition constitutes an investment in a new business sector to the Group and the Enlarged Group may not be able to control the related operational risks of this new business. In this regard, it is the intention of the Enlarged Group to retain the existing key management personnel of the Target Group to continue its normal operation. Therefore, the Directors expect that the Enlarged Group will have sufficient expertise to manage and operate the Target Group upon Completion.

As the success of the Group to enter into the new business sector of property development in the PRC is dependent, to a large extent, on the Enlarged Group's ability to retain the existing key management personnel of the Target Group, the loss of a significant number of the Target Group's existing key management personnel may materially and adversely affect its operation and business if it cannot find suitable replacements in a timely manner. In this regard, the Group may also consider appointing additional suitable experts after Completion to ensure the continual efficient operation of the Target Group as and when appropriate.

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Fluctuations in the property market in the PRC

The property market in the PRC is subject to frequent changes in macro economic control imposed by the PRC government. Policies and other measures taken by the PRC government to regulate the economy may change in response to market and economic conditions, with a resulting impact on the Target Group's business.

The cyclical nature of the real estate and tourism industries and the recent economic crisis may affect the demand for residential properties, hotel rooms and exhibition facilities in Yichang City

The demand for residential properties, hotel rooms and exhibition facilities in Yichang City may be affected by the cyclical nature of the real estate and tourism industries and the recent global economic crisis. Property values in Yichang City are affected by, among other factors, supply and demand of comparable properties, interest rates, tax laws and political and economic developments in the PRC. As the future demand for different types of properties in the PRC is uncertain, any change in customer preferences and market conditions may affect the Target Group's financial condition. In addition, the current global financial crisis has affected the PRC economic condition and has had a negative impact on the retail and procurement industries in the PRC. Although the PRC government has adopted increasingly flexible macroeconomic policies, the demand for hotel rooms and exhibition facilities in Yichang City in the future is uncertain.

The Property Project is located in Yichang City and that any changes in the existing city planning or implementation of local government regulations may have an impact on the Target Group's business

The Property Project is located in Yichang City of Hubei Province. As such, the Target Group's business is heavily dependent on the city planning of Yichang City and/or implementation of local government regulations. Any change in the existing planning or repositioning of Yichang City will have significant impact on the tourism industry and structure of the economy of the city that could affect the business of the Target Group. As the Yichang City Planning stipulated the city planning of Yichang City for the period from 2005 to 2020, the Directors do not expect there to be any substantial change in the existing city planning of Yichang City to be made in the short run.

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Substantial capital resources required to fund the development of the Property Project

The development of the Property Project is capital intensive. According to the existing development plans and the prevailing costs of construction materials, the Directors estimate that the total investment on the Property Project will be approximately RMB2,000 million. The availability of adequate funding is crucial to the Enlarged Group to complete the Property Project. Since the Property Project will be developed in phases, the Enlarged Group will finance the Property Project through the sale proceeds from the developed phases of the Property Project as well as from bank borrowings in the PRC and Hong Kong and/or raising funds through the equity market as and when appropriate. The Enlarged Group's ability to secure sufficient financing for the Property Project depends on a number of factors that are beyond the Company's control, including market conditions in the capital markets, investors' perception of the Company's securities, lenders' perception of the Enlarged Group's creditworthiness, the PRC economy and the PRC regulations that affect the finance costs for the Enlarged Group. Failure to obtain adequate funding at commercially reasonable terms may limit the Enlarged Group's ability to complete the development of the Property Project according to the existing development plans and schedule and may increase the Enlarged Group's finance costs.

The Target Company has been approached by some PRC major banks regarding possible bank loans. In July 2009, a major bank in the PRC (the "Bank") issued a letter to the Target Company indicating that it agrees to provide a loan in the principal amount of RMB500 million to the Target Company to finance the development of the Property Project subject to (i) the loan being formally approved by the Bank with conditions as the Bank considers necessary; and (ii) the execution of a formal loan agreement between the Target Company and the Bank. The Bank also requires a feasibility study of the Property Project approved by the relevant local government authority be obtained. After Completion, with the assistance of the current management of the Target Company, the Directors will have further discussions with banks to discuss the possibility of obtaining loan facilities to finance the Property Project. As the PRC property market is recovering and the Property Project will be developed in phases, the Directors consider that there will be enough funding resources for the development of the Property Project.

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Land idling and delay in completion of the Property Project

Pursuant to a Contract for the Grant of State-owned Land Use Rights No.: Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao (國有土地使用權出讓合同編號：宜昌市夷陵區夷增國讓(合)字(2006)第438號) dated 29 December 2006 (the “Land Use Rights Contract”) made between the Target Company and the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) (the “Bureau of Land Resource”) and a subsequent supplemental contract dated 29 December 2006, if the construction works for the development of the parcel of land located in Yiling District, Yichang City (the “Yichang Land”) is not commenced by the Target Company before 30 June 2007 and should such delay exceed the date stipulated by over one year, the Target Company would be subject to a penalty payment of RMB22,434,000 to the government for the land idling (the “Penalty”). In addition, if the construction works have not commenced by the Target Company and the date stipulated is exceeded by over two years, the Bureau of Land Resource could repossess the land use right without compensation.

As at the Latest Practicable Date, since the Target Company has yet to obtain the Construction Planning Permit (建設工程規劃許可證) and the Permit to Commence Construction (建築工程施工許可證). Based on the PRC legal opinion obtained by the Company, the construction works for the development of the Yichang Land may not be considered as having commenced. The Target Company is, therefore, subject to the Penalty and the Bureau of Land Resource repossessing the land use right without compensation. However, such Penalty claim has not been received from the Bureau of Land Resource by the Target Company. If such Penalty is demanded by the Bureau of Land Resource, the Target Company shall be responsible for the payment. However, for any Penalty claim paid, the Company could claim from China Alliance pursuant to the S&P Agreement and a letter dated 16 October 2009 issued by China Alliance (the “China Alliance Undertaking Letter”) which stipulates that all outstanding debts of the Target Group incurred before Completion shall be undertaken by China Alliance.

The Target Company confirms in its letter dated 10 October 2009 that they have not received any demand for penalty issued by the relevant PRC government department. The Target Company also confirms that a ceremony for commencement of construction works was conducted on 27 May 2008.

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Since then, the Target Company has obtained the Consent from the Committee to commence the phase 1 site formation works of the Property Project in November 2009. Accordingly, the Target Company has commenced the phase 1 site formation works of the Property Project. The relevant local government authorities had granted their approvals to the Target Company to develop the Property Project and the Target Company is now finalising the detailed overall development plan (總體規劃方案) and project design for the application of the Construction Planning Permit (建設工程規劃許可證) and the Permit to Commence Construction (建築工程施工許可證) for the commencement of construction works of the main project. It is uncertain when the Target Company will receive the above-mentioned permits.

Given the reasons set out in the paragraph headed “REASONS FOR THE ACQUISITION” above, the Directors consider that the Acquisition provides a good opportunity for the Group to diversify its business to property development in the PRC. The Directors also consider that the chance for the Bureau of Land Resource to regard the Yichang Land as idle and repossesses the land use right without compensation is relatively small, and are confident that the authorities in the PRC will issue the necessary permits to enable the Target Company to proceed with its planned development of the Property Project. This optimism on the part of the Directors is further enhanced by the fact that the Consent has been issued by the Committee and the Target Company has commenced the site formation works of the Property Project. Furthermore, according to the recent communications among the Target Company, local government officials and the relevant government authorities, the Directors were given to understand that the Yichang City government greatly supports the development of the Property Project and it had indicated that the City Planning Bureau of Yichang City (宜昌市規劃局) intends to approval the latest overall development plan (總體規劃方案) of the Property Project in early 2010.

Should the Target Company be required to pay the Penalty for not having been able to commence work on the Property Project within the date stipulated in the Land Use Rights Contract, the Company may claim such expenses from China Alliance, pursuant to the S&P Agreement and China Alliance Undertaking Letter.

The Directors believe that the Property Project is being carried out at an opportune time which will enable the Group to broaden its activities and increase its earnings. In the circumstances, the Directors are of the view that the Acquisition is fair and reasonable and in the interests of the company and the Shareholders as a whole.

The Property Project is currently in an early planning and design stage. The future strategies on the sales of the residential properties and the operations of the hotel and exhibition and convention centre, which are based on the planning and design of the Property Project as well as the changing market and economic conditions, are yet to

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be finalised. Furthermore, any failure or delay in obtaining any of the relevant PRC governmental approvals for the Property Project by the Target Company may affect the date of completion of the Property Project.

The Target Company is now finalising the detailed overall development plan and design of the Property Project, for which the formulation of the strategies on the sales of the residential properties and the operations of the hotel and exhibition and convention centre are based on. As the development of the Property Project is currently in its preliminary stage, the Enlarged Group will, with reference to the market and economic conditions in the PRC, finalise the formulation of those strategies when the design and planning of the Property Project are close to completion.

Furthermore, in developing and completing the Property Project, the Target Company is required to obtain various permits, licenses, certificates and other approvals including, but not limited to, the Land Use Rights Contract, Planning Permit for Using Construction Usage Land (建設用地規劃許可證), Construction Planning Permit (建設工程規劃許可證) and Permit to Commence Construction (建築工程施工許可證), Pre-sale Permit for Commodity Housing (商品房預售許可證) and certificates or confirmation of completion and acceptance from the relevant administrative authorities at various stages of the development of the Property Project. Out of the above-mentioned certificates and permits, as at the Latest Practicable Date, the Target Company has obtained the Land Use Rights Contract and the Planning Permit for Using Construction Usage Land (建設用地規劃許可證). Since the Target Company is still finalising the overall planning and design of the Property Project, it is uncertain that the Target Company will obtain all necessary certificates and permits for the Property Project in a timely manner.

The Target Company will rely on external contractors for the construction of the Property Project that the Target Company's operational performance and financial condition may be adversely affected by the breach of their contractual obligations

The Target Company will engage external contractors to carry out the construction of the Property Project. The Target Company will select external contractors through competitive bids and also through assessment of their capabilities and their reputation for quality and price. Completion of the Property Project is subject to the performance of these external contractors of their obligations under contracts to be entered with the Target Company, including the pre-agreed schedule for completion, and it is uncertain that the services rendered by any of these external contractors will always be satisfactory or match the Target Company's requirements for quality. If the performance of any external contractor is unsatisfactory, or they are in breach of their contractual obligations, the Target Company may need to replace such contractor or take other actions to remedy

LETTER FROM THE BOARD

the situation, which could materially and adversely affect the cost and construction progress of the Property Project. The completion of the Property Project may be delayed, and the Target Company may incur additional costs due to a contractor's financial or other difficulties. Any of these factors may have a material adverse effect on the Target Company's operations and financial condition.

POTENTIAL FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Following Completion, the Target Holding Company and the Target Company will become indirectly wholly-owned subsidiaries of the Company, their assets, liabilities and financial results will be consolidated to the Group's financial statements. The potential financial effects arising from the Acquisition on the Group's net assets and financial results are set out below:

As at 31 March 2009			
		As if the Acquisition had taken place on 31 March 2009	
	Audited		Change
Net assets	HK\$1,074.4 million	HK\$1,450.9 million*	+ HK\$376.5 million
For the year ended 31 March 2009			
		As if the Acquisition had taken place on 1 April 2008	
	Audited		Change
Net loss for the year	HK\$71.4 million	HK\$196.3 million*	+ HK\$124.9 million

* *Pro forma figures are extracted from or prepared based on the financial information set out in Appendix III "Unaudited Pro Forma Financial Information of the Enlarged Group" to this circular.*

Net assets

As illustrated in the above table, the net assets of the Enlarged Group would be increased from approximately HK\$1,074.4 million to approximately HK\$1,450.9 million, if Completion had taken place on 31 March 2009.

LETTER FROM THE BOARD

Financial Results

The Group recorded a net loss of approximately HK\$71.4 million for the year ended 31 March 2009. As illustrated in the table above, if Completion had been taken place on 1 April 2008, the Group's net loss would have been increased by approximately HK\$124.9 million.

Accounting treatment to be adopted in respect of the Property Project

The Target Company made upfront payments to obtain operating leases of land use rights on which the Property Project will be developed. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods. The amortisation during the period before the commencement of the construction of the Property Project is expensed in the income statement. The amortisation during the period of construction of the Property Project will be capitalised as the cost of the Property Project under development and assets under construction. The amortisation after the completion of the construction of the Property Project will be expensed in the income statement. The unamortised upfront payments will be recognised as cost of sales when the relevant properties are sold or transferred to the cost of investment properties upon completion of the Property Project.

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.

PREVIOUS FUND RAISING EXERCISES

The Company has not conducted any fund raising exercise in the 12 months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

EGM

Set out on pages EGM-1 to EGM-4 in this circular is a notice of the EGM, which will be convened and held at 7th Floor, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China at 11:30 a.m. on Tuesday, 12 January 2010 at which resolutions will be proposed to approve the S&P Agreement, Share Subscription Agreement, CB Subscription Agreement and the transactions contemplated thereunder. Voting in the EGM will be by way of poll in accordance with the Listing Rules.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tricor Progressive Limited at 26/F Tesbury Centre, 28 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 the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned thereof (as the case may be) should you so wish.

To the best of the knowledge, information and belief of the Directors who have made all reasonable enquires, no Shareholders shall be required to abstain from voting on the resolutions to be approved at the EGM.

RECOMMENDATION

The Directors consider the terms of the Acquisition are fair and reasonable and in the interest of the Company and Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the S&P Agreement, the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board of
CHINA TIMBER RESOURCES GROUP LIMITED
Tsang Kam Ching, David
Director

1. FINANCIAL SUMMARY

Set out below is the audited financial information of the Group for the three years ended 31 March 2009 as extracted from the relevant published annual reports of the Company.

Consolidated Income Statement

	For the year ended 31 March		
	2009	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	17,841	33,382	10,380
Cost of sales	<u>(18,696)</u>	<u>(19,391)</u>	<u>(4,065)</u>
Gross (loss)/profit	(855)	13,991	6,315
Interest income	1,166	6,699	463
(Loss)/gain on change in fair value of investment property	(5,236)	18,094	1,845
Gain on change in fair value of biological assets less estimated point-of-sale costs	35,548	25,513	—
Gain on disposal of investment property	—	3,036	—
Other income and other gains or losses	(8,870)	4,159	4,203
Realised loss on financial assets at fair value through profit or loss	(27,529)	—	—
Selling and administrative expenses	(64,682)	(52,047)	(26,801)
Finance costs	<u>(799)</u>	<u>—</u>	<u>(426)</u>
(Loss)/profit before taxation	(71,257)	19,445	(14,401)
Taxation (charge)/credit	<u>(185)</u>	<u>346</u>	<u>(434)</u>
(Loss)/profit for the year	<u><u>(71,442)</u></u>	<u><u>19,791</u></u>	<u><u>(14,835)</u></u>
Attributable to:			
Equity holders of the Company	(67,436)	21,211	(14,245)
Minority interests	<u>(4,006)</u>	<u>(1,420)</u>	<u>(590)</u>
	<u><u>(71,442)</u></u>	<u><u>19,791</u></u>	<u><u>(14,835)</u></u>
Dividend	<u>—</u>	<u>10,137</u>	<u>—</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share			
— Basic	<u><u>(0.67)</u></u>	<u><u>0.24</u></u>	<u><u>(0.21)</u></u>
— Diluted	<u><u>N/A</u></u>	<u><u>0.22</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

	As at 31 March		
	2009	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment property	37,000	50,000	29,640
Property, plant and equipment	95,774	63,092	8,441
Prepaid lease payments	32,810	26,285	3,473
Biological assets	71,950	22,606	—
Forest concession rights	530,783	533,811	269,032
Long term prepayments	60,358	40,816	—
	<u>828,675</u>	<u>736,610</u>	<u>310,586</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	882	1,786	3,516
Derivative financial instruments	—	—	1,040
Inventories	120,603	38,715	3,470
Trade and other receivables	29,305	76,051	2,629
Prepaid lease payments	711	81	81
Cash and bank balances	<u>132,736</u>	<u>339,838</u>	<u>9,116</u>
	<u>284,237</u>	<u>456,471</u>	<u>19,852</u>
CURRENT LIABILITIES			
Trade and other payables	11,367	30,478	96,386
Short term borrowing	14,212	6,073	—
Amounts due to derecognised former subsidiaries under liquidation	—	—	490
Amount due to a former director of a subsidiary	—	—	1,205
Tax payable	<u>—</u>	<u>84</u>	<u>434</u>
	<u>25,579</u>	<u>36,635</u>	<u>98,515</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>258,658</u>	<u>419,836</u>	<u>(78,663)</u>

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FINANCIAL INFORMATION OF THE GROUP

	As at 31 March		
	2009	2008	2007
	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	1,087,333	1,156,446	231,923
NON-CURRENT LIABILITIES			
Bank loan — secured	—	—	6,250
Deferred tax liabilities	1,574	1,574	450
Acreage fees payable	11,368	5,147	—
	12,942	6,721	6,700
NET ASSETS	1,074,391	1,149,725	225,223
CAPITAL AND RESERVES			
Share capital	101,370	101,370	71,261
Reserves	950,050	1,021,516	25,036
Equity attributable to equity holders of the Company	1,051,420	1,122,886	96,297
Minority interests	22,971	26,839	128,926
TOTAL EQUITY	1,074,391	1,149,725	225,223

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2009

The following is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in the published annual report of the Company for the year ended 31 March 2009.

Consolidated Income Statement

For the year ended 31 March 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	5	17,841	33,382
Cost of sales		<u>(18,696)</u>	<u>(19,391)</u>
Gross (loss)/profit		(855)	13,991
Interest income		1,166	6,699
(Loss)/gain on change in fair value of investment property	15	(5,236)	18,094
Gain on change in fair value of biological assets less estimated point-of-sale costs	18	35,548	25,513
Gain on disposal of investment property		—	3,036
Other income and other gains or losses	6	(8,870)	4,159
Realised loss on financial assets at fair value through profit or loss		(27,529)	—
Selling and administrative expenses		(64,682)	(52,047)
Finance costs	7	<u>(799)</u>	<u>—</u>
(Loss)/profit before taxation	7	(71,257)	19,445
Taxation (charge)/credit	8	<u>(185)</u>	<u>346</u>
(Loss)/profit for the year		<u><u>(71,442)</u></u>	<u><u>19,791</u></u>
Attributable to:			
Equity holders of the Company	11	(67,436)	21,211
Minority interests		<u>(4,006)</u>	<u>(1,420)</u>
		<u><u>(71,442)</u></u>	<u><u>19,791</u></u>
Dividend	12	<u>—</u>	<u>10,137</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share	13		
— Basic		<u>(0.67)</u>	<u>0.24</u>
— Diluted		<u>N/A</u>	<u>0.22</u>

Consolidated Balance Sheet*As at 31 March 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment property	15	37,000	50,000
Property, plant and equipment	16	95,774	63,092
Prepaid lease payments	17	32,810	26,285
Biological assets	18	71,950	22,606
Forest concession rights	19	530,783	533,811
Prepayments for acquisition of plantation assets and equipment	20	60,358	40,816
		828,675	736,610
CURRENT ASSETS			
Financial assets at fair value through profit or loss	22	882	1,786
Inventories	23	120,603	38,715
Trade and other receivables	24	29,305	76,051
Prepaid lease payments	17	711	81
Cash and bank balances	25	132,736	339,838
		284,237	456,471
CURRENT LIABILITIES			
Trade and other payables	26	11,367	23,861
Short term borrowings	27	14,212	6,073
Tax payable		—	84
		25,579	30,018
NET CURRENT ASSETS		258,658	426,453
TOTAL ASSETS LESS CURRENT LIABILITIES		1,087,333	1,163,063
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	1,574	1,574
Acreage fees payable		11,368	11,764
		12,942	13,338
NET ASSETS		1,074,391	1,149,725
EQUITY			
Share capital	30	101,370	101,370
Reserves		950,050	1,021,516
Equity attributable to equity holders of the Company		1,051,420	1,122,886
Minority interests		22,971	26,839
TOTAL EQUITY		1,074,391	1,149,725

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FINANCIAL INFORMATION OF THE GROUP

Balance Sheet

As at 31 March 2009

		2009	2008
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	197	262
Interests in subsidiaries	21	872,440	650,876
		872,637	651,138
CURRENT ASSETS			
Financial assets at fair value through profit or loss	22	882	1,786
Inventories	23	—	12,505
Other receivables	24	1,151	16,720
Cash and bank balances	25	42,677	292,696
		44,710	323,707
CURRENT LIABILITIES			
Trade and other payables	26	1,417	11,309
Amounts due to subsidiaries	28	1,430	—
		2,847	11,309
NET CURRENT ASSETS		41,863	312,398
NET ASSETS		914,500	963,536
EQUITY			
Share capital	30	101,370	101,370
Reserves		813,130	862,166
TOTAL EQUITY		914,500	963,536

Consolidated Statement of Changes in Equity

As at 31 March 2009

The Group

	Attributable to equity holders of the Company												Minority interests	Total
	Share capital	Share premium	Warrants reserve	Share-based compensation reserve	Capital redemption reserve	Capital reserve	Assets revaluation reserve	Forest	Translation reserve	Retained	Sub-total			
								concession		profits/				
								rights		(accumulated				
								revaluation reserve		losses)				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
(Note 30)														
At 1 April 2007	71,261	510,741	4,000	4,041	3,800	20,918	16,552	—	(392)	(534,624)	96,297	128,926	225,223	
Issue of new ordinary shares	28,826	891,830	—	—	—	—	—	—	—	—	920,656	—	920,656	
Issuance costs	—	(18,905)	—	—	—	—	—	—	—	—	(18,905)	—	(18,905)	
Exercise of share options	1,283	12,765	—	(4,041)	—	—	—	—	—	—	10,007	—	10,007	
Exchange differences	—	—	—	—	—	—	—	—	9,236	—	9,236	—	9,236	
Revaluation surplus	—	—	—	—	—	—	8,440	—	—	—	8,440	—	8,440	
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	7,282	7,282	
Excess of acquirer's interest in the net fair value of acquiree's identifiable net assets over cost arising from acquisition of additional interest in other subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(952)	(952)	
Deferred tax arising from revaluation of buildings	—	—	—	—	—	—	(1,124)	—	—	—	(1,124)	—	(1,124)	
Profit for the year	—	—	—	—	—	—	—	—	—	21,211	21,211	(1,420)	19,791	
Adjustment for forest concession rights stated at fair value on the acquisition of 44% of Jaling	—	—	—	—	—	—	—	76,213	—	—	76,213	73,224	149,437	
Issued shares for acquisition of additional 44% of Jaling stated at fair value	—	—	—	—	—	—	—	—	—	—	—	(180,221)	(180,221)	
Recognition of equity-settled share-based compensation	—	—	—	855	—	—	—	—	—	—	855	—	855	
Elimination of accumulated losses by reduction of share premium account	—	(1,396,431)	—	—	—	—	—	—	—	1,396,431	—	—	—	
At 31 March 2008	101,370	—	4,000	855	3,800	20,918	23,868	76,213	8,844	883,018	1,122,886	26,839	1,149,725	
2008 final dividend at \$0.001 per share	—	—	—	—	—	—	—	—	—	(10,137)	(10,137)	—	(10,137)	
Release of reserve upon lapse of share options	—	—	—	(855)	—	—	—	—	—	855	—	—	—	
Exchange differences	—	—	—	—	—	—	—	—	6,107	—	6,107	138	6,245	
Loss for the year	—	—	—	—	—	—	—	—	—	(67,436)	(67,436)	(4,006)	(71,442)	
At 31 March 2009	101,370	—	4,000	—	3,800	20,918	23,868	76,213	14,951	806,300	1,051,420	22,971	1,074,391	

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The Company

	Share capital	Share premium	Warrants reserve	Share-based compensation reserve	Capital redemption reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 30)							
At 1 April 2007	71,261	510,741	4,000	4,041	3,800	64,314	(582,354)	75,803
Issue of new ordinary shares	28,826	891,830	—	—	—	—	—	920,656
Issuance costs	—	(18,905)	—	—	—	—	—	(18,905)
Exercise of share options	1,283	12,765	—	(4,041)	—	—	—	10,007
Recognition of equity-settled share-based compensation	—	—	—	855	—	—	—	855
Loss for the year	—	—	—	—	—	—	(24,880)	(24,880)
Elimination of accumulated losses by reduction of shares premium account	—	(1,396,431)	—	—	—	—	1,396,431	—
At 31 March 2008	101,370	—	4,000	855	3,800	64,314	789,197	963,536
2008 final dividend at \$0.001 per share	—	—	—	—	—	—	(10,137)	(10,137)
Release of reserve upon lapse of share options	—	—	—	(855)	—	—	855	—
Loss for the year	—	—	—	—	—	—	(38,899)	(38,899)
At 31 March 2009	101,370	—	4,000	—	3,800	64,314	741,016	914,500

Warrants reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium account upon the exercise of the warrants.

On 14 July 2006, the Company issued 960,000,000 un-listed warrants at an issue price of HK\$4,000,000 by private placement. Each warrant entitles the holder to subscribe for one ordinary share at an initial subscription price of HK\$0.09 per Subscription Share during the three years period from the date of allocation and issue of the warrants.

Share-based compensation reserve represents the fair value of outstanding share options granted to executive directors, employees, and any of its subsidiary recognised in accordance with the accounting policy adopted for share-based payment.

Translation reserve represents exchange differences arising from the translation of the financial statements of subsidiaries operating outside Hong Kong.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

In accordance with the provision of the Company's New Article of Association, the reserve available for distribution to shareholders of the Company as at 31 March 2009 amounted to HK\$813,130,000 (2008:HK\$861,311,000).

Consolidated Cash Flow Statement*For the year ended 31 March 2009*

	2009	2008
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
(Loss)/profit before taxation	(71,257)	19,445
Adjustments for:		
Interest income	(1,166)	(6,699)
Depreciation of property, plant and equipment	7,467	2,004
Share-based compensation	—	855
Loss/(gain) on change in fair value of investment property	5,236	(18,094)
Gain on change in fair value of biological assets less estimated point-of-sale costs	(35,548)	(25,513)
Gain on disposal of subsidiaries	—	(687)
Realised loss on financial assets at fair value through profit or loss	27,529	—
Release of prepaid lease payment	711	81
Amortisation of forest concession rights	3,024	—
Written off of loan from a former director of a subsidiary	—	(822)
Gain on disposal of investment property	—	(3,036)
Harvested timber transferred to inventories and sold	—	14,850
Property, plant and equipment written off	245	577
Impairment loss on inventories	1,956	—
Net write off of inventories	2,604	—
Excess of acquirer's interest in the net fair value of acquiree's identifiable net assets over costs:		
Arising from acquisition of additional interests in other subsidiaries	—	(952)
Arising from 2008 acquisition	31(a) —	(379)

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		2009	2008
	Notes	HK\$'000	HK\$'000
Operating cash outflows before changes in working capital		(59,199)	(18,370)
Decrease in financial assets at fair value through profit or loss		904	1,730
Decrease in derivative financial instruments		—	1,040
Increase in inventories		(84,645)	(35,245)
Decrease/(increase) in trade and other receivables		24,360	(16,046)
Decrease in amount due to a director of a subsidiary		—	(383)
Decrease in trade and other payables		(12,341)	(9,341)
Decrease in acreage fees payable		(549)	—
Increase of biological assets due to plantation expenditure incurred		(10,955)	(7,244)
Decrease of biological assets due to direct sales		329	2,446
Effect of foreign exchange difference		8,231	—
Cash used in operations		(133,865)	(81,413)
Interest received		1,166	6,699
Overseas tax paid		(269)	—
Net cash used in operating activities		(132,968)	(74,714)
INVESTING ACTIVITIES			
Proceeds from disposal of investment property		—	4,353
Purchase of property, plant and equipment		(16,534)	(46,687)
Additions of prepaid lease payment		(1,173)	(22,893)
Purchase of biological assets		(1,703)	(7,145)
Net increase in prepayments for acquisition of plantation assets and equipment		(25,982)	(58,176)
Additions of prepayment for land use right and equipment		—	(40,016)
Payment to acquire a subsidiary	31(b)	—	(110,000)
Purchase of financial assets at fair value through profit or loss		(63,789)	—
Proceeds from disposal of financial assets at fair value through profit or loss		36,260	—
Net cash used in investing activities		(72,921)	(280,564)

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		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES			
Proceeds from exercise of share options		—	10,007
Repayment of bank loan		—	(6,250)
Proceed from short term borrowings		8,139	6,073
Net proceeds from issue of new ordinary shares		—	665,345
Capital injection by minority interest		—	7,282
Dividend paid		(10,137)	—
Net cash (used in)/generated from financing activities		(1,998)	682,457
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(207,887)	327,179
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		785	3,543
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		339,838	9,116
CASH AND CASH EQUIVALENTS AT END OF YEAR		132,736	339,838
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		132,736	339,838

Notes to the financial statements

For the year ended 31 March 2009

1. CORPORATE INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office is the office of Caledonian Bank & Trust Limited, Caledonian House, George Town, Grand Cayman, Cayman Islands.

The principal activities of the Company and its subsidiaries (the “Group”) are principally engaged in forest operation, timber logging and trading, timber processing and manufacture and sale of timber products.

The financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term 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”) that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies.

The adoption of HK(IFRIC) – Int 11 “HKFRS 2 – Group and treasury share transactions”, HK(IFRIC) – Int 12 “Service concession arrangements”, HK(IFRIC) – Int 14 “HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction” and HKAS 39 & HKFRS 7 Amendments “Reclassification of financial assets” has no material impact on the financial statements.

At the date of authorisation of the financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) – Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
HKFRS 7 (Amendment)	Improving disclosure about financial instruments	(i)

		Effective date
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Eligible hedged items	(ii)
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) – Int 17	Distribution of non-cash assets to owners	(ii)
HK(IFRIC) – Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation	(iv)
HK (IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) – Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	— HKFRS 5	(ii)
2009 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	— HKAS 39 (80)	(i)
	— HKAS 38, HKFRS 2, HK(IFRIC) – Int 9, HK(IFRIC) – Int 16	(ii)
	— HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 39, HKFRS 5, HKFRS 8	(vii)

Effective date

- (i) Annual periods beginning on or after 1 January 2009
- (ii) Annual periods beginning on or after 1 July 2009
- (iii) Annual periods beginning on or after 1 July 2008
- (iv) Annual periods beginning on or after 1 October 2008
- (v) Annual periods ending on or after 30 June 2009
- (vi) Transfers of assets from customers received on or after 1 July 2009
- (vii) Annual periods beginning on or after 1 January 2010

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, 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 The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

(b) Basis of preparation

These financial statements are prepared under the historical cost convention modified for the revaluation of investment property, buildings, certain financial instruments and biological assets which are carried at fair value.

(c) Group accounting**(i) Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2009. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Minority interests in the net assets excluding goodwill of consolidated subsidiaries are identified separately from the Group’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity of the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

On the disposal of subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

(ii) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill on acquisitions of a subsidiary is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's cash-generating units or groups of cash-generating units, that are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(d) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of the consolidated financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowing, tax balances, corporate and financing expenses.

(e) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- (ii) income and expenses for each income statement are translation at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders’ equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairments losses. The cost of assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of assets is credited in equity to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for this purpose are as follows:

Leasehold improvements	:	20%
Furniture and fixtures	:	20%
Motor vehicles	:	20%

The gain or loss on disposal or retirement of a property, plant and equipment recognised in profit or loss is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

(h) Prepaid lease payment

Prepaid lease payments represent upfront premium paid for use of land. Prepaid lease payments are released to the profit or loss over the lease term on a straight-line basis.

(i) Investment property

Investment property is property held to earn rentals and for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property or at its fair value.

After initial recognition, the investment property is stated at its fair value based on valuation by an external valuer. Gains or losses from changes in fair value of the investment property are included in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the profit or loss.

(j) Intangible assets

(i) Forest concession rights

Forest concession licenses are stated at fair value at the date of acquisition. Thereafter, they are subject to amortisation (see below) and impairment losses (see note 3(k)). These licenses give the Group rights to harvest trees in the allocated concession forests in designated area in Guyana.

The costs of forest concession rights include the acreage fees payable to Guyana Forestry Commission, costs of necessary exploratory, geological, geophysical and other research studies incurred prior to obtaining the right.

(ii) Amortisation

Forest concession rights are amortised using the units of production method based on the total proven and probable reserves of the total forestry exploitation volume.

(k) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Biological assets

Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sale or into additional biological assets. Biological assets, agricultural produce and seedlings, are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable.

If an active market exists for a biological asset or agricultural produce with reference to comparable specie, growing condition and expected yield of the crops, the quoted price in that market is adopted for determining the fair value of that asset. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the balance sheet date, or the market prices for similar assets adjusted to reflect differences to determine fair values. The gain or loss arising on initial recognition and subsequent changes in fair values less estimated point-of-sale costs of biological assets is recognised in profit or loss in the period in which it arise. Upon the sale of the agricultural produce as forestry products, the carrying amount is transferred to cost of sales in the consolidated income statement.

Seedlings that have little biological transformation taken place since initial cost incurrence are stated at cost less any impairment loss.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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. 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The cost of timber harvested from biological assets is its fair value less estimated point-of-sale costs at the date of harvest, determined in accordance with the accounting policy for biological assets. (see Note 3(l)). Any change in value through the date of harvest is recognised in the income statement.

(n) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. These financial assets are subsequently accounted for as follows, depending on their classification:

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

(ii) *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of 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 and other receivables 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.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

(v) *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(o) **Financial liabilities and equity instrument issued by the Group**

Financial liabilities and equity instruments issued by a Group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

(i) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(ii) *Financial liabilities*

Financial liabilities, including other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method.

(iii) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(iv) *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(p) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other asset and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(s) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Company's PRC subsidiaries participate in defined contribution retirement schemes organised by the local government authorities in the PRC. All of the PRC employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC subsidiaries are required to contribute certain percentage of the basic salaries of their PRC employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to profit or loss of the Group as they become payable in accordance with the rules of scheme.

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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on granting.

Equity-settled share-based payments transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(t) Provision and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns and other similar allowances.

- (i) Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.
- (ii) Rental income from operating leases is recognised in equal installments 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 use of the leased assets. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.
- (iv) Dividend income is recognised when the shareholders' rights to receive payment is established.

(v) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(y) Related party transactions

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated impairment of assets

The Group's management tests annually whether assets (including goodwill and forest concession right) have suffered any impairment, in accordance with the accounting policy stated in note 3(k). The recoverable amounts of cash-generated units have been determined based on value-in-use calculations. These calculations require the use of estimates. Management has not identified any impairment at the balance sheet date.

(d) Fair value estimation

The fair value of financial assets through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group used a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market rate that is available to the Group for similar financial instruments.

(e) Fair values of biological assets

Management estimates at the balance sheet date the current market prices less estimated point-of-sale costs of biological assets with reference to market prices and professional valuations. Un-anticipated volatile changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

The Group's forestry business is subject to the usual agricultural hazards from fire, wind and insects. Forces of nature such as temperature and rainfall may also affect harvest efficiency. Management considers adequate preventive measures are in place and the relevant legislation under forestry laws in the PRC will assist in minimising exposure. Nevertheless, to the extent that un-anticipated factors affecting harvestable agricultural produce may result in re-measurement or harvest losses in future accounting periods.

(f) Recoverability of trade receivables

Recoverability of the trade receivable are reviewed by management based on the receivables' aging characteristics, management evaluation of the current creditworthiness and past collection history of each customer. Judgement is required in assessing the ultimate realisation of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

(g) Net realisable value of inventories

Management reviews the conditions of timber and other inventories at each balance sheet date, and make allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production and/or sales in the market. These estimates are based on current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at each balance sheet date.

(h) Amortisation of forest concession rights

Management determines the amortisation policy on forest concession rights by estimating the economic benefits of units of production of timber products from the harvest of timber during the period of concession rights, or the expected useful life of the rights if shorter. The volume of timber that the Group is able to derive future economic benefits from the use of forest concession rights will change significantly as a result of un-anticipated factors that affect the rate and efficiency of harvest. The amortisation expenses in future accounting periods may be adjusted if there are significant changes in those estimates.

5. TURNOVER

The Group is engaged in timber logging and trading, manufacture and sale of furniture and handicrafts and cold warehouse rental.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Income from timber logging and trading	12,975	32,021
Sales of goods	4,146	—
Gross rental income from cold storage warehouse (before direct outgoings of HK\$24,000; 2008: HK\$839,000)	720	1,361
	<u>17,841</u>	<u>33,382</u>

6. OTHER INCOME AND OTHER GAINS OR LOSSES

Other income and other gains or losses comprise:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Exchange (loss)/gain, net	(8,081)	1,120
Loss on fair value changes on financial assets	(909)	(1,250)
Waiver of loan from a former director of a subsidiary	—	822
Gain on disposal of subsidiaries	—	687
Excess of acquirer's interest in the net fair value of acquiree's identifiable net assets over costs:		
Arising from acquisition of 44% issued share capital of a subsidiary		
— Jaling Forest Industries Inc.	—	379
Arising from acquisition of additional interests in other subsidiaries	—	952
Realised gain on disposal of financial assets	—	87
Other income	120	1,362
	<u>(8,870)</u>	<u>4,159</u>

7. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after charging:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Auditors' remuneration	980	900
Interest expense on short term borrowings wholly repayable within five years	799	—
Depreciation of property, plant and equipment (<i>Note 16</i>)	7,467	2,004
Amortisation of forest concession rights (<i>Note 19</i>)	3,024	—
Release of lease payments for land under operating lease (<i>Note 17</i>)	711	81
Cost of inventories and timber harvested	18,696	19,391
Royalties paid	349	443
Staff cost (excluding directors' remuneration):		
— Salaries and allowances	17,970	4,650
— Share options granted to employees	—	855
— Pension fund contributions	598	173
	<u> </u>	<u> </u>

Note: Salaries and allowances of HK\$2,139,000 (2008: HK\$633,000) have been included in the cost of sales on the face of the consolidated income statement. Also depreciation charge of HK\$156,000 (2008: HK\$Nil) has been included in cost of sales on the face of the consolidated income statement.

Cost of inventories and timber harvested also included a write-down of inventories of HK\$1,956,000 and a net write off of inventories of HK\$2,604,000.

8. TAXATION

The taxation charge/(credit) comprises:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Hong Kong profits tax		
— current year	—	—
— prior year	—	(404)
PRC enterprise income tax	185	58
	<u> </u>	<u> </u>
Taxation charge/(credit)	<u>185</u>	<u>(346)</u>

The taxation charge/(credit) for the year can be reconciled to the accounting (loss)/profit as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss)/profit before taxation	(71,257)	19,445
Taxation calculated at 16.5% (2008: 17.5%)	(11,757)	3,403
Under/(over) provision in prior years	185	(404)
Net effect of non-deductible/taxable items	3,270	(8,228)
Net effect of tax losses and temporary differences not recognised	19,242	11,196
Effect of tax concessionary treatment	(6,619)	(6,218)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,136)	(95)
Taxation charge/(credit)	185	(346)

The statutory tax rate for Hong Kong profits tax is 16.5% (2008: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No Hong Kong profits tax was made as there was no assessable profits derived for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

For the year ended 31 March 2009, the statutory corporate income tax rates applicable to the subsidiaries established and operating in the PRC is 25% (2008: 25% to 33%).

9. DIRECTORS' REMUNERATION

Details of remuneration of each Director are shown below:

Year ended 31 March 2009

Name of Director	Fees <i>HK\$'000</i>	Basic salaries, allowances and other benefits <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Share- based payment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors					
Fung Tsun Pong	—	3,600	12	—	3,612
Lau Sing Hung, Stephen	—	3,403	12	—	3,415
Tsang Kam Ching, David	—	4,300	12	—	4,312
Chow Ki Shui, Louie	—	1,800	12	—	1,812
Independent non-executive directors					
Yip Tak On	120	—	—	—	120
Jing Baoli	120	—	—	—	120
Bao Liang Ming	120	—	—	—	120
	360	13,103	48	—	13,511

Year ended 31 March 2008

Name of Director	Fees HK\$'000	Basic salaries, allowances and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Share- based payment HK\$'000	Total HK\$'000
Executive directors					
Fung Tsun Pong	—	3,850	12	—	3,862
Lau Sing Hung, Stephen (i)	—	3,000	10	—	3,010
Tsang Kam Ching, David	—	2,515	12	—	2,527
Chow Ki Shui, Louie (i)	—	1,500	10	—	1,510
Independent non-executive directors					
Yip Tak On	120	—	—	—	120
Jing Baoli	113	—	—	—	113
Bao Liang Ming	120	—	—	—	120
	353	10,865	44	—	11,262

(i) appointed on 1 June 2007

During the years ended 31 March 2009 and 2008, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the current and prior years.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals included four (2008: four) directors, details of whose emoluments are set out in Note 9. The emolument paid or payable to the remaining one (2008: one) non-director highest paid individual is as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries and other benefits	535	275
Retirement benefit scheme contributions	—	—
	535	275

The emoluments of the employees are within the following band:

	Number of employees	
	2009	2008
Nil – HK\$1,000,000	1	1

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

The (loss)/profit attributable to equity holders of the Company for the year ended 31 March 2009 includes a loss of approximately HK\$38,899,000 (2008:HK\$24,880,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2009.

Pursuant to a resolution passed at the Directors' meeting on 29 July 2008, a final dividend of equivalent to HK\$0.001 per share totaling HK\$10,137,000 for the year ended 31 March 2008 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 March 2008 and was paid during the year ended 31 March 2009.

13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK\$67,436,000 (2008: profit of HK\$21,211,000) and on the weighted average number of 10,137,064,686 (2008: 8,880,228,551) ordinary shares in issue during the year.

The calculation of the diluted (loss)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company and on the weighted average number of ordinary shares outstanding during the year, being the weighted average number of ordinary shares used in basic (loss)/earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The diluted loss per share for the year ended 31 March 2009 was not presented as the potential ordinary shares had anti-dilutive effect on basic loss per share.

14. SEGMENT INFORMATION

(a) Business Segments

For the year ended 31 March 2009, the Group was engaged in the following two business segments:

- (i) Timber logging and trading – sale of timber logs from forest concession, tree plantation area and outside suppliers. This business segment also existed in the year ended 31 March 2008; and
- (ii) Other timber operation – the manufacture and sale of furniture and handicrafts.

Segment information by business is presented as follows:

For the year ended 31 March 2009

	Timber logging and trading HK\$'000	Other timber operation HK\$'000	Unallocated HK\$'000	Total HK\$'000
REVENUE				
External revenue	12,975	4,146	720	17,841
Segment results	(9,165)	(3,123)		(12,288)
Unallocated interest income				781
Unallocated other income and other gains and losses				656
Loss on change in fair value of investment property				(5,236)
Unallocated expenses				(55,170)
Loss before taxation				(71,257)
Taxation				(185)
Loss for the year				(71,442)
OTHER INFORMATION				
Segment assets	964,657	4,442		969,099
Unallocated				143,813
Total assets				1,112,912
Segment liabilities	34,001	43		34,044
Unallocated				4,477
Total liabilities				38,521
Capital expenditure	20,506	9,507		30,013
Unallocated				9,474
Total capital expenditure				39,487
Depreciation and amortisation	6,139	1,222		7,361
Unallocated				3,130
Total depreciation and amortisation				10,491

For the year ended 31 March 2008

	Timber logging and trading <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External revenue	32,021	1,361	33,382
Segment results	23,628		23,628
Unallocated interest income			6,474
Unallocated expenses			(30,672)
Gain on change in fair value of investment property			18,094
Unallocated other income and gains			1,921
Profit before taxation			19,445
Taxation credit			346
Profit for the year			19,791
OTHER INFORMATION			
Segment assets	738,649		738,649
Unallocated			454,432
Total assets			1,193,081
Segment liabilities	20,639		20,639
Unallocated			22,717
Total liabilities			43,356
Capital expenditure	14,458		14,458
Unallocated			32,229
Total capital expenditure			46,687
Depreciation and amortisation	1,000		1,000
Unallocated			1,004
Total depreciation and amortisation			2,004

(b) Geographical segments

The following table presents revenue, certain assets and expenditure for the Group's geographical segments for the two years ended 31 March 2009 and 2008:

	Hong Kong & PRC & Australia		Guyana		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Turnover	10,079	33,282	7,762	—	17,841	33,382
OTHER INFORMATION						
Segment assets	549,298	637,227	563,614	555,854	1,112,912	1,193,081
Segment liabilities	26,622	30,960	11,899	12,396	38,521	43,356
Capital expenditure	20,257	40,285	19,230	6,402	39,487	46,687
Depreciation and amortisation	4,884	1,994	5,607	10	10,491	2,004

15. INVESTMENT PROPERTY

	2009	2008
	HK\$'000	HK\$'000
Valuation:		
At 1 April	50,000	29,640
Disposal	—	(1,317)
Fair value (loss)/gain	(5,236)	18,094
Exchange difference	(7,764)	3,583
At 31 March	37,000	50,000

The investment property is held in freehold land outside Hong Kong.

The Group's investment property was revalued at 31 March 2009 by an independent firm of valuers, LCH (Asia-Pacific) Surveyors Limited. Due to the lack of an established market upon which to base on comparable transactions as actual sales of comparable transactions on actual sales of comparable properties, the investment property has been valued on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimatisation". The loss from the change in fair value estimated by the valuer on 31 March 2009 amounted to HK\$5,236,000 has been charged to the consolidated income statement for the year ended 31 March 2009 (2008: gain of HK\$18,094,000).

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold	Furniture, machinery and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	improvements HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
At 1 April 2007	4,560	—	5,925	881	—	11,366
Additions	—	421	9,481	5,027	31,758	46,687
Disposal/write off	—	—	(1,377)	—	—	(1,377)
Exchange difference	—	24	160	366	1,773	2,323
Surplus on revaluation	8,440	—	—	—	—	8,440
	<u>13,000</u>	<u>445</u>	<u>14,189</u>	<u>6,274</u>	<u>33,531</u>	<u>67,439</u>
At 31 March 2008	13,000	445	14,189	6,274	33,531	67,439
	<u>—</u>	<u>1,126</u>	<u>31,818</u>	<u>491</u>	<u>6,052</u>	<u>39,487</u>
Additions	—	1,126	31,818	491	6,052	39,487
Disposal/write off	—	(13)	(251)	—	—	(264)
Exchange difference	—	10	69	110	726	915
	<u>13,000</u>	<u>1,568</u>	<u>45,825</u>	<u>6,875</u>	<u>40,309</u>	<u>107,577</u>
At 31 March 2009	13,000	1,568	45,825	6,875	40,309	107,577
Analysis of cost or valuation						
2008						
At cost	—	445	14,189	6,274	33,531	54,439
At valuation	13,000	—	—	—	—	13,000
	<u>13,000</u>	<u>445</u>	<u>14,189</u>	<u>6,274</u>	<u>33,531</u>	<u>67,439</u>
2009						
At cost	—	1,568	45,825	6,875	40,309	94,577
At valuation	13,000	—	—	—	—	13,000
	<u>13,000</u>	<u>1,568</u>	<u>45,825</u>	<u>6,875</u>	<u>40,309</u>	<u>107,577</u>
Accumulated depreciation and impairment:						
At 1 April 2007	—	—	2,182	743	—	2,925
Charge for the year	—	23	1,424	557	—	2,004
Disposal/write off	—	—	(800)	—	—	(800)
Exchange difference	—	1	93	124	—	218
	<u>—</u>	<u>24</u>	<u>2,899</u>	<u>1,424</u>	<u>—</u>	<u>4,347</u>
At 31 March 2008	—	24	2,899	1,424	—	4,347
Charge for the year	—	191	6,130	1,146	—	7,467
Disposal/write off	—	(2)	(17)	—	—	(19)
Exchange difference	—	1	(4)	11	—	8
	<u>—</u>	<u>214</u>	<u>9,008</u>	<u>2,581</u>	<u>—</u>	<u>11,803</u>
At 31 March 2009	—	214	9,008	2,581	—	11,803
Net carrying amount:						
At 31 March 2009	<u>13,000</u>	<u>1,354</u>	<u>36,817</u>	<u>4,294</u>	<u>40,309</u>	<u>95,774</u>
At 31 March 2008	<u>13,000</u>	<u>421</u>	<u>11,290</u>	<u>4,850</u>	<u>33,531</u>	<u>63,092</u>

The property held by the Group was revalued at 31 March 2009 at its market value by reference to net rental income allowing for reversionary income potential. The valuation was carried out by an independent firm of valuers, LCH (Asia-Pacific) Surveyors Limited. The revaluation surplus of HK\$Nil (2008: HK\$7,316,000) net of applicable deferred tax has been transferred to assets revaluation reserve.

Had this building been carried at cost less accumulated depreciation, its carrying amount would have been HK\$3,183,620 (2008: HK\$3,252,829).

The Company

	Furniture, machinery and equipment <i>HK'000</i>	Motor Vehicles <i>HK'000</i>	Total <i>HK'000</i>
Cost:			
At 1 April 2007	1,071	150	1,221
Additions	175	—	175
Disposal/write off	(1,063)	—	(1,063)
As 31 March 2008	183	150	333
Additions	2	—	2
As 31 March 2009	185	150	335
Accumulated depreciation:			
At 1 April 2007	591	13	604
Charge for the year	240	30	270
Disposal/write off	(803)	—	(803)
As 31 March 2008	28	43	71
Charge for the year	37	30	67
As 31 March 2009	65	73	138
Net book value:			
As 31 March 2009	120	77	197
As 31 March 2008	155	107	262

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights in the PRC under medium term lease.

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April	26,366	3,554
Additions:		
— from the People's Government of Da Bu County (Note 32(a))	6,198	20,091
— others	1,173	2,802
Exchange difference	495	—
Release to profit or loss	(711)	(81)
At 31 March	33,521	26,366
Classified as current portion	(711)	(81)
Classified as non-current portion	32,810	26,285

18. BIOLOGICAL ASSETS

	Seedlings	Standing Trees	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2007	—	—	—
Additions at fair value (at cost of approximately HK\$5,685,000 (Note 32) plus fair value gain at recognition of approximately HK\$20,000,000)	1,460	25,685	27,145
Plantation expenditure incurred	2,507	4,737	7,244
Harvested timber transferred to inventories and sold	—	(14,850)	(14,850)
Direct sales	(2,446)	—	(2,446)
Change in fair value less estimated point-of-sale costs	—	5,513	5,513
At 31 March 2008	1,521	21,085	22,606
Additions at fair value (at cost of approximately HK\$1,259,000 (Note 32) plus fair value gain at recognition of approximately HK\$13,000,000)	1,703	14,259	15,962
Plantation expenditure incurred	8,243	2,712	10,955
Reclassification	4,696	(4,696)	—
Direct sales	(329)	—	(329)
Change in fair value less estimated point-of-sale costs	—	22,548	22,548
Exchange differences	135	73	208
At 31 March 2009	15,969	55,981	71,950

The Group’s biological assets are located in the People’s Republic of China. Standing trees are planted on leasehold land of approximately 94,500 (2008: 72,300) Chinese Mu with 50 years term, expiring in 2057. The Group has entered into a binding agreement with the People’s Government of Da Bu County for acquisition of not less than 500,000 Chinese Mu of forest land and its biological assets. Details of the transaction are disclosed in Note 32 to the financial statements.

During the year ended 31 March 2009, the Group did not harvest or sell any round logs. During 2008, approximately 42,084 Chinese Mu of timber was harvested or sold which had a fair value less estimated point-of-sale costs of HK\$14,850,000 at the date of harvest.

The Group’s standing trees were independently valued by LCH (Asia-Pacific) Surveyors Limited, an independent firm of valuers, using market value method. The method uses the current per unit cubic meter market price of round logs and the total merchantable volume of timber in the forest at 31 March 2009 as the basis for estimating the fair value less estimated point-of-sale costs of the Group’s standing trees. The principal assumptions adopted are as follows:

- the Group is to produce round logs and
- the factors of natural defects in the wood such as physical defects, rots and directions of grain have been allowed for a recovery rate of 70% for the valuation.

Seedlings are carried at cost as little biological transformation has taken place since initial cost incurrence. The cost of seedlings is therefore not materially different from their fair value as at 31 March 2009 and 2008 as determined by the directors of the Company.

19. FOREST CONCESSION RIGHTS

The Forest Concession Rights in Guyana are stated at cost less accumulated amortisation and any accumulated impairment losses. The costs of forest concession rights include the acreage fees payable to Guyana Forestry Commission, costs of necessary exploration, geological, geophysical and other research studies incurred prior to obtaining the rights.

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Valuation:		
At 1 April	534,479	269,700
Acquisition of subsidiaries	—	264,779
Exchange difference	(4)	—
At 31 March	534,475	534,479
Accumulated amortisation:		
At 1 April	668	668
Amortisation for the year	3,024	—
At 31 March	3,692	668
Net carrying amount:		
At 31 March	530,783	533,811

The rights purchased in total of HK\$533,811,000 as part of business combinations during the years ended 31 March 2007 and 2008, are initially recognised at their fair values on acquisition (Note 31(a) & (b)).

Forest concession rights held by Jaling Forest Industries Inc (“Jaling Concession Rights”), a subsidiary of the Company

On 22 August 2003 Jaling was granted a State Forest Exploratory Permit (1/2003) by the Commissioner of Forests, the Guyana Forestry Commission, to carry out exploratory work on an area of 167,000 hectares (approximately 412,000 acres) for a period of 3 years. Pursuant to the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005, Jaling was granted with an exclusive timber concession right by the Commissioner of Forests, the Guyana Forestry Commission for a period of 25 years, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) to occupy, cut and remove timber from an area of approximately 136,900 hectares (approximately 338,000 acres) in the State Forest of Guyana, South America, which include a block located on the left bank of Whana River, Guyana — Venezuela border, right bank of Whannamaparu River and left bank of Barama River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River. Under the Jaling Concession Rights, Jaling shall pay a total acreage fee of approximately HK\$9,000,000 charged on all forestry area as prescribed by the Forest Act and Regulations of Guyana. In addition, based on a letter dated 23 November 2004 issued by the Commissioner of Forests, the Guyana Forestry Commission has committed in principle to find an additional area in the proximity of the current concession which would compensate more or less to the area that was exercised and bring the total concession acreage as close as possible to the original 167,000 hectares (approximately 412,000 acres) at terms same as the Forest Concession Rights.

Forest concession rights held by Garner Forest Industries Inc. (“Garner Concession Rights”), a subsidiary of the Company

On 18 August 2004, Garner was granted a State Forest Exploratory permit (3/2004) by the Commissioner of Forests, the Guyana Forestry Commission, to carry out exploratory work on an area of 90,469 hectares (approximately 223,552 acres) for a period of 3 years. Pursuant to the Timber Sales Agreement (TSA 03/2005) dated 11 June 2005, Garner was granted with an exclusive concession right by the Commissioner of Forests, the Guyana Forestry Commission for a period of 25 years, commencing on 11 June 2005 and until 10 June 2030 (both dates inclusive) to occupy, cut and remove timber from an area of approximately 92,737 hectares (approximately 229,158 acres) in the State Forest of Guyana, South America, which includes a block located on the left bank of Mazaruni River, right bank of Puruni River, left bank of Putareng River of Guyana, South America. Under the Garner Concession Rights, Garner shall pay a total acreage fee of approximately HK\$5,375,000 charged on all forestry area as prescribed by the Forest Act and Regulations of Guyana. Garner has completed the necessary exploratory studies and obtained the Garner Concession Rights.

The forest concession rights were independently valued by LCH (Asia-Pacific) Surveyors Limited, an independent firm of valuers, using the market value method for the valuation of standing trees. The method uses the current per unit cubic meter market price of round logs and the total merchantable volume of timber in the forest at 31 March 2009 as the basis for estimating the fair value less estimated point-of-sale costs of the standing trees. The principal assumptions adopted are as follows:

- the Group is to produce round logs;
- the annual growth rate has been allowed for reasonable rate for the valuation;

- the total volume of logs for Jaling Concession Rights and Garner Concession Rights were 2.67 million cubic meters and 1.83 million cubic meters respectively as at 31 March 2009;
- the price of logs is homogenous and the average price for all species is applicable;
- the round logs are free from all encumbrances, restrictions and outgoings of an onerous nature which could affect its value; and
- the factors of natural defects in the wood such as physical defects, rots and directions of grain have been allowed for reasonable recovery rate for the valuation.

Amortisation is provided to write off the cost of the forest concession rights using the units of production method based on the proven and probable timber resources.

Amortisation charged for the year ended 31 March 2009 represents the cost of logged timbers harvested from the Jaling Concession Rights. No logging activity has taken place from the Garner Concession Rights. No amortisation was charged for the year ended 31 March 2008 as no logging activities took place for the year.

20. PREPAYMENTS FOR ACQUISITION OF PLANTATION ASSETS AND EQUIPMENT

The prepayments primarily comprise (i) payments to the People’s Government of Da Bu County for acquisition of plantation assets appropriate for the Group (further details are set out in Note 32) and (ii) deposits paid for the acquisition of equipment by the Group.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK\$'000	HK\$'000
Unlisted shares, at cost	10	10
Due from subsidiaries	899,530	1,037,729
	899,540	1,037,739
Less: Impairment losses	(27,100)	(386,863)
	872,440	650,876

Particulars of the Company’s subsidiaries as at 31 March 2009 are set out in Note 38 to the financial statements.

Amounts due from subsidiaries are unsecured, non-interest bearing and in substance represent the Company’s interest in the subsidiaries in the form of quasi-equity loans. The amounts are not expected to be settled within the next twelve months.

An allowance for amounts due from subsidiaries of HK\$27,100,000 (2008: HK\$386,863,000) was recognised as at 31 March 2009 because the balances due from subsidiaries with reference to the net assets value of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amount of the related investment costs and amounts due from them is reduced to their recoverable amounts.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2009	2008
	HK\$'000	HK\$'000
Trading securities		
— Listed equity securities in Hong Kong	882	1,786
Market value of listed securities	882	1,786

The investments above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on quoted market prices.

23. INVENTORIES

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	105,913	—	—	—
Work in progress	8,022	—	—	—
Finished goods	4,334	—	—	—
Timber logs and products	2,334	38,715	—	12,505
	120,603	38,715	—	12,505

At the balance sheet date, raw materials included timber logs and roots with a net realisable value of HK\$76,160,190, were purchased for a high-end business operation commenced subsequent to 31 March 2009.

The cost of inventories recognised as an expenses during the year was HK\$18,696,000 (2008: HK\$19,391,000) which included a write down of HK\$1,956,000 (2008: HK\$Nil) to state inventories at their net realisable value and a net write off of un-useable inventories of HK\$2,604,000 (2008: HK\$Nil).

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	5,733	—	—	—
Other receivables	2,812	7,144	6	197
Deposits paid	1,498	23,344	389	369
Prepayments	19,262	45,563	756	16,154
	29,305	76,051	1,151	16,720

The Group’s trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to over three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 March 2009, three major customers accounted for most of the total trade receivables of the Group. Trade receivables are non-interest-bearing.

Details of the ageing analysis of trade receivables of the Group are as follows:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outstanding balances aged:				
0 to 30 days	537	—	—	—
31 to 60 days	353	—	—	—
61 to 180 days	4,843	—	—	—
	<u>5,733</u>	<u>—</u>	<u>—</u>	<u>—</u>

At 31 March 2009, all of the Group’s trade receivables were neither past due nor impaired which related to customers for whom there was no recent history of default. Consequently, no allowance for doubtful debts was recognised therefor as at the balance sheet date.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi	3,963	—	—	—
United States dollars	1,770	—	—	—
	<u>5,733</u>	<u>—</u>	<u>—</u>	<u>—</u>

25. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	132,736	339,838	42,677	292,696

Cash and bank balances were denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	53,541	293,103	42,666	292,685
Renminbi (“RMB”)	78,121	44,203	—	—
United States dollars	553	1,710	11	11
Australian dollars	189	672	—	—
Guyana dollars	332	150	—	—
	132,736	339,838	42,677	292,696

The RMB is not freely convertible into other currencies, however, under PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	5,294	—	—	—
Other payables and accruals	6,073	23,861	1,417	11,309
	11,367	23,861	1,417	11,309

Details of the ageing analysis of trade payables of the Group are as follows:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outstanding balances aged:				
0 to 30 days	3,640	—	—	—
31 to 60 days	261	—	—	—
61 to 90 days	1,393	—	—	—
	<u>5,294</u>	<u>—</u>	<u>—</u>	<u>—</u>

Trade and other payable were denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	1,392	2,100	1,417	—
Renminbi	9,273	21,085	—	11,309
United States dollars	551	651	—	—
Australian dollars	151	24	—	—
Guyana dollars	—	1	—	—
	<u>11,367</u>	<u>23,861</u>	<u>1,417</u>	<u>11,309</u>

27. SHORT TERM BORROWINGS

The amounts are unsecured, interest bearing ranging from 7.2% to 8.4% (2008: 9.6%) per annum, and are repayable within one year.

28. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and repayable within the next twelve months from the balance sheet date.

29. DEFERRED TAX LIABILITIES

The movement in deferred tax assets and liabilities during the year was as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 April	1,574	450
Deferred taxation charged directly to reserves	<u>—</u>	<u>1,124</u>
At 31 March	<u>1,574</u>	<u>1,574</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$86,102,000 (2008: HK\$66,010,000) to be carried forward for offset against future taxable income. The tax losses may be carried forward indefinitely.

At the balance sheet date, temporary differences associated with the revaluation on overseas properties of HK\$30,364,000 (2008: HK\$35,600,000) for which deferred tax liabilities have not been recognised.

30. SHARE CAPITAL

		2009		2008	
		Number of shares	Amount	Number of shares	Amount
	<i>Note</i>	'000	HK\$'000	'000	HK\$'000
Authorised:					
Ordinary shares of HK\$0.01 each					
At 1 April		20,000,000	200,000	10,000,000	100,000
Increase during the year	(a)	—	—	10,000,000	100,000
		<u>20,000,000</u>	<u>200,000</u>	<u>20,000,000</u>	<u>200,000</u>
At 31 March		<u>20,000,000</u>	<u>200,000</u>	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:					
Ordinary shares of HK\$0.01 each					
At 1 April		10,137,065	101,370	7,126,137	71,261
Issue of new shares for business combinations	(b)	—	—	732,641	7,326
Exercise of share options	(c)	—	—	128,287	1,283
Issue of new shares on share placing	(d)	—	—	2,150,000	21,500
		<u>10,137,065</u>	<u>101,370</u>	<u>10,137,065</u>	<u>101,370</u>
At 31 March		<u>10,137,065</u>	<u>101,370</u>	<u>10,137,065</u>	<u>101,370</u>

Note:

(a) Authorised share capital

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 23 August 2007, the authorised ordinary share capital of the Company was increased from HK\$100,000,000 dividend into 10,000,000,000 shares of a par value of HK\$0.01 each to HK\$200,000,000 shares of a par value of HK\$0.01 each by the creation of an additional 10,000,000,000 new shares of a par value of HK\$0.01 each.

(b) Business combinations

On 29 June 2007 and 31 December 2007, 93,545,369 and 125,260,960 new ordinary shares of HK\$0.01 each were issued at HK\$0.29 and HK\$0.2395 per share respectively as settlement of the consideration for the acquisition of 51% equity interest in Jaling Forest Industries Inc. Details of which were disclosed in the circular of the Company dated 1 September 2006.

On 24 October 2007, 513,833,992 new ordinary shares of HK\$0.01 each were issued at HK\$0.35 per share as settlement of the consideration for the further acquisition of 44% equity interest in Jaling Forest Industries Inc. Details of which were disclosed in the circular of the Company dated 28 September 2007.

(c) Exercise of share options

On 7 May 2007 and 8 October 2007, 128,286,948 share options granted by the Company were exercised to subscribe for 128,286,948 ordinary shares of the Company at an aggregate consideration of HK\$10,006,000, of which HK\$1,283,000 was credited to share capital and the remaining balance of HK\$8,723,000 was credited to the share premium account. An amount of approximately HK\$4,014,000 has been transferred from the share option reserve to the share premium account.

(d) Placement of shares

On 27 June 2007 the Company placed, through a placing agent, CITIC Securities Corporate Finance (HK) Limited, 1,250,000,000 ordinary shares of HK\$0.01 each of the Company at the placing price HK\$0.29 under a placing agreement dated 13 June 2007.

On 14 November 2007, the Company, Ocean Gain Limited, the entire issue share capital of which is directly wholly owned by Mr. Fung Tsun Pong, the Chairman and executive director of the Company, and Mr. Fung Tsun Pong entered into a placing agreement with an independent placing agent for the placement of 900,000,000 ordinary shares of the Company owned by Ocean Gain Limited and Mr. Fung Tsun Pong at a price of HK\$0.3575 per share. Pursuant to a subscription agreement of the same date, Ocean Gain Limited and Mr. Fung Tsun Pong subscribed for 900,000,000 new ordinary shares of the Company at a price of HK\$0.3575 per share.

The placements of shares raised total consideration of HK\$666,200,000 (net of issuing expenses) to provide general working capital for the Group and strengthen the financial position of the Company.

All these new ordinary shares rank pari passu in all respects with the existing shares of the Company.

31. BUSINESS COMBINATIONS

(a) Acquisition of Jaling Forest Industries Inc. (“Jaling”)

During the year ended 31 March 2007, the Group acquired 51% of the issued share capital of Jaling (“2007 Acquisition”). On 24 October 2007, the Group acquired another 44% of the issued share capital of Jaling (“2008 Acquisition”). The 2007 and 2008 Acquisitions have been accounted for using the purchase method of accounting.

The fair value of the identifiable assets and liabilities for the 2008 Acquisition were as follows:

	Acquiree’s carrying amount before combination <i>HK\$’000</i>	Fair value adjustments <i>HK\$’000</i>	Fair value on acquisition <i>HK\$’000</i>
Net assets acquired:			
Property, plant and equipment	1,397	—	1,397
Forest concession rights <i>(Note 19)</i>	8,332	410,108	418,440
Trade and other receivables	1,269	—	1,269
Cash and bank balances	1,778	—	1,778
Trade and other payables	(18,023)	—	(18,023)
Inventories	3,470	—	3,470
Minority interest	(116)	—	(116)
	<u>(1,893)</u>	<u>410,108</u>	<u>408,215</u>
Less: Net asset value attributable to 51% of acquisition already owned by the Group in 2007 Acquisition			(208,189)
Net asset value attributable to 5% by minority interest			<u>(19,805)</u>
Net asset value attributable to 44% of equity interest acquired by the Group in 2008 Acquisition			180,221
Excess of the Group’s share of net fair value of the interest in subsidiary acquired over the cost of the acquisition			<u>(379)</u>
Consideration satisfied by the issue of shares			<u>179,842</u>

The fair value of the 513,833,992 new ordinary shares of the Company issued as the consideration was determined, with reference to the market share price of HK\$0.35 of the Company’s shares at the acquisition date, at the total fair value of HK\$179,842,000 of which HK\$5,138,000 was credited to share capital and the remaining balance of HK\$174,704,000 was credited to the share premium account (Note 30).

(b) Acquisition of Garner Forest Industries Inc. (“Garner”)

On 24 October 2007, the Group acquired 100% of the issued share capital of Garner. The acquisition was accounted for using the purchase method of accounting. The consideration comprised cash of HK\$110,000,000.

The net assets acquired in the transaction were as follows:

	Acquiree’s carrying amount before combination <i>HK\$’000</i>	Fair value adjustments <i>HK\$’000</i>	Fair value on acquisition <i>HK\$’000</i>
Forest concession rights (Note 19)	6,097	109,274	115,371
Trade and other payables	(5,371)	—	(5,371)
Total consideration	726	109,274	110,000
Consideration satisfied by cash			110,000

32. ACQUISITION OF PLANTATION ASSETS

- (a) On 15 October 2007, 樹人木業 (大埔) 有限公司, a wholly owned subsidiary of the Company, entered into a legally binding agreement with the People’s Government of Da Bu County (“Binding Agreement”), an independent third party of the Company, engaging it to arrange and procure the acquisition of the leasehold interest in not less than 500,000 Chinese Mu of forest land and its biological assets. The total consideration was expected to be not more than RMB150 million (equivalent to approximately HK\$170,327,000). The terms shall be prescribed in the formally signed sale and purchase agreement to be entered into with leaseholders by the Company. Under the Binding Agreement, the Company was also required to pay a one-off arrangement fee of RMB2,500,000 (equivalent to approximately HK\$2,779,000) to the People’s Government of Da Bu County. The Group’s commitment for this acquisition of plantation assets is disclosed in note 35.

As at 31 March 2008, the Group paid RMB60 million (equivalent to HK\$65.8 million) to the People’s Government of Da Bu County. During the year, the Group made an additional payment of RMB10 million (equivalent to HK\$13.7 million). In aggregate, the Group paid RMB70 million (equivalent to HK\$79.5 million) as at 31 March 2009. According to the Binding Agreement, these payments should represent the cost of acquisition of forest land together with biological assets for an area of approximately 233,000 Chinese Mu and 200,000 Chinese Mu at 31 March 2009 and 31 March 2008 respectively.

However, as at 31 March 2009, the Group was only granted forestry ownership for an area of approximately 94,500 (2008: 72,300) Chinese Mu. The corresponding cost recognised as acquisition of land use rights and biological assets was HK\$33.8 million (2008: HK\$25.8 million). The remaining balance was included in prepayments under non-current assets. The People's Government of Da Bu County is actively continuing to select suitable forest land for the Group and management assessed that the prepayments made as at 31 March 2009 is fully recoverable.

The cost for acquisition of land use rights and biological assets detailed above is summarised as follows:

	As at 31 March	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition of land use rights (<i>note i</i>)	26,723	20,091
Acquisition of biological assets (<i>note ii</i>)	7,068	5,685
	33,791	25,776
Cash paid	79,486	65,816
Prepayments	45,695	40,040

Notes:

The above movements can be reconciled with additions to prepaid lease payments and biological assets for the year ended 31 March 2009 as follows:

- (i) The additions to prepaid lease payments of HK\$6,198,000 in Note 17 are made up of cost of acquisition of HK\$6,632,000 less an exchange difference of HK\$434,000.
- (ii) The cost of additions to biological assets of HK\$1,259,000 in Note 18 are made up of cost of acquisition of HK\$1,383,000 less an exchange difference of HK\$124,000.
- (b) On 30 August 2007, 樹人苗木組培 (大埔) 有限公司, a wholly owned subsidiary of the Company, acquired the facilities and seedlings of the plantation centre of Da Bu County at a total consideration of RMB2,100,000 (equivalent to approximately HK\$2,334,000). The cost of seedlings was approximately HK\$1,460,000 and recorded as biological assets (Note 18).

33. SHARE OPTIONS

The Share Option Scheme adopted on 16 July 2004 shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

The exercise price of the options shall be determined by the Directors of the Company, but may at least the highest of (i) the Stock Exchange closing price of the Company's share on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant of the share options; and (iii) the nominal value of an ordinary share. The maximum number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

During the year ended 31 March 2009, 6,000,000 share options granted in prior year were lapsed.

The following table shows the movement of the Company’s share options during the year ended 31 March 2008 and 2009:

Employee

Date of share options granted	Outstanding at the beginning of the period	Number of share options granted	Number of share options exercised during the period	Number of share options lapsed during the period	Number of share options outstanding at the end of the period	Exercise price (HK\$)	Exercise period
2008							
24 October 2007	—	6,000,000	—	—	6,000,000	0.35	24 October 2007 to 24 October 2008
2009							
24 October 2007	6,000,000	—	—	(6,000,000)	—	0.35	24 October 2007 to 24 October 2008

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year ended 31 March 2008, the result of Black-Scholes option pricing model performed by an independent firm of valuers, LCH (Asia-Pacific) Surveyors Limited, was used. In total, approximately HK\$855,000 was recognised as share-based payment expenses in that year.

Notes

According to the Black-Scholes option pricing model, the fair value of the options was estimated at HK\$855,000 as at 24 October 2007 (when the options were granted) with the following variables and assumptions:

- Risk Free Interest Rate:

3.27%, being the approximate yield of the 4-year Exchange Fund Note trade on 6 June 2006
- Expected Volatility:

104.08%, being the annualised standard deviation of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations
- Expected Life of the Options:

1 year from the date of granting
- Share Price at Grant Date:

HK\$0.35
- Expected Dividends:

Nil

34. OPERATING LEASE COMMITMENTS

The Group leases its office property, under operating lease arrangements. Lease for property is negotiated for terms for one to eight years.

At 31 March 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within one year	2,749	1,458
In the second to fifth years, inclusive	6,563	939
After five years	407	504
	<u>9,719</u>	<u>2,901</u>

35. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2009 and 2008 not provided for in the financial statements were as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Contracted but not provided for		
— acquisition of plantation assets (<i>note i</i>)	90,841	100,031
— acquisition of property, plant and equipment and land use right	10,024	174,795
	<u>100,865</u>	<u>274,826</u>

Notes:

- (i) As disclosed in Note 32 to the financial statements, the Group entered into the Binding Agreement for a consideration of not more than approximately HK\$170,327,000, of which deposit of approximately HK\$79,486,000 had been paid and the remaining balance of approximately HK\$90,841,000 had not been provided for.

36. CONTINGENT LIABILITIES

The Group's operations are regulated by various laws and regulations in Guyana. Guyana laws and regulations for the protection of the environment and wild life have generally become more stringent in recent years and could become more stringent in future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at the balance sheet date and up to the date of this report. The directors are also not aware of any violation to existing conditions attached to the Group's timber concession rights, or subject to any significant costs, expenses, penalties and liabilities.

37. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Members of key management during the year comprised only of the directors whose remuneration is set out in Note 9 to the financial statements.

38. PARTICULARS OF SUBSIDIARIES

Name	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Proportion of ownership interest		Principal activity
			Held by the company*/subsidiaries %	Attributable to the Group %	
Allied National Ltd	British Virgin Islands/ Hong Kong	US\$1 share	100*	100	Investment holding
Australian Service Cold Storage (N.S.W.) Pty Ltd	Australia	A\$2,500,002 shares	100	100	Dormant
Seapower Resources Australia Pty Ltd	Australia	A\$700,002 shares	100	100	Investment holding
Seapower Resources Gosford Pty Ltd	Australia	A\$4,200,002 shares	100	100	Cold storage warehousing
Triumph Kind Investment Limited	Hong Kong	HK\$1 share	100*	100	Investment in property
Wide Forest Limited	Hong Kong	HK\$1 share	100*	100	Investment holding
Seapower Resources Investment Pty Ltd	Australia	A\$2,000,002 shares	100	100	Investment holding
Seapower Investment (China) Limited	Hong Kong	HK\$10,000 shares	100*	100	Investment holding
Jaling Forest Industries Inc.	Guyana	G\$500,000 shares	95	95	Timber logging
Garner Forest Industries Inc.	Guyana	G\$100,000 shares	100	100	Timber logging
W&J Forest Resources Development Limited	Hong Kong	HK\$10,000 shares	95	90.25	Dormant
Glory Success Trading Limited	Hong Kong	HK\$10 shares	100*	100	Timber log trading and manufacturing of furniture

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Proportion of ownership interest		Principal activity
			Held by the company*/subsidiaries %	Attributable to the Group %	
Vastrich Corporation Limited	Hong Kong	HK\$1 share	100*	100	Investment holding
Triumph Max Investment Limited	Hong Kong	HK\$100 share	100*	100	Investment holding
Smart Fancy (China) Limited	Hong Kong	HK\$1 share	100*	100	Investment holding
China Timber Maritime Limited	British Virgin Islands	HK\$20,000,000	65	65	Construction of barges
樹人木業（深圳）有限公司	People’s Republic of China	RMB39,381,524	100	100	Timber log trading, manufacturing and sale of furniture and handicrafts
廣州樹人裝修設計有限公司 (Formerly known as 廣州樹人木業有限公司)	People’s Republic of China	RMB1,000,000	100	100	Dormant
樹人木業（大埔）有限公司	People’s Republic of China	RMB102,175,000	100	100	Forest operation, timber logging and tree plantation
樹人苗木組培（大埔）有限公司	People’s Republic of China	RMB4,721,500	100	100	Plantation and trading of seedlings
東莞樹人木業有限公司	People’s Republic of China	RMB153,673,000	100	100	Investment holding
Unisea Wood Development Inc.	Guyana	G\$10,000	100	100	Dormant
中國國際資源控股集團有限公司 (Formerly known as Afforce Limited)	Hong Kong	HK\$1 share	100*	100	Investment holding
興寧樹人木業有限公司	People’s Republic of China	RMB30,000,000	100	100	Tree plantation
Bondwell International Group Limited	British Virgin Islands	US\$1 share	100*	100	Investment holding
Best Idea International Investment Limited	British Virgin Islands	US\$1 share	100*	100	Investment holding

39. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are currency risk, credit risk, liquidity risk, interest rate risk and nature risk. There risks are limited by the Group's financial management policies and practices described below. Generally, the Group introduces conservative strategies on its risk management. The Group has not used any derivatives and other instruments for hedging purposes nor does it hold or issue derivative financial instruments for trading purposes.

(i) Currency risk

The group companies mainly operated in their local jurisdiction with most of the transactions settled in their functional currency of the operation and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(ii) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial position of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a significant concentration of credit risk as 93% (2008: Nil%) of the total trade receivables was due from the Group's three largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 24.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty,

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the available of funding through an adequate amount of committed credit facilities and the ability to close our market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

(v) Nature risk

The Group’s revenue depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood in the concessions and the growth of the trees in the plantations may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting in the concessions, or otherwise impede the Group’s logging operations or the growth of the trees in the plantations, which in turn may have a material adverse effect on the Group’s ability to produce the products in sufficient quantities and a timely manner.

Moreover, bad weather may adversely affect the condition of the Group’s transportation infrastructure, which is critical for the Group to supply timber from the timber concessions to the Group’s manufacturing plants and customers. The Group has developed a strategy for utilising different transportation modes and stockpiling, but its daily operations may be unfavourably affected by interruption of transportation due to bad weather or other reasons.

40. CAPITAL RISK MANAGEMENT

The Group’s 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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. The gearing ratios at 31 March 2009 and 2008 were as follows:

	2009 HK\$	2008 HK\$
Total liabilities	38,521	43,356
Total assets	1,112,912	1,193,081
Gearing ratio	3.5%	3.6%

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group’s financial assets and financial liabilities as recognised at 31 March 2009 and 2008 may be categorised as follows:

	2009	2008
	HK\$'000	HK\$'000
Financial assets		
Fair value through profit or loss – held for trading	882	1,786
Loans and receivables (including cash and bank balances)	142,779	385,778
Financial liabilities		
Financial liabilities measured at amortised cost	36,947	41,698

42. SIGNIFICANT NON-ADJUSTING POST BALANCE SHEET EVENT

On 9 May 2009, the Group entered into an agreement to acquire entire equity interest of Yichang Xinshougang Property Development Company Limited, a company incorporated in the PRC with limited liability, for a total consideration of HK\$986 million. Further details are disclosed in the announcement of the Company dated 21 May 2009.

43. COMPARATIVE FIGURES

Trade and other payables of HK\$6,617,000 included in current liabilities at 31 March 2008 was reclassified to acreage fees payable included in non-current liabilities to conform with the current year presentation.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group reproduced from the respective published annual reports of the Company for each of the years ended 31 March 2007, 2008 and 2009.

FOR THE YEAR ENDED 31 MARCH 2007

Business Review

For year ended 31 March 2007, the Group was principally engaged in forest operation and management, logging and timber processing and trading, notwithstanding that for the first half of the financial year, the Group only engaged in operation of cold storage warehousing and logistics management services. The change was brought by the completion of the acquisition of a majority stake in Jaling Forest Industries Inc. (“Jaling”) on 21 September 2006, the principal business of which is forest logging, exploitation, operation and management.

The cold storage warehousing and logistics management services businesses of the Group experienced a continuous scaled-down as the previous financial year as major customers kept cutting down their demand for external warehousing services. It is the current intention of the directors of the Company (“Directors”) that the Group will cease to operate its cold storage warehousing and logistics management services businesses at the time the Directors consider appropriate and when the forestry business of the Group matures. In view of increasing global demand for timbers, the Company seeks to focus on the operation and development of forestry business in order to take full advantage of the favourable international timber trading market conditions and to expand its scope of business and broaden its revenue base.

Financial Position

For the year ended 31 March 2007, the Group recorded a consolidated turnover of approximately HK\$10.38 million representing an increase of approximately 151% over that of the previous year (2006: HK\$4.13 million) which was mainly due to the additional contribution from the sale of timbers in the second half of the financial year. The two business segments engaged by the Group, namely timber logging and trading, and warehousing and logistics contributed approximately HK\$6 million and HK\$4.38 million respectively to the Group’s consolidated turnover. The cost of sales of the year was approximately HK\$4.07 million (2006: HK\$3.96 million) representing an increase of 2.8% which reflected the cost of operation of

Jaling. The operating loss was approximately HK\$13.98 million for the year (2006: HK\$13.17 million) representing an increase of 6.1% and the loss attributable to shareholders for the year was approximately HK\$14.25 million (2006: HK\$13.58 million) representing an increase of 4.9%, both of which were resulted from various expenses incurred in the course of acquisitions of new businesses entities.

The net asset of the Group for the year was approximately HK\$121.68 million (2006: HK\$60.42 million) which was over a double of last year. The remarkable improvement in the total equity of the Company was mainly due to the contribution of goodwill resulting from the acquisition of Jaling. The current assets experienced a drop of 42.86% to HK\$19.77 million (2006: HK\$34.60 million) which consists of deposit, cash and bank balances of HK\$9.12 million (2006: HK\$31.97 million). Current liabilities amounted to HK\$101.95 million (2006: HK\$3.36 million), an increase of 2,934% which was mainly due to an increase in trade and other payables resulting from consideration to be paid for the Jaling acquisition. The decrease in current asset and increase in current liabilities reflected payments for consideration and expenses made or to be made for the acquisition of Jaling. The gearing ratio of the Group, measured as total debts to total assets was approximately 47.2% (2006: 11%).

The bank borrowings of the Group amounted to HK\$6.25 million (2006: HK\$4.08 million), all of which will be due after one year (2006: HK\$3.52 million). The bank borrowings were in Australian dollars and subject to floating interest rate. The Board considered foreign exchange risk being minimal.

During the financial year, the Company has not given any guarantee to any financial institution in respect of the bank facilities utilised by one of its subsidiaries (2006: HK\$5.3 million). As at 31 March 2007, the Group's cold storage warehouse, property, plant and equipment amounted to HK\$29.64 million (2006: HK\$24.08 million) were pledged to secure credit facilities granted to and utilized by the Group.

The Group did not use financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Employees and Retirement Benefit Scheme

The total staff costs of the Group for the year amounted HK\$6,408,000 and the Group had approximately 27 employees in Hong Kong, the PRC, Australia and Guyana as at 31 March 2007. The Group implements remuneration policy, bonus and share options schemes to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration

strategy. As at 31 March 2007, the number of shares in respect of which options were granted to executive directors and employees of the Company and not exercised under the Share Option Scheme was 128,286,948, representing 1.80% of the shares of the company in issue. All the options were granted on 9 June 2006, exercisable within a period of 3 years.

The emoluments payable to the Directors are determined based on the scope of work, level of involvement, experience and seniority.

Information on the Group's mandatory provident fund scheme will be set out in Note 35 to the financial statements of this Annual Report.

Outlook

Throughout the financial year, the Company set its priorities to ensure that resources and efforts were more effectively allocated in searching business opportunities to expand its scope of business and enhance its revenue generating capacity.

On 10 April 2006, the Company entered into an acquisition agreement to acquire a 51% equity interest of Jaling, a private company incorporated in Guyana, South America, for a consideration of HK\$154 million. After completion of the acquisition of Jaling in September 2006, the Company has spent substantial effort and financial resources on recruiting logging expertise, contractors, technicians and labours for provision of logging and timber processing services to Jaling and will continue to invest in timber harvesting, processing, transportation, export and sale. In addition, the Company is also setting up a timber distribution network headed by its China office located in Shenzhen, in order to expand and strengthen its timber sales and distribution capacity.

The Company also entered into an option agreement on 16 May 2006, pursuant to which the Company was granted an option to purchase, within 5 years, a 51% shareholding of Garner Forest Industries Inc. ("Garner"), also a forestry company engaging in logging and forest exploitation, operation and management in Guyana. On 5 July 2007, the Company exercised the option and entered into an acquisition agreement for purchasing the remaining 49% equity interest in Garner at an aggregate cash consideration of HK\$110,000,000 with a view to enlarge the natural resources reserve of the Group, increase its production capacity and expand its future income base. Details of the said exercise of the option and acquisition have been disclosed by an announcement of the Company dated 12 July 2007. The Company will further despatch a circular in relation to the said acquisition of Garner to its shareholders as soon as practicable.

On 14 July 2006, the Company issued a total of 960,000,000 unlisted warrants to four independent third parties for an aggregate cash consideration of HK\$4 million. The warrants are exercisable for a period of three years at the subscription price of HK\$0.09 per subscription share. Upon full exercise of all the warrants, the Company will receive an additional fund of HK\$86.4 million. As there is no guarantee that the warrants will be exercised, the Company has not presently planned for any specific use of these proceeds. In the event that they are exercised, the net proceeds will be used as general working capital.

On 27 June 2007, the Company successfully placed 1,250,000,000 new shares and received a total of approximately HK\$349.6 million net proceeds which has strengthened the Company's capital base and working capital position. Part of the fund raised will be used to finance the acquisition of Garner and remaining balance will be applied as general working capital of the Group.

To conclude, this year marks a significant milestone for the Group's entering into the international forestry business. The Group expects its performance to improve significantly in the coming financial year. Looking forward, the Group will continue to consolidate its forestry business in Guyana, enhance its timber harvesting capacity and develop strong timber sale and distribution network; and, at the same time, adopt forest ecosystem conservation measures to secure sustainable development and to ensure forest resources are effectively restored and conserved.

Last but not least, the Group will actively seek profitable forestry business opportunities in other jurisdictions that will diversify its business and promise lucrative growth potential.

FOR THE YEAR ENDED 31 MARCH 2008

Business review

For the year ended 31 March 2008, the Group principally engaged in forest operation and management, logging, timber processing and trading and cold storage warehousing.

Since late 2006, the Group has poised to embrace a promising future by entering into the arena of the forestry business with its ambition of becoming a leading enterprise in the forestry and timber industry in China and the world by taking advantage of the continuous increase in global demand for timbers as a result of surging requirements for construction, furniture and paper all over the world, in particular, in the Mainland. As such, the Group still intends to cease its operation

in cold storage warehousing management services business when opportunity arises. Moreover, the turnover contributed by cold storage and warehousing has dropped to 4% of the overall turnover of the Group this year.

The Group started its forestry business by acquisition of forests in South America and China in 2006 and 2007 respectively. At present, the Group has forest resources in Guyana of South America and Guangdong Province of China covering an aggregate area close to 257,000 hectares and 72,000 Chinese Mu respectively. In respect of the forest timber reserve of the Group in Guyana, LCH (Asia-Pacific) Surveyors Limited, an independent firm of valuers, estimated that it had a market value of approximately US\$527 million (HK\$4,111 million) as at 31 August 2007.

Financial Position

For the year ended 31 March 2008, the Group recorded a consolidated turnover of approximately HK\$33.4 million representing an increase of approximately 222% over that of the previous year (2007: HK\$10.4 million) which was mainly due to the contribution from the sale of timber and related products. The two business segments engaged by the Group, namely timber logging and trading, and warehousing contributed approximately HK\$32 million (96%) and HK\$1.4 million (4%) respectively to the Group's consolidated turnover. The cost of sales of the year was approximately HK\$19.4 million (2007: HK\$4.1 million) representing an increase of 373% which reflects the logging cost.

The profit before taxation and net profit were approximately HK\$19.4 million and HK\$19.8 million respectively (2007: loss before taxation: HK\$14.4 million and net loss: HK\$14.8 million), representing a significant improvement of the Group's profitability. The profit attributable to shareholders for the year was approximately HK\$21.2 million (2007: loss HK\$14.2 million).

The net asset and total equity of the Group for this year were both approximately HK\$1,150 million (2007: HK\$225 million) which represents over 4 times increase comparing with last year. The remarkable increase in the total equity of the Company was mainly due to acquisition of biological assets and forest concession rights in Da Bu County of the PRC and increase in capital expenditure for construction in progress in PRC and Guyana.

Liquidity and Financial Review

The current assets experienced a 23-fold increase from HK\$19.9 million in 2007 to HK\$456.5 million in 2008. It consists of deposit, cash and bank balances of approximately HK\$340 million (2007: HK\$9.1 million). Current liabilities amounted

to HK\$37.0 million (2007: HK\$98.5 million), a significant drop of 63% which was mainly due to settlement of consideration for the acquisition of Jaling Forest Industries Inc. (“Jaling”) during the year.

The gearing ratio of the Group, measured as total debts to total assets was approximately 3.6% (2007: 32%), the decrease as compared with the 2007 figure was resulted primarily from the repayment of bank loan and cash generated from placements of shares.

As at 31 March 2008, the Group had no outstanding bank loan (2007: HK\$6.25 million), but there were short term borrowings amounted to approximately HK\$6 million (2007: Nil), all of which will be due within one year and subject to interest rate of 9.6% per annum. As the Group’s business operations, assets and liabilities are denominated mainly in Hong Kong dollars, Renminbi and US dollars, the Board considered foreign exchange risk being minimal. The management will review from time to time the potential foreign exchange exposure and will take appropriate actions to minimize any potential foreign exchange exposure risk to arise in the future. During the financial year, the Company has not given any guarantee to any financial institution in respect of the bank facilities utilized by any of its subsidiaries. As at 31 March 2008, there were no assets being pledged to secure credit facilities granted to and utilized by the Group (2007: HK\$29.6 million).

As at 31 March 2008, the Group had no material contingent liabilities but it had capital commitments of HK\$279 million. The Group did not use any financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Capital Raising and Expenditure

In view of the rapid expansion in the PRC forestry business of the Group, the Group carried out two equity fund raising activities during this financial year, whereby a total of 2,150,000,000 new ordinary shares were issued with gross proceeds of approximately HK\$684,250,000. Part of the fund was utilized for the acquisition of Garner Forest Industries Inc. (“Garner”), the leasehold forest interests in Guangdong Province of the PRC and logging machines and equipments for the business operation in Guyana.

Material Events

Throughout the financial year, the Company has focused on improvement of its timber harvesting capacity in Guyana, organising timber sale and distribution network in the PRC, acquisition of forest lands, development of a Sapling Incubation Centre and preparing for the construction of a timber processing base in the Mainland.

On 27 June 2007, the Company successfully placed 1,250,000,000 new shares at a placing price of HK\$0.29 and raised a total of approximately HK\$349.6 million (net of issuing expenses) fund which has strengthened the Company's capital base and working capital position. Part of the fund raised was used to finance the acquisition of Garner.

On 5 July 2007, a wholly owned subsidiary of the Company entered into an agreement and exercised a share option at a total cost of HK\$110 million to acquire a 100% equity interest in Garner, a holder of an exclusive timber concession right of approximately 92,737 hectares of forest for a period of twenty-five years in Guyana. In addition, on 16 August 2007, Wide Forest Limited, a wholly-owned subsidiary of the Company executed a share acquisition agreement to purchase a further 44% equity interest in Jaling at a consideration of HK\$130 million which was fully settled by issue of new shares. Both acquisitions were completed on 24 October 2007 and enlarged the Group's ownership of tropical rain forest areas to approximately 257,000 hectares.

On 15 October 2007, 樹人木業 (大埔) 有限公司 (Shu Ren Wood (Da Bu) Limited), a wholly owned subsidiary of the Company incorporated in the PRC, reached a mutual agreement with the People's Government of Da Bu County engaging it to arrange and procure acquisition of 50-year leasehold interests in not less than 500,000 Chinese Mu of forest land and its biological assets in Da Bu County, Guangdong Province, the PRC. As at 31 March 2008, approximately 72,300 Chinese Mu forest land were acquired.

On 6 November 2007, the Company further placed, on a fully underwritten basis, 900,000,000 shares at a placing price of HK\$0.3575 per share raising a total of approximately HK\$316 million (net of issuing expenses) for the purpose of financing the acquisition of forest land in the PRC and investment in timber processing facilities.

On 11 June 2008, the Group entered into a strategic cooperation agreement with Superb Summit International Timber Company Limited ("Superb Summit") regarding the supply of timber, standardization of electronic timber trading and provision of timber-related services. The Group is expected to supply Superb Summit with 20,000 to 30,000m³ of timber per month when the operations mature. The Group expects to utilize Superb Summit's advantages in timber trading section in order to strengthen the Group's client base.

Prospect

The Group has determined to position itself as an upstream timber supplier which targets at manufacturers of high-end furniture and construction materials in China. The Group will strive to achieve its goal by focusing on expending its forest land reserve in the Mainland, broadening its timber sales and distribution channels, and strengthening its business operation in the following spectrums:

South America

The Company has increased its investment in South America through the acquisition of Garner and an additional 44% equity interest of Jaling. In addition, the Company has continued spending substantial financial resources on shipments of logging machines and equipment to Guyana, construction of infrastructure such as roads, bridges and piers in Jaling forest, and recruiting logging expertise and technicians to be stationed in Guyana.

The last shipments of logging machines and equipment arrived Guyana in June 2008 which would enable Jaling to build up its own logging team instead of relying on outsourcing contractors. The Board expects that Jaling will gradually increase and stabilize its logging capacity in the financial year to be ended 31 March 2009 and render substantial contribution to the turnover of the Group.

Timber Processing Centre in Dongguan

The Group has planned to build a timber processing centre in Guangdong Province to provide capacity for processing and thus adding value to its round logs harvested in Guyana forest before launching the processed products to market for sales. Recently, the Group has identified a suitable piece of land in Dongguan for construction of the processing centre which is subject to an open tender and negotiation with the relevant government. Further details of the land will be disclosed when the transaction materializes.

*Mainland China**Forest land reserve*

The Group's acquisition of forest land in Da Bu County, Guangdong Province with the cooperation of its local government in late 2007 has marked a successful starting point for the Group's expansion of forest resources reserve in the Mainland. The

Board expects that acquisition of forest land will continue in Da Bu County with the assistance of its local government and the target acquisition of 500,000 Chinese Mu forest land with 50-year land use rights will be completed in the year of 2009.

Da Bu forest has been preserved from harvesting activities for at least 6 years, thus the trees are mature and could provide stable harvesting volume for the coming 5 to 8 years. The major tree species of the forest are Pine trees and Cypress trees.

Consolidation and re-plantation of selected species, such as *Acacia melanoxylon* and Camphor, will be carried out on Da Bu forest after harvesting. The harvesting cycle of *Acacia melanoxylon* on the replanted land is about 8 to 10 years while fragrance essence can be extracted from Camphor tree starting from the third year. In the coming 5 to 8 years, the Group will strive to achieve about 60,000 Chinese Mu re-plantation land annually.

Besides, the Group will seek for other acquisition opportunities in expanding its forest land reserve in the Mainland to enhance its asset base as well as revenue generating capacity.

Sapling Incubation Centre in Da Bu County and Plantation

Last year, the Group also acquired a Sapling Incubation Centre situated in Da Bu County's forestry area. The Sapling Incubation Centre mainly performs plant tissue cultivation, mass sapling and mass production of fine tree species with high commercial value. The Centre focuses on cultivating valuable tree species such as *Acacia melanoxylon* and Camphor tree to meet the Group's replantation requirements in its Da Bu forest as well as for sales to third parties. With replantation policies instituted, the Group expects its forest land to provide stable harvesting resources for the foreseeable future.

The Group is also committed to develop its business in line with national forestry policies regarding ecological protection, tree species improvement, economic returns of the local government and employment opportunities, with the aim of achieving forest development which is beneficial to all parties.

Sale and Distribution Centre in Shenzhen

The Group has set up and is expanding its timber distribution network headed by its China office located in Shenzhen. Apart from Superb Summit, the Group is also looking for other strategic partners for timber sales and distribution in order to strengthen its capacity.

Employees and Retirement Benefit Scheme

The total staff costs of the Group for the year amounted HK\$5,678,000 and the Group had approximately 193 employees in Hong Kong, the PRC, Australia and Guyana as at 31 March 2008. The Group implements remuneration policy, bonus and share options schemes to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy. During the year ended 31 March 2008, an aggregate number of 128,286,948 shares, representing 1.3% of the share of the company in issue, were issued in respect of options granted to executive directors and employees of the Company in September 2006. During the year, the Company granted 6,000,000 share options exercisable within 12 months under the Share Option Scheme, representing 0.06% of the shares of the company in issue as payment of remuneration for the rendering of professional fees.

The emoluments payable to the Directors are determined based on the scope of work, level of involvement, experience and seniority.

Information on the Group's mandatory provident fund scheme will be set out in Note 37 of this Annual Report.

FOR THE YEAR ENDED 31 MARCH 2009***Business review***

For the year ended 31 March 2009, the Group was mainly engaged in forest operation and management, timber logging and trading, timber processing, and manufacture and sale of timber products.

The turnover of the Group was unavoidably affected by the worldwide financial tsunami. The credit crunch led to decrease in demand for the whole PRC market. As a result, the wholesale and retail price of timber in PRC dropped significantly.

The turnover contributed by timber logging and trading and other operation represented 96% of the overall turnover of the Group for the year. Taking the advantage of low production and sales costs in timber related products, the Group explored the manufacture and sale of furniture and handicrafts business in the PRC to maximize investment return. In the long run, in view of the stimulation of the macro-economic by the PRC government, the internal demand for timber products will be boosted up and thus will provide a better gross margin to our shareholders. In addition, the Group's operation in cold storage warehouse rental business has become insignificant due to continuous decrease in rental income for the past few years.

Financial Review

For the year ended 31 March 2009, the Group's turnover decreased by 46% to approximately HK\$17.8 million as compared with approximately HK\$33.4 million in 2008 financial year and the cost of sales was approximately HK\$18.69 million (2008: 19.39 million) which represents a strong increase in view of the substantial decrease in turnover. The two business segments engaged by the Group, namely timber logging and trading, and other timber operation (manufacture and sale of furniture and handicrafts), contributed approximately HK\$13 million (73%) and HK\$4 million (23%) respectively to the Group's consolidated turnover. Detailed segment turnover and contribution to loss before tax of the Group are shown in note 14 to the financial statements. In addition, the Group experienced a gross loss of HK\$0.86 million this year which is due to the net write off of inventories related to a one-off processing transaction for the manufacture of furniture operation, a new business venture of the Group which commenced in 2008. At 31 March 2008, inventories of processed timber logs of approximately HK\$12,504,000 were kept by an independent third party processing agent of wooden board and other products. The inventories did not measure up to the expected quality standard for the production of the Group's furniture products and had to be scrapped. Management sought compensation from, and negotiated and agreed with the processing agent that the agent would waive the amount of processing and transportation charges of approximately HK\$9,900,000. The net loss suffered by the Group on this one-off processing transaction was therefore reduced to approximately HK\$2,604,000.

The loss before taxation and net loss were approximately HK\$71.3 million and HK\$71.4 million respectively (2008: profit before taxation: HK\$19.4 million and net profit: HK\$19.8 million), representing a decrease in profit of approximately HK\$91 million. The loss was mainly attributable to the decrease in turnover, increase in investment, increase of staff costs to approximately HK\$32 million (2008: approximately HK\$16 million) due to an increase in staff, realised loss on disposal of financial assets amounted to approximately HK\$27.5 million (2008: Nil), unrealised loss on finance assets amounted to approximately HK\$910,000, depreciation amounted to approximately HK\$7.5 million (2008: approximately 2 million) and net exchange loss amounted to approximately HK\$8 million (2008: net exchange gain: HK\$1 million). The loss attributable to shareholders for the year was approximately HK\$67.4 million (2008: profit HK\$21.2 million).

Liquidity and Financial Review

As at 31 March 2009, the Group's net assets amounted to approximately HK\$1,074 million as compared with net assets value of approximately HK\$1,150 million as at 31 March 2008. Besides, the current assets of the Group were HK\$284 million (2008: HK\$456 million) with deposit, cash and bank balances of approximately HK\$133 million (2008: HK\$340 million), and the current liabilities decreased from HK\$30 million (2008) to HK\$25.5 million (2009) due to decrease in other payables and accruals. The gearing ratio of the Group, measured as total debts to total assets, was kept at a stable level of 3.5% (2008: 3.6%).

As at 31 March 2009, the Group had no outstanding bank loan (2008: Nil), but it had committed short term borrowings amounted to approximately HK\$14 million (2008: HK\$6 million), all of which will be due within one year and subject to interest rate ranging from 7.2% to 8.4% per annum. The Group's business operations, assets and liabilities are denominated mainly in Hong Kong dollars, Renminbi and US dollars except its cold storage warehouse in Australia, thus depreciation in Australian dollars has resulted in a net exchange loss. Save as aforesaid, the Board considered foreign exchange risk being minimal. The management will review from time to time the potential foreign exchange exposure and will take appropriate actions to minimize any potential foreign exchange exposure risk to arise in the future. During this financial year, the Company has not given any guarantee to any financial institution in respect of bank facilities utilised by any of its subsidiaries. As at 31 March 2009, there were no assets being pledged to secure credit facilities granted to and utilised by the Group (2008: Nil).

As at 31 March 2009, the Group had no material contingent liabilities but it had capital commitments of HK\$101 million (2008: HK\$275 million). The Group did not use any financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Capital Raising and Expenditure

During the year ended 31 March 2009, the Group did not carry out any equity fund raising activities.

Material subsequent Events

The Company and its wholly owned subsidiary entered into a framework agreement on 13 April 2009 and a formal sale and purchase agreement on 9 May 2009 for the acquisition of Yichang Xinshougang Property Development Company Limited* (宜昌新首鋼房地產發展有限公司), a company incorporated in the PRC with limited liability and its sole asset is a piece of land of approximately 587,700 square meters located in Yiling District (夷陵區), Yichang City (宜昌市), Hubei Province, the PRC, for the development of 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). The said agreement is subject to shareholders' approval in due course and its total consideration for the acquisition is HK\$986 million which will be settled by payment of cash, promissory note, issue of new shares and issue of convertible bonds. For further details, please refer to the announcement of the Company dated 21 May 2009.

*Prospect**Forest land reserve and logging business*

The Group has forest resources in Guyana of South America covering an aggregate area close to 257,000 hectares which the Group has been granted an exclusive timber concession for a period of 25 years. In addition, the Group's acquisition of forest land in Da Bu County, Guangdong Province had increased to 94,500 Chinese Mu with a lease term of 50 years.

The main types of wood exported from our Guyana forest are first grade timbers like purpleheart (紫心木／南美紫檀), Greenheart Camphor (綠心樟／南美綠檀), Mora (莫拉／南美雞翅) and Massaranduba (鑽石紅檀).

The Company has continued investing substantial financial resources on development of its logging business in Guyana including recruitment of a professional logging team, provision of logging equipment with international standard, construction of timber processing base and a 72TEU collection dual purpose barge. The barge took a trial voyage recently and shall be on duty after obtaining a licence. The Board expects that the Group could gradually increase and stabilise its timber logging, processing and transportation capacity.

Sale and Distribution Centre in Shenzhen

The Group has expanded its distribution network for timber related products by launching its flagship store in Shenzhen in August 2008 which acts as a window for exhibiting high grade furniture made of timbers of the Group.

The grand opening of the Company’s 17,000 sq. ft. (1,600m²) flagship store trading in the name of 紫御•尚品 located in Kingkey Banner Center, Nanshan District of Shenzhen (深圳市南山區京基百納廣場) took place in August 2008. The flagship store focuses on the wholesale and retail of a full line of high-class Chinese style furniture made of top quality hard woods, in particular, rosewood, greenheart, jatoba, purpleheart and massaranduba which are originated from our forest. The flagship store is supported by the Group’s furniture manufacture Centre in Yang Jiang and a team of furniture designers and staff in Shenzhen, thus the Group is well equipped to offer tailor-made service to customers.

The classic Chinese style office furniture sold by our flagship store was awarded The Best Outward Appearance Design at the 23rd China Guangzhou International Furniture Expo in March 2009.

With unique advantages in the industry, including self supply of timber from both Guyana and China, timber processing and furniture manufacture base in Yang Jiang and an experienced furniture design team in Shenzhen, the Group is able to enjoy low production and sales costs and maximum investment efficiency.

Furniture Manufacture Centre in Yang Jiang, Guangdong

The Group has established a furniture manufacture base in Yang Jiang, Guangdong Province which mainly produces high grade classic Chinese style red wood furniture, hard wood furniture and handicrafts.

Tea-oil processing base in Meizhou, Guangdong

興寧樹人木業有限公司 (Xing Ning Shu Ren Wood Limited) was incorporated in Meizhou County, Guangdong Province for the establishment of a tea-oil tree base occupying a total of 300,000 Chinese Mu land with a tea-oil processing center which is expected to commence production in August 2009 and to produce approximately 30,000 tons tea-oil each year.

Tea-oil tree is one of the four main trees that could produce edible oil and tea-oil contains more than 90% unsaturated fatty acid which is good for health. Tea-oil tree products include oil-tea seed, virgin oil (毛油), extra fine tea-oil and other by-products, all of which have high commercial value. In September 2007, the State Council promulgated “The Opinion in relation to Promoting the Production and Development of Oil Materials”《關於促進油料生產發展的意見》and in September 2008, the State Forestry Administration announced “State Tea-Oil Industry Development Plan (2008-2015)”《全國油茶產業發展規劃(2008-2015)》, both are targeted to advance and promote large scale tea-oil industry development in China for the purpose of stabilising the supply of edible oil by providing preferential government treatment to tea-oil processing corporation and subsidisation in tea-oil tree plantation.

Sapling Incubation Centre in Da Bu County and Plantation

The Group’s Sapling Incubation Centre situated in Da Bu County’s forestry area mainly carries out plant tissue cultivation, mass sapling and mass production of fine tree species with high commercial value. The Centre focuses on cultivating valuable tree species such as Acacia melanoxylon and Camphor tree to meet the Group’s replantation requirements and for sales. By the end of 2008, the centre had cultivated over 20,000,000 saplings including 5,000,000 acacia melanoxylon and 8,000,000 camphor.

Property development in YiChang

The Company expects that subject to shareholders approval and fulfillment of other conditions precedent, completion of the acquisition of Yichang Xinshougang Property Development Company Limited* (宜昌新首鋼房地產發展有限公司) will take place in the fourth quarter of the year. Upon completion, the Company will commence development of a Yichang Three Gorges International Exhibition Centre (宜昌三峽國際會展中心) with a five-stars hotel and the Three Gorges Guobin Garden Commercial Property (三峽國賓花園商品房) comprising of commercial as well as residential properties by stages.

Employees and Retirement Benefit Scheme

The total staff costs of the Group for the year amounted HK\$18,568,000 and the Group had approximately 420 employees in Hong Kong, the PRC, Australia and Guyana as at 31 March 2009. The Group implements remuneration policy, bonus and share options schemes to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

The emoluments payable to the Directors are determined based on the scope of work, level of involvement, experience and seniority.



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23 December 2009

The Directors
China Timber Resources Group Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding 首控(北京)管理諮詢有限公司 (Shoukong (Beijing) Management Consulting Company Limited (“Shoukong”, together with its subsidiary, referred to as the “Target Group”) for the period from 13 September 2006 (date of establishment) to 31 December 2006, years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the “Relevant Periods”) for the inclusion in the circular of China Timber Resources Group Limited (the “Company”) dated 23 December 2009 (the “Circular”) issued in connection with the Company’s acquisition of the Target Group (“the Acquisition”).

Shoukong was established in the People’s Republic of China (the “PRC”) with limited liability on 13 September 2006 with a registered capital of RMB2 million. The address of its registered office and principal place of business is 北京市海澱區阜成路28號航空醫學大廈15層. Shoukong acts as an investment holding company. Pursuant to the corporate reorganisation as described in note 1 of section B below, Shoukong became the immediate holding company of the subsidiary. As at the date of this report, Shoukong has one subsidiary, details of which are as follows:

Name of subsidiary	Place of establishment	Principal activities	Registered capital RMB	Percentage of effective equity interests held
宜昌新首鋼房地產開發有限公司 (“Yichang Xinshougang”)	The PRC	Property development, asset management and investment consultation	20,000,000	100%

Shoukong and its subsidiary have adopted 31 December as their financial year end date.

No statutory financial statements have been prepared for Shoukong since its establishment. The statutory financial statements of Yichang Xinshougang for the year ended 31 December 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and was audited by 湖北華審會計師事務所有限公司. No audited financial statements have been prepared for Yichang Xinshougang for the period from 31 December 2006 to 31 December 2007.

For the purpose of this report, the directors of Shoukong have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (the “Underlying Financial Statements”) on the basis set out in note 4 of section B for which the directors of Shoukong are solely responsible for. We have carried out independent audit procedures on the Underlying Financial Statements of the Target Group for the Relevant Periods in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA. No adjustment was considered necessary for the purpose of preparing our report for the inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Shoukong. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information as set out in this report from the Underlying Financial Statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, give a true and fair view of the state of affairs of the Target Group and Shoukong as at 31 December 2006, 2007, 2008 and 30 June 2009 and of the results and cash flows of the Target Group for the Relevant Periods.

For the purpose of this report, we have also reviewed the unaudited comparative financial information of the Target Group which includes the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the six months ended 30 June 2008, together with the notes thereto (the “30 June 2008 Corresponding Information”). The directors of Shoukong are responsible for the preparation and for presentation of the 30 June 2008 Corresponding

Information in accordance with Hong Kong Financial Reporting Standards. Our responsibility is to express a conclusion on the 30 June 2008 Corresponding Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the 30 June 2008 Corresponding Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review 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 30 June 2008 Corresponding Information.

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Corresponding Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

		From 13 September 2006 (date of establishment)			For the six months ended	
		31 December 2006	31 December 2007	31 December 2008	30 June 2008	30 June 2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Turnover	5	—	—	—	—	—
Other revenue	6	2	7	1,917	875	950
Administrative expenses		—	(7)	(5,624)	(2,287)	(4,243)
Share of loss of an associate		—	(527)	(264)	(264)	—
Finance costs		—	—	(7,047)	(3,223)	(3,822)
Profit/(loss) before income tax						
tax	7	2	(527)	(11,018)	(4,899)	(7,115)
Income tax expenses	10	—	—	—	—	(2)
Profit/(loss) for the period/year and total comprehensive income for the period/year		2	(527)	(11,018)	(4,899)	(7,117)
Attributable to:						
Equity holders of the Company		2	(527)	(8,872)	(3,975)	(6,123)
Minority interests		—	—	(2,146)	(924)	(994)
		2	(527)	(11,018)	(4,899)	(7,117)

Consolidated Statements of Financial Position

		As at	As at	As at	As at
		31 December	31 December	31 December	30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	13	—	—	16	15
Prepaid land lease payments	14	—	—	214,799	216,408
Interest in an associate	15	1,050	523	—	—
Total non-current assets		1,050	523	214,815	216,423
Current assets					
Prepaid land lease payments	14	—	—	3,904	3,967
Other receivables, prepayments and deposits	17	1,300	1,300	1,477	1,464
Amount due from a shareholder	23(b)(i)	700	700	600	—
Cash and cash equivalents		2	5	18,128	32,890
Total current assets		2,002	2,005	24,109	38,321
Total assets		3,052	2,528	239,924	254,744

APPENDIX IIA ACCOUNTANTS' REPORT ON THE TARGET GROUP

		As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Other payables	18	1,050	1,053	3	10
Amount due to a related company	23(b)(ii)	—	—	142,708	136,113
Amount due to a former shareholder	23(b)(iii)	—	—	—	5,000
Amount due to a shareholder	23(b)(iv)	—	—	—	25,821
Tax payable		—	—	—	2
		<u>1,050</u>	<u>1,053</u>	<u>142,711</u>	<u>166,946</u>
Total current liabilities		<u>1,050</u>	<u>1,053</u>	<u>142,711</u>	<u>166,946</u>
Net current assets/(liabilities)		<u>952</u>	<u>952</u>	<u>(118,602)</u>	<u>(128,625)</u>
Total assets less current liabilities					
		<u>2,002</u>	<u>1,475</u>	<u>96,213</u>	<u>87,798</u>
Non-current liabilities					
Deferred government grant	19	—	—	102,209	101,318
Net assets/(liabilities)		<u>2,002</u>	<u>1,475</u>	<u>(5,996)</u>	<u>(13,520)</u>
Capital and reserves					
Paid-up capital	20	2,000	2,000	2,000	2,000
Reserves		<u>2</u>	<u>(525)</u>	<u>(9,397)</u>	<u>(15,520)</u>
Equity attributable to equity holders of Shoukong		2,002	1,475	(7,397)	(13,520)
Minority interests		—	—	1,401	—
Total equity		<u>2,002</u>	<u>1,475</u>	<u>(5,996)</u>	<u>(13,520)</u>

APPENDIX IIA ACCOUNTANTS' REPORT ON THE TARGET GROUP

Statements of Financial Position — Shoukong

		As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Interest in an associate	15	1,050	1,050	—	—
Interest in a subsidiary	16	—	—	16,000	20,000
Total non-current assets		1,050	1,050	16,000	20,000
Current assets					
Other receivables	17	1,300	1,300	1,300	1,300
Amount due from a shareholder	23(b)(i)	700	700	600	—
Cash and cash equivalents		2	5	97	27,528
Total current assets		2,002	2,005	1,997	28,828
Total assets		3,052	3,055	17,997	48,828
Current liabilities					
Other payables	18	1,050	1,053	3	4
Amount due to a related company	23(b)(ii)	—	—	16,000	16,000
Amount due to a former shareholder	23(b)(iii)	—	—	—	5,000
Amount due to a shareholder	23(b)(iv)	—	—	—	25,821
Tax payable		—	—	—	2
Total current liabilities		1,050	1,053	16,003	46,827
Net current assets/(liabilities)		952	952	(14,006)	(17,999)
Total assets less current liabilities		2,002	2,002	1,994	2,001
Net assets		2,002	2,002	1,994	2,001

APPENDIX IIA

ACCOUNTANTS’ REPORT ON THE TARGET GROUP

		As at	As at	As at	As at
		31 December	31 December	31 December	30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Capital and reserves					
Paid-up capital	20	2,000	2,000	2,000	2,000
Reserves	21	2	2	(6)	1
Total equity		2,002	2,002	1,994	2,001

APPENDIX IIA ACCOUNTANTS' REPORT ON THE TARGET GROUP

Consolidated Statements of Changes in Equity

	Paid-up capital (note 20) RMB'000	Retained profit/ (Accumulated losses) RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
At 13 September 2006 (date of establishment)	—	—	—	—	—
Total comprehensive income for the period	—	2	2	—	2
Capital contribution	2,000	—	2,000	—	2,000
At 31 December 2006 and 1 January 2007	2,000	2	2,002	—	2,002
Total comprehensive income for the year	—	(527)	(527)	—	(527)
As at 31 December 2007 and 1 January 2008	2,000	(525)	1,475	—	1,475
Total comprehensive income for the year	—	(8,872)	(8,872)	(2,146)	(11,018)
Capital contribution from minority interests	—	—	—	3,547	3,547
As at 31 December 2008 and 1 January 2009	2,000	(9,397)	(7,397)	1,401	(5,996)
Total comprehensive income for the period	—	(6,123)	(6,123)	(994)	(7,117)
Released on further acquisition of the subsidiary	—	—	—	(407)	(407)
At 30 June 2009	2,000	(15,520)	(13,520)	—	(13,520)
For the six months ended 30 June 2008 (Unaudited)					
1 January 2008	2,000	(525)	1,475	—	1,475
Total comprehensive income for the period	—	(3,975)	(3,975)	(924)	(4,899)
Capital contribution from minority interests	—	—	—	3,547	3,547
At 30 June 2008	2,000	(4,500)	(2,500)	2,623	123

Consolidated Statements of Cash Flows

	From 13 September 2006 (date of establishment) to 31 December 2006 RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000	30 June 2009 RMB'000
				(Unaudited)	
Cash flows from operating activities					
Profit/(loss) before income tax	2	(527)	(11,018)	(4,899)	(7,115)
Adjustments for:					
Interest income	(2)	(7)	(276)	(124)	(59)
Interest expenses to related company	—	—	7,047	3,223	3,822
Depreciation of property, plant and equipment	—	—	1	—	1
Share of result of associate	—	527	264	264	—
Amortisation of deferred government grant	—	—	(1,641)	(751)	(891)
Amortisation of prepaid land lease payments	—	—	3,512	1,608	1,921
Operating loss before working capital changes	—	(7)	(2,111)	(679)	(2,321)
(Increase)/decrease in other receivables, prepayments and deposits	(2,000)	—	(177)	(132)	13
Increase/(decrease) in amount due to a related company	—	—	14,980	24,970	(10,417)
Increase in amount due to a former shareholder	—	—	—	—	5,000
Increase in amount due to a shareholder	—	—	—	—	25,821
Decrease in amount due from a shareholder	—	—	100	100	600
Increase/(decrease) in other payables	1,050	3	(1)	7	7
Cash (used in)/generated from operations	(950)	(4)	12,791	24,266	18,703
Interest received	2	7	276	124	59
Net cash (used in)/generated from operating activities	(948)	3	13,067	24,390	18,762

APPENDIX IIA

ACCOUNTANTS’ REPORT ON THE TARGET GROUP

	From 13 September 2006 (date of establishment) to 31 December 2006 <i>RMB'000</i>	Year ended		For the six months ended	
		31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i> (Unaudited)	30 June 2009 <i>RMB'000</i>
Investing activities					
Payment for acquisition of associate	(1,050)	—	—	—	—
Net cash inflow on change of status from associate to a subsidiary	—	—	5,073	5,073	—
Additional investment in a subsidiary	—	—	—	—	(4,000)
Purchases of property, plant and equipment	—	—	(17)	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in)/generated from investing activities	(1,050)	—	5,056	5,073	(4,000)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financing activities					
Proceeds from capital contribution	2,000	—	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from financing activities	2,000	—	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	2	3	18,123	29,463	14,762
Cash and cash equivalents at beginning of period/year	—	2	5	5	18,128
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of period/year, represents cash and bank balances	2	5	18,128	29,468	32,890
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Shoukong's principal place of business is at 15/F, Hangkong Yixue Building No. 28 Fucheng Road, Haidian District, Beijing, 100142.

Shoukong established Yichang Xinshougang on 31 December 2006 and held 35% of its equity interest. On 29 January 2008, Shoukong contributed for an additional 45% equity interest of Yichang Xinshougang. On that date, Yichang Xinshougang became a subsidiary of Shoukong. On 18 March 2009, Shoukong acquired an additional 20% equity interest in Yichang Xinshougang and Yichang Xinshougang became a wholly-owned subsidiary of Shoukong afterwards.

Pursuant to a declaration of trust dated 8 March 2009, 5% equity interest of Yichang Xinshougang is held by 首鋼控股有限責任公司 (Shougang Holdings Limited) on behalf of the Company.

Shoukong acts as an investment holding company. The activity of its subsidiary is set out in note 16.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the Financial Information includes applicable disclosures as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Basis of preparation

The Target Group has recorded net current liabilities of RMB128,625,000 as at 30 June 2009. A shareholder, 中聚聯合控股有限公司 (China Alliance United Holding Company Limited) ("China Alliance") will unconditionally assume the liabilities owed by the Target Group to the related company, former shareholder and a shareholder of Shoukong subsequent to 30 June 2009 as set out in note 29. Consequently, the Financial Information has been prepared on a going concern basis.

(d) Functional and presentation currency

Each entity in the Target Group maintains its books and records in its own functional currency, i.e., Renminbi ("RMB").

(e) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 28.

3. APPLICATION OF NEW AND REVISED HKFRSs

The Target Group has adopted all the new and revised standards and interpretations issued by the HKICPA that are effective for the Target Group’s financial period beginning on or prior to 1 January 2009 in the preparation of its Financial Information throughout the Relevant Periods.

The Target Group has not yet applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ²
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Right Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers ⁵
HKFRS 9	Financial Instruments ⁸
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ⁶
HK(IFRIC) – Interpretation 14 (Amendment)	Repayments of a Minimum Funding Requirements ⁷

¹

Effective for annual periods beginning on or after 1 July 2009

²

Effective for annual periods beginning on or after 1 January 2010

³

Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

⁴

Effective for annual periods beginning on or after 1 February 2010

⁵

Effective for transfer to assets from customers received on or after 1 July 2009

⁶

Effective for annual periods beginning on or after 1 July 2010

⁷

Effective for annual periods beginning on or after 1 January 2011

⁸

Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Target Group anticipate that the application of the other new or revised HKFRSs will have no material impact on the results and the financial position of the Target Group.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The Financial Information comprises the financial statements of Shoukong and its subsidiary, Yichang Xinshougang since it was changed from an associate to a subsidiary. Inter-company transactions and balances between group companies are eliminated in full in preparing the Financial Information.

On acquisition, the assets and liabilities of the subsidiary are measured at its fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary acquired or disposed of during the Relevant Periods are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

(b) Business combination

Acquisition of subsidiary is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Target Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Subsidiary

A subsidiary is an entity in which the Target Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investment in a subsidiary is included in Shoukong's balance sheet at cost less any impairment loss. The results of the subsidiary are accounted for by Shoukong on the basis of dividends received and receivable.

(d) Associate

An associate is an entity over which the Target Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the financial statements using the equity method of accounting. Under the equity method, investment in an associate are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Target Group's share of the net assets of the associate, less any impairment loss. Losses of an associate in excess of the Target Group's interest in that associate are recognised only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where the Target Group entity transacts with an associate, profits and losses are eliminated to the extent of the Target Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

In Shoukong's balance sheet, its investment in an associate is stated at cost less impairment losses. The results of an associate are accounted for by Shoukong on the basis of dividends received and receivable.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period, at an annual rate of 20%.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss.

(f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Target Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(g) Financial instruments

(i) *Financial assets*

The Target Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Target Group's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss including financial assets held for trading: Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in consolidated profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in consolidated profit or loss in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Target Group includes 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;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in consolidated profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) *Financial liabilities*

The Target Group's financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains or losses are recognised in consolidated profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Equity instruments*

Equity instruments issued by the Target Group are recorded at the proceeds received, net of direct issue costs.

(v) *Derecognition*

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement".

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(h) *Revenue recognition*

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(i) *Income taxes*

Income taxes for the Relevant Periods comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in consolidated profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

(j) Employee benefits

The employees of the Target Group in the PRC are required to participate in a government-managed retirement benefit schemes. They are required to contribute a fixed cost per employee to the government-managed retirement benefit schemes. The contributions are recognised in consolidated profit or loss as they become payable.

(k) Impairment of tangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment and prepaid land lease payment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(m) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(n) Related parties

A party is related to the Target Group if:

- (a) the party, directly or indirectly through one or more intermediaries:
 - (i) controls, is controlled by, or is under common control with, the Target Group;
 - (ii) has an interest in the Target Group that gives it significant influence over the Target Group; or
 - (iii) has joint control over the Target Group;
- (b) the party is a joint venture in which the Target Group is a venturer;
- (c) the party is an associate of the Target Group;
- (d) the party is a member of the key management personnel of the Target Group or the Target Group's parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d) above;
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) above; or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Target Group, or of any entity that is a related party of the Target Group.

(o) Deferred government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Target Group will comply with all attached conditions.

Government grants are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

5. TURNOVER

The Target Group did not generate any turnover during the Relevant Periods.

6. OTHER REVENUE

	From 13 September 2006 (date of establish- ment) to	Year ended		For the six months ended	
	31 December 2006	31 December 2007	31 December 2008	30 June 2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Bank interest income	2	7	276	124	59
Government grant (note 19)	—	—	1,641	751	891
	2	7	1,917	875	950

7. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging:

	From 13 September 2006 (date of establish- ment) to	Year ended		For the six months ended	
	31 December 2006	31 December 2007	31 December 2008	30 June 2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest expenses:					
Other borrowings					
wholly repayable					
within five years	—	—	7,047	3,223	3,822
Auditors' remuneration	—	—	4	4	8
Depreciation of					
property, plant and					
equipment	—	—	1	—	1
Amortisation of prepaid					
land lease payments	—	—	3,512	1,608	1,921
Operating lease					
rentals in respect of					
buildings	—	—	67	—	41

8. STAFF COSTS

	From 13 September 2006 (date of establish- ment) to	Year ended		For the six months ended	
	31 December 2006	31 December 2007	31 December 2008	30 June 2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Staff costs (including directors) comprise:					
Salaries and bonus	—	—	114	38	79
Contributions to defined contribution pension plans	—	—	8	—	27
	—	—	122	38	106

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

No remuneration was paid to the directors of Shoukong during the Relevant Periods.

There was no arrangement under which a director of Shoukong waived or agreed to waive any remuneration during the Relevant Periods.

No emoluments were paid by Shoukong to Shoukong's directors as an inducement to join, or upon joining the Target Group, or as compensation for loss of office.

(b) Employees' remuneration

None of the five highest paid individuals in the Target Group were directors of Shoukong. The emoluments of the five highest paid individuals were as follows:

	From 13 September 2006 (date of establish- ment) to 31 December 2006 <i>RMB'000</i>	Year ended		For the six months ended	
		31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i> (unaudited)	30 June 2009 <i>RMB'000</i>
Basic salaries, other allowances and benefits in kind	—	—	114	38	79
Contributions to defined contribution pension plans	—	—	8	—	27
	—	—	122	38	106

All the employees' emoluments fell within the band between nil to RMB1,000,000.

10. INCOME TAX

The amount of income tax credit in the consolidated statement of comprehensive income represents:

	From 13 September 2006 (date of establish- ment) to 31 December 2006 <i>RMB'000</i>	Year ended		For the six months ended	
		31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i> (unaudited)	30 June 2009 <i>RMB'000</i>
Current tax — PRC Enterprise Income Tax for the year/period	—	—	—	—	2

APPENDIX IIA

ACCOUNTANTS' REPORT ON THE TARGET GROUP

The Target Group was subject to PRC Enterprise Income Tax at a rate of 18% for the period from 13 September 2006 (date of establishment) to 31 December 2007 and 25% for the year ended 31 December 2008 and the six months ended 30 June 2009.

The income tax credit for the Relevant Periods can be reconciled to the profit/(loss) per the consolidated statement of comprehensive income as follows:

	From 13 September 2006 (date of establish- ment) to 31 December 2006 <i>RMB'000</i>	Year ended		For the six months ended	
		31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i> (unaudited)	30 June 2009 <i>RMB'000</i>
Profit/(loss) before income tax	2	(527)	(11,018)	(4,899)	(7,115)
Tax calculated at the PRC Enterprise Income Tax at tax rate of 25% (2007: 18%)	—	(95)	(2,755)	(1,225)	(1,779)
Tax effect of tax losses not recognised	—	95	2,755	1,225	1,781
Income tax expense	—	—	—	—	2

11. DIVIDENDS

No dividend was paid or proposed by Shoukong during the Relevant Periods, nor has any dividend been proposed since the end of reporting period.

12. LOSS PER SHARE

Loss per share information is not presented as its inclusion is not considered meaningful for the purpose of this report.

13. PROPERTY, PLANT AND EQUIPMENT — THE TARGET GROUP

	Office equipment
	<i>RMB'000</i>
Cost	
At 13 September 2006 (date of establishment) and 31 December 2006 and 2007	—
Additions	17
At 31 December 2008	17
Additions	—
At 30 June 2009	17
Accumulated amortisation	
At 13 September 2006 (date of establishment) and 31 December 2006 and 2007	—
Charge for the year	1
At 31 December 2008	1
Charge for the period	1
At 30 June 2009	2
Carrying amount	
At 30 June 2009	15
At 31 December 2008	16
At 31 December 2007	—
At 31 December 2006	—

APPENDIX IIA ACCOUNTANTS' REPORT ON THE TARGET GROUP

14. PREPAID LAND LEASE PAYMENTS — THE TARGET GROUP

	As at 31 December 2006 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 30 June 2009 RMB'000
Opening net carrying value	—	—	—	218,703
Arising from change of status from associate to a subsidiary (<i>note 22a</i>)	—	—	222,215	—
Arising on additional investment in a subsidiary (<i>note 22b</i>)	—	—	—	3,593
Amount released to profit or loss	—	—	(3,512)	(1,921)
Closing net carrying value	<u>—</u>	<u>—</u>	<u>218,703</u>	<u>220,375</u>
Analysed for reporting purpose as:				
Non-current assets	—	—	214,799	216,408
Current assets	—	—	3,904	3,967
	<u>—</u>	<u>—</u>	<u>218,703</u>	<u>220,375</u>

The prepaid land lease payments represent Yichang Xinshougang's interests in the land use rights of a parcel of land situated in Meiziya Village, Yiling District, Yichang City, Hubei Province, the PRC, and are held on leases of between 40 to 70 years.

15. INTEREST IN AN ASSOCIATE

The Target Group			
At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Unlisted shares, at cost	1,050	1,050	—
Share of net liabilities	—	(527)	—
<u>1,050</u>	<u>523</u>	<u>—</u>	<u>—</u>
Shoukong			
At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Unlisted shares, at cost	1,050	1,050	—
<u>1,050</u>	<u>1,050</u>	<u>—</u>	<u>—</u>

APPENDIX IIA

ACCOUNTANTS' REPORT ON THE TARGET GROUP

Particulars of the associate at 31 December 2006 and 2007 were as follows:

Name	Place of establishment and place of operations	Paid-up capital	Percentage of paid-up capital held	Principal activities
宜昌新首鋼房地產開發有限公司	The PRC	RMB3,000,000	35%	Property development, asset management and investment consultation

The aggregate amounts relating to Yichang Xinshougang that had been equity accounted for in the Target Group’s consolidated financial statements was as follows:

	The Target Group			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	227,340	224,518	—	—
Total liabilities	(224,340)	(223,023)	—	—
Net assets	3,000	1,495	—	—
Loss	—	(1,505)	—	—

16. INTEREST IN A SUBSIDIARY

	Shoukong			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	—	—	16,000	20,000

Name	Place of establishment and place of operations	Paid-up capital	Percentage of paid-up capital held		Principal activities
			At	At	
			31 December	30 June	
			2008	2009	
宜昌新首鋼房地產開發有限公司	The PRC	RMB20,000,000	80%	100%	Property development, asset management and investment consultation

17. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Target Group			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables (note)	1,300	1,300	1,442	1,429
Deposits	—	—	35	35
	<u>1,300</u>	<u>1,300</u>	<u>1,477</u>	<u>1,464</u>
	Shoukong			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables (note)	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>

Note: The amounts are unsecured, non-interest bearing and repayable on demand.

18. OTHER PAYABLES

	The Target Group			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables (note)	<u>1,050</u>	<u>1,053</u>	<u>3</u>	<u>10</u>
	Shoukong			
	At	At	At	At
	31 December	31 December	31 December	30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables (note)	<u>1,050</u>	<u>1,053</u>	<u>3</u>	<u>4</u>

Note: The amounts are unsecured, non-interest bearing and repayable on demand.

APPENDIX IIA ACCOUNTANTS' REPORT ON THE TARGET GROUP

19. DEFERRED GOVERNMENT GRANT — THE TARGET GROUP

	As at 31 December 2006 <i>RMB'000</i>	As at 31 December 2007 <i>RMB'000</i>	As at 31 December 2008 <i>RMB'000</i>	As at 30 June 2009 <i>RMB'000</i>
Opening net carrying value	—	—	—	102,209
Arising from change of status from associate to a subsidiary (<i>note 22a</i>)	—	—	103,850	—
Amount released to profit or loss	—	—	(1,641)	(891)
Closing net carrying value	<u>—</u>	<u>—</u>	<u>102,209</u>	<u>101,318</u>

In 2007, Yichang Xinshougang received a government grant of approximately RMB105,326,000 in the form of a foregivable payable on the partial land premium in respect of a piece of land situated in Yichang City, Hubei, the PRC. Pursuant to the Land Use Rights Contract and the supplemental contract, Yichang Xinshougang has committed to invest approximately RMB650 million to develop this piece of land during 2007. As the legal title of such parcel of land was obtained by Yichang Xinshougang in March 2007, the government grant was only recorded since that date. Yichang Xinshougang had obtained proper approval of the grant from the relevant government authority. Based on the supplementary agreement signed between the local government in Yichang and Yichang Xinshougang, Yichang Xinshougang will be responsible for the properties development on that piece of land.

The government grant is amortised over the estimated useful lives of the properties to be constructed on that piece of land.

20. PAID-UP CAPITAL

	At 31 December 2006 <i>RMB'000</i>	Shoukong At 31 December 2007 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>	At 30 June 2009 <i>RMB'000</i>
Registered capital	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Paid-up capital	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

Shoukong was established on 13 September 2006 with registered capital and paid-up capital of RMB2,000,000.

21. RESERVES

	Accumulated losses HK\$
At 13 September 2006 (date of incorporation)	—
Profit for the period	2
At 31 December 2006	2
Loss for the year	—
At 31 December 2007	2
Loss for the year	(8)
At 31 December 2008	(6)
Profit for the period	7
At 30 June 2009	1

22. CHANGE OF STATUS FROM ASSOCIATE TO A SUBSIDIARY

- (a) As explained in note 1 of Section B, on 29 January 2008, Yichang Xinshougang became a subsidiary of which Shoukong held an 80% equity interest. This transaction has been accounted for as acquisition of assets.

Details of the assets and liabilities and minority interest included in the consolidated financial statements as at that date were as follows:

	Acquiree's carrying amount before combination <i>RMB'000</i>	Fair value adjustments <i>RMB'000</i>	Fair value <i>RMB'000</i>
Prepaid land lease payments <i>(note 14)</i>	221,197	1,018	222,215
Bank balances and cash	20,023	—	20,023
Amount due to a related company	(119,631)	—	(119,631)
Other payables	(1)	—	(1)
Deferred government grant <i>(note 19)</i>	(103,850)	—	(103,850)
	<u>17,738</u>	<u>1,018</u>	18,756
Minority interests			(3,547)
35% share of associate's interest before acquisition			<u>(259)</u>
Total consideration satisfied by cash			<u>14,950</u>
Net cash inflow arising on acquisition:			
Cash consideration paid			(14,950)
Cash and cash equivalents			<u>20,023</u>
			<u>5,073</u>

- (b) On 18 March 2009, Shoukong made additional contribution for acquiring the remaining 20% equity interest and Yichang Xinshougang became its wholly owned subsidiary.

	<i>RMB\$'000</i>
Consideration by cash	4,000
Fair value of 20% net assets of Yichang Xinshougang	<u>(407)</u>
Excess treated as net fair value adjustment to “Prepaid land lease payments”	<u>3,593</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	<u>4,000</u>

23. RELATED PARTY TRANSACTIONS

(a) Transactions with related party

	From 13 September 2006 (date of establish- ment) to			For the six months ended	
	31 December	31 December	31 December	30 June	30 June
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest expenses paid to a related party (note 23(b)(ii))	—	—	7,047	3,223	3,822

(b) Balances with related parties

(i) Amount due from a shareholder

The amount due represented balances with 首鋼控股有限公司 during the period ended 31 December 2006 and 中聚聯合控股有限公司 during the year ended 31 December 2007 and 2008. 首鋼控股有限公司 and 中聚聯合控股有限公司 were shareholders during the Relevant Periods. The amounts due are unsecured, non-interest bearing and repayable on demand.

(ii) Amount due to a related company

The amount due represent advances from 宜昌新首鋼資源控股有限公司 for the purchase of land use rights of RMB119,014,000 set out in note 13 of the accountants' report of Yichang Xinshougang and general working capital. 宜昌新首鋼資源控股有限公司 was the holding company of Yichang Xinshougang as at 31 December 2006, 2007 and 2008, after the capital transfer in 2009, it ceased to be a shareholder of Yichang Xinshougang. The amounts due are unsecured and comprise:

	The Target Group			
	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Non-interest bearing portion (note i)	—	—	57,767	51,172
Interest bearing portion (note ii)	—	—	84,941	84,941
	—	—	142,708	136,113

Notes:

- (i) The amounts are interest free and repayable on demand.
- (ii) The amounts carry interest at 9% per annum and are repayable on or before 31 December 2009.

(iii) Amount due to a former shareholder

The amount due represents balances with 首鋼控股有限公司. It was a shareholder as at 31 December 2006. The amount due is unsecured, non-interest bearing and repayable on demand.

(iv) Amount due to a shareholder

The amount due represents balances with 中聚聯合控股有限公司. It was a shareholder as at 30 June 2009. The amount due is unsecured, non-interest bearing and repayable on demand.

24. COMMITMENT — THE TARGET GROUP

Operating leases commitments — lessee

The Target Group leases certain properties under operating leases. The duration of the lease ranges from three months to one year. Lease payments are usually negotiated to reflect market rentals.

The Target Group had future aggregate minimum lease payments under non-cancelable operating leases in respect of the premises to follows:

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Not later than one year	—	—	54	—

Capital commitments — The Target Group

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Authorised but not contracted for	—	650,000	650,000	650,000

The amount represents the commitment amount in developing a piece of land in Yichang City, Hubei Province as detailed in note 14.

25. CONTINGENT LIABILITIES — THE TARGET GROUP

Pursuant to a Contract for the Grant of State-owned Land Use Rights dated 29 December 2006 (the “Land Use Rights Contract”) made between Yichang Xinshougang and the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) and a subsequent supplemental contract dated 29 December 2006, if the construction works for the development of the parcel of land as disclosed in note 14, is not commenced by Yichang Xinshougang before the time limit of 30 June 2007 as stipulated in the Land Use Rights Contract and such delay exceeded the time limit by over one year, Yichang Xinshougang would be subject to a penalty of RMB22,434,000 for land idling. In addition, if the construction works have not commenced by Yichang Xinshougang and the date stipulated is exceeded by over two years, the Bureau of Land Resource could repossess the land use right without compensation. So far, the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) has not issued any demand letter for payment of such penalty or repossession of the land use rights to Yichang Xinshougang.

Yichang Xinshougang conducted the ceremony for commencement of construction works on 27 May 2008 which was broadly reported by the press. Besides, Yichang Xinshougang has already fulfilled its obligation of paying the land premium to the relevant local government and is currently in the process of applying the relevant permits for the commencement of construction works from the local government. It is the opinion of Shoukong's directors that it is not probable for the local government to claim penalty for land idling or repossess the land use rights and no provision for penalty has been made during the Relevant Periods.

26. CAPITAL MANAGEMENT POLICY

The Target Group's objectives when managing capital are:

- to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders.

The Target Group sets the amount of capital in proportion to risk. The Target Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group is exposed through its operations to the following risks from its use of financial instruments:

- Market risks (interest rate risk and foreign exchange risk)
- Liquidity risk
- Credit risk

Policy for managing these risks is set by the Board of Shoukong. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the management. The policy for each of the above risks is described in more detail below.

Market risks

(a) Interest rate risk

The Target Group’s fair value interest-rate risk mainly arises from borrowing from a related company as disclosed in note 23(b)(ii). The borrowing was issued at fixed rates which expose the Target Group to fair value interest-rate risk. The Target Group currently has not used any financial instruments to hedge potential fluctuations in interest rates. However, management will consider hedging significant interest rate exposure should the need arise.

Interest rate profile

The following table details interest rates analysis that management of the Target Group evaluates its interest rate risk.

	At 31 December 2006		At 31 December 2007		At 31 December 2008		At 30 June 2009	
	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Fixed rate								
borrowing								
Amount due to a related company	—	—	—	—	9	84,941	9	84,941

Interest rate sensitivity

The following table indicates the approximate increase/(decrease) in the loss after taxation in response to possible reasonable changes in an interest rate to which the Target Group has significant exposure at the end of reporting period. In determining the effect on loss after taxation, the Target Group assumes that the change in interest rate had occurred at the end of reporting period and all other variables being held constant. There is no change in the methods and assumptions used in the Relevant Periods:

	31 December 2006 (date of establish- ment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000 (unaudited)	30 June 2009 RMB'000
Increases by 100 basis points	—	—	637	319	319
Decreases by 100 basis points	—	—	(637)	(319)	(319)

(b) Foreign exchange risk

The Target Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Most of the Target Group’s monetary assets and liabilities are also denominated in RMB. Therefore, directors of Shoukong consider it has no significant foreign exchange risk.

Liquidity risk

Internally generated cash flow and owners' contribution are the general source of funds to finance the operations of the Target Group. The Target Group's liquidity risk management is to diversify the funding source. The Target Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

The Target Group and Shoukong has recorded net current liabilities of RMB128,625,000 and RMB17,999,000 at 30 June 2009. The Acquirer has confirmed its intention to provide sufficient financial support to the Target Group and Shoukong so as to meet their liabilities as and when they fall due and to enable the Target Group and Shoukong to continue operating for the foreseeable future.

The contractual maturities of the Target Group's financial liabilities are shown as below:

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
In less than one year	1,050	1,053	142,711	166,946

Credit risk

The Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006, 2007, 2008 and 30 June 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

28. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, Shoukong's management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Claim penalty for land idling

As explained in note 25, Shoukong's directors use their judgement to assess possible claim penalty by the local government for land idling and are of the view that no provision for penalty has been made during the Relevant Periods.

29. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a letter issued by China Alliance dated 16 October 2009, China Alliance will unconditionally assume the amounts due to the related parties set out in note 23(b)(ii) to (iv) and be granted other receivables of the Target Group upon the completion of the Acquisition.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,

BDO Limited

Certified Public Accountants

Choi Man On

Practising Certificate Number P02410

Hong Kong



BDO Limited
Certified Public Accountants
德豪會計師事務所有限公司

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23 December 2009

The Directors

China Timber Resources Group Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding 宜昌新首鋼房地產開發有限公司 (Yichang Xinshougang Property Development Company Limited, “Yichang Xinshougang”) for the period ended 31 December 2006 (date of establishment), years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the “Relevant Periods”) for the inclusion in the circular of China Timber Resources Group Limited (the “Company”) dated 23 December 2009 (the “Circular”) issued in connection with the Company’s acquisition of the entire equity interest of 首控 (北京) 管理諮詢有限公司 (Shoukong (Beijing) Management Consulting Company Limited, “Shoukong”) and Yichang Xinshougang (“the Acquisition”).

Yichang Xinshougang, was established in the People’s Republic of China (the “PRC”) with limited liability on 31 December 2006 with a registered capital of RMB3 million. On 29 January 2008, Yichang Xinshougang increased its registered capital from RMB3 million to RMB20 million. As at the date of this report, Yichang Xinshougang is 100% beneficially owned by Shoukong. The principal activities of Yichang Xinshougang are property development, asset management and investment consultation. The address of the registered office and principal place of business is 宜昌市夷陵區百花街二巷.

Yichang Xinshougang has adopted 31 December as its financial year end date.

The statutory financial statements of Yichang Xinshougang for the year ended 31 December 2008 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and was audited by 湖北華審會計師事務所有限公司.

No audited financial statements have been prepared for Yichang Xinshougang for the period from 31 December 2006 to 31 December 2007.

For the purpose of this report, the directors of Yichang Xinshougang have prepared the financial statements for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (the “Underlying Financial Statements”) on the basis set out in note 3 of section B for which the directors of Yichang Xinshougang are solely responsible for. We have carried out independent audit procedures on the Underlying Financial Statements of Yichang Xinshougang for the Relevant Periods in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA. No adjustment was considered necessary for the purpose of preparing our report for the inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Yichang Xinshougang. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information as set out in this report from the Underlying Financial Statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, give a true and fair view of the state of affairs of Yichang Xinshougang as at 31 December 2006, 2007, 2008 and 30 June 2009 and of the results and cash flows of Yichang Xinshougang for the Relevant Periods.

For the purpose of this report, we have also reviewed the unaudited comparative financial information of Yichang Xinshougang which includes the statement of comprehensive income, statement of changes in equity and statement of cash flow for the six months ended 30 June 2008, together with the notes thereto (the “30 June 2008 Corresponding Information”). The directors of Yichang Xinshougang are responsible for the preparation and for presentation of the 30 June 2008 Corresponding Information in accordance with Hong Kong Financial Reporting Standards. Our responsibility is to express a conclusion on the 30 June 2008 Corresponding Information based on our review. We conducted our

review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the 30 June 2008 Corresponding Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review 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 30 June 2008 Corresponding Information.

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Corresponding Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

A. FINANCIAL INFORMATION

Statements of Comprehensive Income

		31 December		Year ended		For the six months ended	
		2006		31 December	31 December	30 June	30 June
		(date of		2007	2008	2008	2009
		establishment)					
		Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)	
Turnover	4	—	—	—	—	—	—
Other revenue	5	—	1,359	2,056	1,014	940	
Administrative expenses		—	(2,863)	(5,898)	(2,569)	(4,216)	
Finance costs		—	—	(7,645)	(3,822)	(3,822)	
Loss before income tax	6	—	(1,504)	(11,487)	(5,377)	(7,098)	
Income tax expenses	9	—	(1)	—	—	—	—
Loss for the period/ year and total comprehensive income for the period/year			—	(1,505)	(11,487)	(5,377)	(7,098)

Statements of Financial Position

		As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 30 June 2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	12	—	—	16	15
Prepayment	13	119,014	—	—	—
Prepaid land lease payments	13	—	217,701	213,907	212,010
Total non-current assets		119,014	217,701	213,923	212,025
Current assets					
Prepaid land lease payments	13	—	3,794	3,794	3,794
Other receivables, prepayments and deposits	14	—	—	177	165
Cash and cash equivalents		3,000	3,023	18,031	5,362
Total current assets		3,000	6,817	22,002	9,321
Total assets					
		122,014	224,518	235,925	221,346
Current liabilities					
Amounts due to holding company/ a former holding company	18(b)	119,014	119,032	126,708	120,113
Other payables		—	—	—	5
Tax payable		—	1	—	—
Total current liabilities		119,014	119,033	126,708	120,118
Net current liabilities					
		(116,014)	(112,216)	(104,706)	(110,797)
Non-current liabilities					
		—	(103,990)	(102,209)	(101,318)
Deferred government grant	15	—	103,990	102,209	101,318
Net assets/(liabilities)		3,000	1,495	7,008	(90)
Capital and reserves					
Paid-up capital	16	3,000	3,000	20,000	20,000
Accumulated losses		—	(1,505)	(12,992)	(20,090)
Total equity		3,000	1,495	7,008	(90)

Statements of changes in equity

	Paid-up capital (note 16) RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 31 December 2006 (date of establishment)	—	—	—
Total comprehensive income for the period	—	—	—
Capital contribution	<u>3,000</u>	<u>—</u>	<u>3,000</u>
At 31 December 2006 and 1 January 2007	3,000	—	3,000
Total comprehensive income for the year	<u>—</u>	<u>(1,505)</u>	<u>(1,505)</u>
At 31 December 2007 and 1 January 2008	3,000	(1,505)	1,495
Total comprehensive income for the year	—	(11,487)	(11,487)
Capital contribution	<u>17,000</u>	<u>—</u>	<u>17,000</u>
At 31 December 2008 and 1 January 2009	20,000	(12,992)	7,008
Total comprehensive income for the period	<u>—</u>	<u>(7,098)</u>	<u>(7,098)</u>
At 30 June 2009	<u><u>20,000</u></u>	<u><u>(20,090)</u></u>	<u><u>(90)</u></u>
For the six months ended 30 June 2008 (Unaudited)			
At 1 January 2008	3,000	(1,505)	1,495
Total comprehensive income for the period	—	(5,377)	(5,377)
Capital contribution	<u>17,000</u>	<u>—</u>	<u>17,000</u>
At 30 June 2008	<u><u>20,000</u></u>	<u><u>(6,882)</u></u>	<u><u>13,118</u></u>

Statements of Cash Flows

	31 December 2006 (date of establishment) <i>RMB'000</i>	Year ended 31 December 2007 <i>RMB'000</i>		For the six months ended 30 June 2008 <i>RMB'000</i> (Unaudited)	
		31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i>	30 June 2009 <i>RMB'000</i>
Cash flows from operating activities					
Loss before income tax	—	(1,504)	(11,487)	(5,377)	(7,098)
Adjustments for:					
Interest income	—	(23)	(275)	(123)	(49)
Interest expense to former holding company	—	—	7,645	3,822	3,822
Depreciation of property, plant and equipment	—	—	1	—	1
Amortisation of deferred government grant	—	(1,336)	(1,781)	(891)	(891)
Amortisation of land use right	—	2,845	3,794	1,897	1,897
Operating loss before working capital changes	—	(18)	(2,103)	(672)	(2,318)
(Increase)/decrease in other receivables, prepayments and deposits	—	—	(177)	(132)	12
Increase in other payables	—	—	—	—	5
Cash used in operations	—	(18)	(2,280)	(804)	(2,301)
Interest received	—	23	275	123	49
Income tax paid	—	—	(1)	(1)	—
Net cash generated from/(used in) operating activities	—	5	(2,006)	(682)	(2,252)

APPENDIX IIB

ACCOUNTANTS’ REPORT ON THE TARGET COMPANY

	31 December 2006 (date of establishment) RMB'000	Year ended 31 December 2007 RMB'000	31 December 2008 RMB'000	For the six months ended 30 June 2008 RMB'000 (Unaudited)	
				30 June 2008 RMB'000	30 June 2009 RMB'000
Investing activities					
Purchase of property, plant and equipment	—	—	(17)	—	—
Prepayment for the purchases of land use rights	(119,014)	—	—	—	—
Net cash used in investing activities	(119,014)	—	(17)	—	—
Financing activities					
Proceeds from capital contribution	3,000	—	17,000	17,000	—
Advance from/(repayment) to holding company/former holding company	119,014	18	31	10,021	(10,417)
Net cash generated from/(used in) financing activities	122,014	18	17,031	27,021	(10,417)
Net increase/(decrease) in cash and cash equivalents	3,000	23	15,008	26,339	(12,669)
Cash and cash equivalents at beginning of period/year	—	3,000	3,023	3,023	18,031
Cash and cash equivalents at end of period/year, represents cash and bank balances	3,000	3,023	18,031	29,362	5,362

Major non-cash transaction is disclosed in note 17.

B. NOTES TO THE FINANCIAL INFORMATION**1. BASIS OF PREPARATION****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Basis of preparation

Yichang Xinshougang has recorded net current liabilities of RMB110,797,000 as at 30 June 2009. A shareholder of Shoukong, 中聚聯合控股有限公司 (China Alliance United Holding Company Limited) (“China Alliance”) will unconditionally assume the liabilities owed by the Yichang Xinshougang to the shareholder and a former shareholder of Yichang Xinshougang subsequent to 30 June 2009 as set out in note 24. Consequently, the Financial Information has been prepared on a going concern basis.

(d) Functional and presentation currency

Yichang Xinshougang maintains its books and records in its own functional currency, i.e., Renminbi (“RMB”).

(e) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Yichang Xinshougang’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 23.

2. APPLICATION OF NEW AND REVISED HKFRSs

Yichang Xinshougang has adopted all the new and revised standards and interpretations issued by the HKICPA that are effective for Yichang Xinshougang’s financial period beginning on or prior to 1 January 2009 in the preparation of its Financial Information throughout the Relevant Periods.

Yichang Xinshougang has not yet applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ²
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Right Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers ⁵
HKFRS 9	Financial Instruments ⁸
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ⁶
HK(IFRIC) – Interpretation 14 (Amendment)	Repayments of a Minimum Funding Requirements ⁷

¹

Effective for annual periods beginning on or after 1 July 2009

²

Effective for annual periods beginning on or after 1 January 2010

³

Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

⁴

Effective for annual periods beginning on or after 1 February 2010

⁵

Effective for transfer to assets from customers received on or after 1 July 2009

⁶

Effective for annual periods beginning on or after 1 July 2010

⁷

Effective for annual periods beginning on or after 1 January 2011

⁸

Effective for annual periods beginning on or after 1 January 2013

The directors of Yichang Xinshougang anticipate that the application of the new or revised HKFRSs will have no material impact on the results and the financial position of Yichang Xinshougang.

3. PRINCIPAL ACCOUNTING POLICIES**(a) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Yichang Xinshougang and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period, at an annual rate of 20%.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss.

(b) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

Yichang Xinshougang as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(c) Financial instruments

(i) Financial assets

Yichang Xinshougang classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Yichang Xinshougang’s accounting policy for each category is as follows:

Financial assets at fair value through profit or loss including financial assets held for trading: Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of Yichang Xinshougang includes 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;
- granting concession to a debtor because of debtor’s financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Yichang Xinshougang's financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Equity instruments

Equity instruments issued by Yichang Xinshougang are recorded at the proceeds received, net of direct issue costs.

(v) Derecognition

Yichang Xinshougang derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement".

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(d) Revenue recognition

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(e) Income taxes

Income taxes for the Relevant Periods comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

(f) Employee benefits

The employees of Yichang Xinshougang in the PRC are required to participate in a government-managed retirement benefit schemes. They are required to contribute a fixed cost per employee to the government-managed retirement benefit schemes. The contributions are recognised in profit or loss as they become payable.

(g) Impairment of tangible assets

At the end of each reporting period, Yichang Xinshougang reviews the carrying amounts of its property, plant and equipment and prepaid land lease payment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Yichang Xinshougang has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Related parties

A party is related to Yichang Xinshougang if:

- (a) the party, directly or indirectly through one or more intermediaries:
 - (i) controls, is controlled by, or is under common control with, Yichang Xinshougang;
 - (ii) has an interest in Yichang Xinshougang that gives it significant influence over Yichang Xinshougang; or
 - (iii) has joint control over Yichang Xinshougang;
- (b) the party is a joint venture in which Yichang Xinshougang is a venturer;
- (c) the party is an associate of Yichang Xinshougang;
- (d) the party is a member of the key management personnel of Yichang Xinshougang or Yichang Xinshougang's parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d) above;
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) above; or
- (g) the party is a post-employment benefit plan for the benefit of employees of Yichang Xinshougang, or of any entity that is a related party of Yichang Xinshougang.

(k) Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grants will be received and Yichang Xinshougang will comply with all attached conditions.

Government grants are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4. TURNOVER

Yichang Xinshougang did not generate any turnover during the Relevant Periods.

5. OTHER REVENUE

	31 December 2006 (date of establishment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000 (unaudited)	30 June 2009 RMB'000
Bank interest income	—	23	275	123	49
Government grant (note 15)	—	1,336	1,781	891	891
	—	1,359	2,056	1,014	940

6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	31 December 2006 (date of establishment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000	30 June 2009 RMB'000
				(unaudited)	
Interest expenses:					
Other borrowings wholly repayable within five years	—	—	7,645	3,822	3,822
Auditors' remuneration	—	—	4	4	8
Depreciation of property, plant and equipment	—	—	1	—	1
Amortisation of prepaid land lease payments	—	2,845	3,794	1,897	1,897
Operating lease rentals in respect of buildings	—	—	67	—	41

7. STAFF COSTS

	31 December 2006 (date of establishment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000	30 June 2009 RMB'000
				(unaudited)	
Staff costs (including directors) comprise:					
Salaries and bonus	—	—	114	38	79
Contributions to defined contribution pension plans	—	—	8	—	27

8. DIRECTORS’ AND EMPLOYEES’ REMUNERATION

(a) Directors’ remuneration

No remuneration was paid to the directors of Yichang Xinshougang during the Relevant Periods.

There was no arrangement under which a director of Yichang Xinshougang waived or agreed to waive any remuneration during the Relevant Periods.

No emoluments were paid by Yichang Xinshougang to its directors as an inducement to join, or upon joining Yichang Xinshougang, or as compensation for loss of office.

(b) Employees’ remuneration

None of the five highest paid individuals in Yichang Xinshougang were directors. The emoluments of the five highest paid individuals were as follows:

	31 December 2006 (date of establishment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000 (unaudited)	30 June 2009 RMB'000
Salaries and bonus	—	—	114	38	79
Contributions to defined contribution pension plans	—	—	8	—	27
	—	—	122	38	106

All the employees’ emoluments fell within the band between nil to RMB1,000,000.

9. INCOME TAX

The amount of income tax expenses in the statement of comprehensive income represents:

	31 December 2006 (date of establishment) <i>RMB'000</i>	Year ended		For the six months ended	
	31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i>	30 June 2009 <i>RMB'000</i>	
				(unaudited)	
Current tax					
— PRC Enterprise Income					
Tax for the period/year	—	1	—	—	—

Yichang Xinshougang was subject to PRC Enterprise Income Tax at a rate of 18% for the period from 31 December 2006 (date of establishment) to 31 December 2007 and 25% for the year ended 31 December 2008 and the six months ended 30 June 2009.

The income tax expenses for the Relevant Periods can be reconciled to the loss per the statement of comprehensive income as follows:

	31 December 2006 (date of establishment) RMB'000	Year ended		For the six months ended	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000 (unaudited)	30 June 2009 RMB'000
Loss before income tax	—	(1,504)	(11,487)	(5,377)	(7,098)
Tax calculated at the PRC					
Enterprise Income Tax at tax rate of 25% (2007: 18%)	—	(271)	(2,872)	(1,344)	(1,775)
Tax effect of tax losses not recognised	—	272	2,872	1,344	1,775
Income tax expenses	—	1	—	—	—

10. DIVIDENDS

No dividend was paid or proposed by Yichang Xinshougang during the Relevant Periods, nor has any dividend been proposed since the end of reporting period.

11. LOSS PER SHARE

Loss per share information is not presented as its inclusion is not considered meaningful for the purpose of this report.

12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment
	RMB'000
Cost	
At 31 December 2006 (date of establishment) and 31 December 2007	—
Additions	17
At 31 December 2008	17
Additions	—
At 30 June 2009	17
Accumulated amortisation	
At 31 December 2006 (date of establishment) and 31 December 2007	—
Charge for the year	1
At 31 December 2008	1
Charge for the period	1
At 30 June 2009	2
Carrying amount	
At 30 June 2009	15
At 31 December 2008	16
At 31 December 2007	—
At 31 December 2006	—

APPENDIX IIB ACCOUNTANTS' REPORT ON THE TARGET COMPANY

13. PREPAYMENT/PREPAID LAND LEASE PAYMENTS

The movements of prepaid land lease payments during the Relevant Periods are as follows:

	As at 31 December 2006 <i>RMB'000</i>	As at 31 December 2007 <i>RMB'000</i>	As at 31 December 2008 <i>RMB'000</i>	As at 30 June 2009 <i>RMB'000</i>
Opening net carrying value	—	—	221,495	217,701
Government grants (note 15)	—	105,326	—	—
Transfer from prepayment	—	119,014	—	—
Amount released to profit or loss	—	(2,845)	(3,794)	(1,897)
Closing net carrying value	—	221,495	217,701	215,804
Analysed for reporting purpose as:				
Non-current assets	—	217,701	213,907	212,010
Current assets	—	3,794	3,794	3,794
	—	221,495	217,701	215,804

Prepayment of RMB119,014,000 represented payment for the acquisition of the land use rights of a parcel of land situated in Meizya Village, Yiling District, Yichang City, Hubei Province, the PRC.

In March 2007, Yichang Xinshougang obtained the land use rights certificate for this parcel of land and the prepaid amount was recognised as prepaid land lease payments and amortised over lease terms of between 40 to 70 years.

14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	At 31 December 2006 <i>RMB'000</i>	At 31 December 2007 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>	At 30 June 2009 <i>RMB'000</i>
Other receivables (note)	—	—	142	130
Deposits	—	—	35	35
	—	—	177	165

Note: The amounts are unsecured, non-interest bearing and repayable on demand.

15. DEFERRED GOVERNMENT GRANT

	As at 31 December 2006 <i>RMB'000</i>	As at 31 December 2007 <i>RMB'000</i>	As at 31 December 2008 <i>RMB'000</i>	As at 30 June 2009 <i>RMB'000</i>
Opening net carrying value	—	—	103,990	102,209
Additions	—	105,326	—	—
Amount released to profit or loss	—	(1,336)	(1,781)	(891)
Closing net carrying value	—	103,990	102,209	101,318

In 2007, Yichang Xinshougang received a government grant of approximately RMB105,326,000 in the form of a foregivable payable on the partial land premium in respect of a piece of land situated in Yichang City, Hubei, the PRC. Pursuant to the Land Use Rights Contract and the supplemental contract, Yichang Xinshougang has committed to invest approximately RMB650 million to develop this piece of land during 2007. As the legal title of such parcel of land was obtained by Yichang Xinshougang in March 2007, the government grant was only recorded since that date. Yichang Xinshougang had obtained proper approval of the grant from the relevant government authority. Based on the supplementary agreement signed between the local government in Yichang and Yichang Xinshougang, Yichang Xinshougang will be responsible for the properties development on that piece of land.

The government grant is amortised over the estimated useful lives of the properties to be constructed on that piece of land.

16. PAID-UP CAPITAL

	At 31 December 2006 <i>RMB'000</i>	At 31 December 2007 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>	At 30 June 2009 <i>RMB'000</i>
Registered capital:				
At beginning of period/year	—	10,000	10,000	20,000
Increase in registered capital	10,000	—	10,000	—
At end of period/year	10,000	10,000	20,000	20,000

	At 31 December 2006 <i>RMB'000</i>	At 31 December 2007 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>	At 30 June 2009 <i>RMB'000</i>
Paid-up capital:				
At beginning of period/year	—	3,000	3,000	20,000
Increase in paid-up capital	<u>3,000</u>	<u>—</u>	<u>17,000</u>	<u>—</u>
At end of period/ year	<u><u>3,000</u></u>	<u><u>3,000</u></u>	<u><u>20,000</u></u>	<u><u>20,000</u></u>

Yichang Xinshougang was established on 31 December 2006 with a registered capital of RMB10,000,000 and a paid-up capital of RMB3,000,000 respectively.

On 29 January 2008, Yichang Xinshougang increased its registered capital from RMB10,000,000 to RMB20,000,000. On the same date, Yichang Xinshougang increased its paid-up capital from RMB3,000,000 to RMB20,000,000. The paid-up capital is for general working capital purpose.

17. NON-CASH TRANSACTION

As disclosed in note 15, the government has granted part of the consideration for acquisition of a piece of land of approximately RMB105,326,000 in a form of a forgivable payable.

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related party

	31 December 2006 (date of establishment) <i>RMB'000</i>	Year ended		For the six months ended	
	31 December 2007 <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>	30 June 2008 <i>RMB'000</i> (unaudited)	30 June 2009 <i>RMB'000</i>	
Interest expenses paid to former holding company (note 18b)	—	—	7,645	3,822	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
				<u>3,822</u>	

(b) Balances with related parties

Amounts due to holding company/a former holding company

The amounts due represent advances from 宜昌新首鋼資源控股有限公司 for the purchase of land use rights of RMB119,014,000 (note 13) and general working capital of Yichang Xinshougang. 宜昌新首鋼資源控股有限公司 was the holding company of Yichang Xinshougang as at 31 December 2006 and 2007. After the capital transfer in 2009, it ceased to be a shareholder of Yichang Xinshougang. The amounts due are unsecured and comprise:

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Non-interest bearing portion (note i)	119,014	119,032	41,767	35,172
Interest bearing portion (note ii)	—	—	84,941	84,941
	<u>119,014</u>	<u>119,032</u>	<u>126,708</u>	<u>120,113</u>

Notes:

- (i) The amounts are interest free and repayable on demand.
- (ii) The amounts carry interest at 9% per annum and are repayable on or before 31 December 2009.

19. COMMITMENT

Operating lease commitments — lessee

Yichang Xinshougang leases certain properties under operating leases. The duration of lease ranges from three months to one year. Lease payments are usually negotiated to reflect market rentals.

Yichang Xinshougang had future aggregate minimum lease payments under non-cancelable operating leases in respect of the premises as follows:

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
Not later than one year	<u>—</u>	<u>—</u>	<u>54</u>	<u>14</u>

Capital Commitments

	At 31 December 2006 <i>RMB'000</i>	At 31 December 2007 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>	At 30 June 2009 <i>RMB'000</i>
Authorised but not contracted for	—	650,000	650,000	650,000

The amount represents the commitment amount in developing a piece of land in Yichang City, Hubei province as detailed in note 13.

20. CONTINGENT LIABILITIES

Pursuant to a Contract for the Grant of State-owned Land Use Rights dated 29 December 2006 (the “Land Use Rights Contract”) made between Yichang Xinshougang and the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) and a subsequent supplemental contract dated 29 December 2006, if the construction works for the development of the parcel of land as disclosed in note 13, is not commenced by Yichang Xinshougang before the time limit of 30 June 2007 as stipulated in the Land Use Rights Contract and such delay exceeded the time limit by over one year, Yichang Xinshougang would be subject to a penalty of RMB22,434,000 for land idling. In addition, if the construction works have not commenced by Yichang Xinshougang and the date stipulated is exceeded by over two years, the Bureau of Land Resource could repossess the land use right without compensation. So far, the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) has not issued any demand letter for payment of such penalty or repossession of the land use rights to Yichang Xinshougang.

Yichang Xinshougang conducted the ceremony for commencement of construction works on 27 May 2008 which was broadly reported by the press. Besides, Yichang Xinshougang has already fulfilled its obligation of paying the land premium to the relevant local government and is currently in the process of applying the relevant permits for the commencement of construction works from the local government. It is the opinion of Yichang Xinshougang’s directors that it is not probable for the local government to claim penalty for land idling or repossess the land use rights and no provision for penalty has been made during the Relevant Periods.

21. CAPITAL MANAGEMENT POLICY

Yichang Xinshougang’s objectives when managing capital are:

- to safeguard Yichang Xinshougang’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders.

Yichang Xinshougang sets the amount of capital in proportion to risk. Yichang Xinshougang manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Yichang Xinshougang is exposed through its operations to the following risks from its use of financial instruments:

- Market risks (interest rate risk and foreign exchange risk)
- Liquidity risk
- Credit risk

These risks are limited by Yichang Xinshougang’s financial management policies and practices described below. Generally, Yichang Xinshougang introduces conservative strategies on its risk management.

Market risks

(a) Interest rate risk

Yichang Xinshougang’s fair value interest-rate risk mainly arises from borrowing from a former shareholding company as disclosed in note 18(b). The borrowing was issued at fixed rates which expose Yichang Xinshougang to fair value interest-rate risk. Yichang Xinshougang currently has not used any financial instruments to hedge potential fluctuations in interest rates. However, management will consider hedging significant interest rate exposure should the need arise.

Interest rate profile

The following table details interest rates analysis that management of Yichang Xinshougang evaluates its interest rate risk.

	At 31 December 2006		At 31 December 2007		At 31 December 2008		At 30 June 2009	
	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Fixed rate borrowing								
Amount due to a former holding company	—	—	—	—	9	84,941	9	84,941

Interest rate sensitivity

The following table indicates the approximate increase/(decrease) in the loss after taxation in response to possible reasonable changes in an interest rate to which Yichang Xinshougang has significant exposure at the end of reporting period. In determining the effect on loss after taxation, Yichang Xinshougang assumes that the change in interest rate had occurred at the end of reporting period and all other variables being held constant. There is no change in the methods and assumptions used in the Relevant Periods:

	31 December 2006 (date of establishment) RMB'000	Year ended 31 December 2007 RMB'000		For the six months ended 30 June 2008 RMB'000 (unaudited)	
		31 December 2007 RMB'000	31 December 2008 RMB'000	30 June 2008 RMB'000	30 June 2009 RMB'000
Increases by 100 basis points	—	—	637	319	319
Decreases by 100 basis points	—	—	(637)	(319)	(319)

(b) Foreign exchange risk

Yichang Xinshougang mainly operates in the PRC with most of the transactions denominated and settled in RMB. Most of Yichang Xinshougang’s monetary assets and liabilities are also denominated in RMB. Therefore, directors of Yichang Xinshougang consider it has no significant foreign exchange risk.

Liquidity risk

Internally generated cash flow and owners’ contribution are the general sources of funds to finance the operations of Yichang Xinshougang. Yichang Xinshougang’s liquidity risk management is to diversify the funding sources. Yichang Xinshougang regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Yichang Xinshougang has recorded net current liabilities of RMB111 million at 30 June 2009. The related company has confirmed its intention to provide sufficient financial support to Yichang Xinshougang so as to meet its liabilities as and when they fall due and to enable Yichang Xinshougang to continue operating for the foreseeable future.

The contractual maturities of Yichang Xinshougang’s financial liabilities are shown as below:

	At 31 December 2006 RMB'000	At 31 December 2007 RMB'000	At 31 December 2008 RMB'000	At 30 June 2009 RMB'000
In less than one year	<u>119,014</u>	<u>119,032</u>	<u>126,708</u>	<u>120,113</u>

Credit risk

Yichang Xinshougang’s maximum exposure to credit risk in the event of the counterparties failure to perform their obligations the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by state-owned banks in the PRC.

23. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, Yichang Xinshougang’s management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Claim penalty for land idling

As explained in note 20, Yichang Xinshougang's directors use their judgement to assess possible claim penalty by the local government for land idling and are of the view that no provision for penalty has been made during the Relevant Periods.

24. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a letter issued by China Alliance dated 16 October 2009, China Alliance will unconditionally assume the amounts due to the related parties set out in note 18(b) and be granted other receivables of Yichang Xinshougang upon the completion of the Acquisition.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yichang Xinshougang in respect of any period subsequent to 30 June 2009.

Yours faithfully,

BDO Limited

Certified Public Accountants

Choi Man On

Practising Certificate Number P02410

Hong Kong

1. INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement, have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition of the Target Group by the Group as if the Acquisition had taken place on (i) 31 March 2009 for the unaudited pro forma consolidated balance sheet; and (ii) on 1 April 2008 for the unaudited pro forma consolidated income statement and consolidated cash flow statement.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited financial statements of the Group for the year ended 31 March 2009 as set out in Appendix I and the audited financial information of the Target Group as set out in Appendix IIA to this circular, after giving effect to the pro forma adjustments described in the accompanying notes. Narrative descriptions of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates and uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position, results of operations and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position, results of operations or cash flows of the Enlarged Group.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(I) Unaudited pro forma consolidated balance sheet of the Enlarged Group

	Audited consolidated balance sheet of the Group as at 31 March 2009 HK\$'000 Note 1	Audited consolidated statement of financial position of the Target Group as at 30 June 2009 HK\$'000 Note 2	Pro forma adjustment HK\$'000 Note 3 (i) to (vii)	Pro forma adjustment HK\$'000 Note 3 (ii)	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2009 HK\$'000
Non-current assets					
Investment property	37,000	—			37,000
Property, plant and equipment	95,774	17			95,791
Prepaid land lease payments	32,810	245,406	737,191		1,015,407
Biological assets	71,950	—			71,950
Forest concession rights	530,783	—			530,783
Prepayments for acquisition of plantation assets and equipment	60,358	—			60,358
	<u>828,675</u>	<u>245,423</u>			<u>1,811,289</u>
Current assets					
Financial assets at fair value through profit or loss	882	—			882
Inventories	120,603	—			120,603
Trade and other receivables	29,305	1,660	(1,622)		29,343
Prepaid land lease payments	711	4,499			5,210
Cash and bank balances	132,736	37,297	(50,000)		120,033
	<u>284,237</u>	<u>43,456</u>			<u>276,071</u>
Current liabilities					
Promissory note payable	—	—		46,031	46,031
Trade and other payables	11,367	11			11,378
Amount due to a related company	—	154,352	(154,352)		—
Amount due to a former shareholder	—	5,670	(5,670)		—
Amount due to a shareholder	—	29,281	(29,281)		—
Short term borrowings	14,212	—			14,212
Tax payables	—	2			2
	<u>25,579</u>	<u>189,316</u>			<u>71,623</u>
Net current assets/(liabilities)	<u>258,658</u>	<u>(145,860)</u>			<u>204,448</u>
Total assets less current liabilities	<u>1,087,333</u>	<u>99,563</u>			<u>2,015,737</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

	Audited consolidated balance sheet of the Group as at 31 March 2009 <i>HK\$'000</i> <i>Note 1</i>	Audited consolidated statement of financial position of the Target Group as at 30 June 2009 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 3</i> <i>(i) to (vii)</i>	Pro forma adjustment <i>HK\$'000</i> <i>Note 3 (ii)</i>	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2009 <i>HK\$'000</i>
Non-current liabilities					
Convertible note payable	—	—	279,460		279,460
Promissory note payable	—	—	203,540	(46,031)	157,509
Deferred tax liabilities	1,574	—			1,574
Deferred government grant	—	114,895			114,895
Acreage fees payable	11,368	—			11,368
	<u>12,942</u>	<u>114,895</u>			<u>564,806</u>
Net assets/(liabilities)	<u>1,074,391</u>	<u>(15,332)</u>			<u>1,450,931</u>
Equity					
Share capital	101,370	2,268	42,759 (2,268)		144,129
Reserves	<u>950,050</u>	<u>(17,600)</u>	351,381		<u>1,283,831</u>
Equity attributable to equity holders of the Company	1,051,420	(15,332)			1,427,960
Non-controlling interests	<u>22,971</u>	<u>—</u>			<u>22,971</u>
Total equity	<u>1,074,391</u>	<u>(15,332)</u>			<u>1,450,931</u>

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(II)

Unaudited pro forma consolidated income statement of the Enlarged Group

	Audited consolidated income statement of the Group for the year ended 31 March 2009	Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2008		Pro forma adjustments			Unaudited pro forma consolidated income statement of the Enlarged Group as at 31 March 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 2	Note 3 (ii)	Note 3 (iii)	Note 3 (viii)	Note 3 (x)	
Turnover	17,841	—					17,841
Cost of sales	(18,696)	—					(18,696)
Gross loss	(855)	—					(855)
Interest income	1,166	313					1,479
Government grant	—	1,861			159		2,020
Loss on change in fair value of investment property	(5,236)	—					(5,236)
Gain on change in fair value of biological assets less estimated point-of-sale costs	35,548	—					35,548
Other income and other gains to losses	(8,870)	—					(8,870)
Realised loss on financial assets at fair value through profit or loss	(27,529)	—					(27,529)
Selling and administrative expenses	(64,682)	(6,377)			(337)	(12,992)	(84,388)
Finance costs	(799)	(7,992)	(37,719)	(61,114)	(679)		(108,303)
Share of loss of an associate	—	(300)			300		—
Loss before taxation	(71,257)	(12,495)					(196,134)
Taxation charge	(185)	—					(185)
Loss for the year	(71,442)	(12,495)					(196,319)
Attributable to:							
Equity holders of the Company	(67,436)	(10,061)	(37,719)	(61,114)	(2,991)	(12,992)	(192,313)
Non-controlling interests	(4,006)	(2,434)			2,434		(4,006)
	(71,442)	(12,495)					(196,319)

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(III) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2009	Audited consolidated statement of cash flow of the Target Group for the year ended 31 December 2008		Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Enlarged Group as at 31 March 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 2	Note 3	Note 3 (ii)	Note 3 (iii)	Note 3 (viii)	Note 3 (x)	
			(i) to (iv)					
Operating activities								
(Loss)/profit before taxation	(71,257)	(12,495)		(37,719)	(61,114)	(557)	(12,992)	(196,134)
Adjustments for:								
Interest income	(1,166)	(313)						(1,479)
Interest expenses	—	7,991		37,719	61,114	679		107,503
Share of result of associate	—	300				(300)		—
Depreciation of property, plant and equipment	7,467	1						7,468
Loss on change in fair value of investment property	5,236	—						5,236
Gain on change in fair value of biological assets less estimated point-of-sale costs	(35,548)	—						(35,548)
Realised loss on financial assets at fair value through profit or loss	27,529	—						27,529
Release of prepaid lease payment	711	3,983				337	12,992	18,023
Amortisation of forest concession rights	3,024	—						3,024
Amortisation of deferred government grant	—	(1,860)				(159)		(2,019)
Property, plant and equipment written off	245	—						245
Impairment loss on inventories	1,956	—						1,956
Net write off of inventories	2,604	—						2,604
Operating cash outflows before changes in working capital	(59,199)	(2,393)						(61,592)
Decrease in financial assets at fair value through profit or loss	904	—						904
Increase in inventories	(84,645)	—						(84,645)
Decrease/(increase) in trade and other receivables	24,360	(201)						24,159
Increase in amount due to a related company	—	16,987						16,987
Decrease in amount due to a shareholder	—	113						113
(Decrease)/increase in trade and other payables	(12,341)	(1)						(12,342)
Decrease in acreage fees payable	(549)	—						(549)

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	Audited consolidated cash flow statement of the Group for the year ended 31 March 2009	Audited consolidated statement of cash flow of the Target Group for the year ended 31 December 2008		Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Enlarged Group as at 31 March 2009
	HK\$'000 Note 1	HK\$'000 Note 2	HK\$'000 Note 3 (i) to (iv)	HK\$'000 Note 3 (ii)	HK\$'000 Note 3 (iii)	HK\$'000 Note 3 (viii)	HK\$'000 Note 3 (x)	HK\$'000
Increase of biological assets due to plantation expenditure incurred	(10,955)	—						(10,955)
Decrease of biological assets due to direct sales	329	—						329
Effect of foreign exchange difference	8,231	—						8,231
Cash used in operations	(133,865)	14,505						(119,360)
Interest received	1,166	313						1,479
Overseas tax paid	(269)	—						(269)
Net cash used in operating activities	(132,968)	14,818						(118,150)
Investing activities								
Cash inflow on change of status from associate to subsidiary	—	5,753						5,753
Purchase of property, plant and equipment	(16,534)	(19)						(16,553)
Additions of prepaid lease payment	(1,173)	—						(1,173)
Purchase of property, plant and equipment	(1,703)	—						(1,703)
Purchase of biological assets	(25,982)	—						(25,982)
Purchase of financial assets at fair value through profit or loss	(63,789)	—						(63,789)
Proceeds from disposal of financial assets at fair value through profit or loss	36,260	—						36,260
Net cash used in investing activities	(72,921)	5,734						(67,187)
Financing activities								
Proceed from short term borrowings	8,139	—						8,139
Proceed from issue of consideration share			186,000					186,000
Proceed from issue of convertible bonds			470,000					470,000
Proceed from issue of promissory notes			280,000					280,000
Repayment of promissory notes				(83,750)				(83,750)
Cash outflow for the acquisition			(50,000)					(50,000)
Dividend paid	(10,137)	—						(10,137)

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	Audited consolidated cash flow statement of the Group for the year ended 31 March 2009	Audited consolidated statement of cash flow of the Target Group for the year ended 31 December 2008		Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Enlarged Group as at 31 March 2009
	HK\$'000 Note 1	HK\$'000 Note 2	HK\$'000 Note 3 (i) to (iv)	HK\$'000 Note 3 (ii)	HK\$'000 Note 3 (iii)	HK\$'000 Note 3 (viii)	HK\$'000 Note 3 (x)	HK\$'000
Net cash (used in)/generated from financing activities	(1,998)	—						800,252
Net decrease in cash and cash equivalents	(207,887)	20,552						614,915
Cash and cash equivalents at beginning of year	339,838	6						339,844
Effect of foreign exchange rate changes	785	—						785
Cash and cash equivalents at end of year	132,736	20,558						955,544

Notes to unaudited pro forma financial information:

- 1. The financial information of the Group is extracted from the consolidated financial statements as included in the published annual report of the Company for the year ended 31 March 2009 as set out in Appendix I of this Circular.
- 2. The financial information of the Target Group is extracted from the financial information of the Target Group as set out in Appendix IIA of this Circular. For the unaudited pro forma consolidated income statement and cash flow statement, the information presented represents the financial information of the Target Group for the year ended 31 December 2008.
- 3. Pursuant to the S&P Agreement, the Group has agreed to acquire the entire interests of the Target Group at a consideration of HK\$986,000,000, which is to be satisfied in the following manner:

	HK\$
Issue of Consideration Shares (note i)	186,000,000
Issue of Promissory Note (note ii)	280,000,000
Issue of Convertible Bonds (note iii)	470,000,000
Cash (note iv)	50,000,000
Total	986,000,000

note i: Pursuant to the S&P Agreement, the consideration of HK\$186,000,000 will be satisfied by 4,275,862,068 Consideration Shares at an issue price of HK\$0.0435 each (“Issue Price”), assuming that the Issue Price was the fair value of the share of the Company as at 31 March 2009. As a result of the issue of the Consideration Shares, the share capital and share premium of the Company increased by approximately HK\$42,759,000 and approximately HK\$143,241,000 respectively.

note ii: Pursuant to the S&P Agreement, the Promissory Note with a principal amount of HK\$280,000,000 with an interest rate of 1.5% per annum will be issued to China Alliance or its nominee(s). The Promissory Note will be repaid by 14 instalments of HK\$20,000,000 each together with the interest accrued thereon payable on the last day of every three months after the issue of the Promissory Note. The fair value of the Promissory Note is approximately HK\$203,540,000 based on the valuation performed by an independent firm of valuers, LCH (Asia-Pacific) Surveyors Limited, as at 31 March 2009. The fair value adjustment of approximately HK\$76,460,000 will be reflected in the pro forma adjustment of the Acquisition in note (v). The fair value of the Promissory Note is split into current liabilities of approximately HK\$46,031,000 and non-current liabilities of approximately HK\$157,509,000 respectively.

Assuming the Promissory Note were issued on 1 April 2008, the adjustment of HK\$37,719,000 represented the imputed interest to be expensed by the Group for the year ended 31 March 2009. The interest expense shall have continuing effect on the financial statements of the Enlarged Group in subsequent years.

The cash outflow of the Group in respect of the quarterly coupon and debt repayment of the Promissory Note would be HK\$3,750,000 and HK\$80,000,000 respectively, in total of HK\$83,750,000.

note iii: Pursuant to the S&P Agreement, the Convertible Bonds with a principal amount of HK\$470,000,000 with a coupon rate of 2.15% per annum will be issued to China Alliance or its nominee(s). The Convertible Bonds will mature three years after the issue date (“Maturity Date”). The Convertible Bonds may at any time before the Maturity Date be redeemed. The conversion price has been set at HK\$0.056 per share. The value of the Convertible Bonds is split into a debt component of approximately HK\$279,460,000 which is recognised in the unaudited consolidated balance sheet as a non current liability and an equity component of approximately HK\$190,540,000 which is recognised in the convertible bonds reserve (note vii).

Assuming the Convertible Bonds were issued on 1 April 2008, the adjustment of HK\$61,114,000 represented the imputed interest to be expensed by the Group for the year ended 31 March 2009. The interest expense shall have continuing effect on the financial statements of the Enlarged Group in subsequent years.

note iv: Pursuant to the S&P Agreement, cash of HK\$50,000,000 will be paid. As a result, the cash and cash equivalent balances decreased by HK\$50,000,000.

note v: The fair value of net assets of the Target Group acquired in the Acquisition as at 31 March 2009 are as follows:

		Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment		17	—	17
Prepaid land lease payment	<i>v</i>	249,905	737,191	987,096
Trade and other receivables	<i>vi</i>	1,660	—	1,660
Cash and bank balances		37,297	—	37,297
Trade and other payables	<i>vi</i>	(11)	—	(11)
Amount due to a related company	<i>vi</i>	(154,352)	—	(154,352)
Amount due to a former shareholder	<i>vi</i>	(5,670)	—	(5,670)
Amount due to a shareholder	<i>vi</i>	(29,281)	—	(29,281)
Tax payables		(2)	—	(2)
Deferred government grant		(114,895)	—	(114,895)
		<u>(15,332)*</u>	<u>737,191</u>	<u>721,859</u>

* Representing share capital of HK\$2,268,000 and accumulated losses of HK\$17,600,000 (*note vii*).

Net payable unconditionally assumed by China Alliance (<i>note vi</i>)	187,681
Total fair value of consideration (<i>note ix</i>)	<u>909,540</u>

The adjustment represented the elimination of the Group’s investment in the Target Group, paid-up capital and the pre-acquisition reserves and the recognition of fair value adjustments arising from the acquisition.

The amount of HK\$737,191,000 represented the fair value adjustment to prepaid land lease payment acquired by the Group.

On completion of the acquisition of the Target Group, the fair value of net identifiable assets, liabilities and contingent liabilities of the Target Group, the fair value of net identifiable assets, liabilities, Consideration Shares, Promissory Note and Convertible Bonds will have to be reassessed. As a result of the assessment, the fair value adjustment to the prepaid land lease payment may be different from that estimated as stated above for the purpose of preparation of the unaudited pro forma financial information. Accordingly, the actual fair value at the completion date of the transaction may be different from that presented above.

note vi: According to a letter dated 16 October 2009 issued by China Alliance, certain amount in the “Amount due to a related company/a shareholder/a former shareholder”, “Trade and other receivables” and “Trade and other payables” in the books of the Target Group shall be taken over by China Alliance upon Completion.

The components of the net payable to be unconditionally assumed by China Alliance are as follows:

	HK\$’000
Other receivables	1,622
Amount due to a related company	(154,352)
Amount due to a shareholder	(29,281)
Amount due to a former shareholder	(5,670)
	<u>(187,681)</u>

note vii: The components of the reserves of the pro forma adjustments are as below:

	Note	HK\$’000
Equity portion of Convertible Bonds	(iii)	190,540
Pre-acquisition reserves eliminated	(v)	17,600
Share premium	(i)	<u>143,241</u>
		<u>351,381</u>

note viii: The adjustment represents the elimination of HK\$300,000 which is the pre-acquisition share of loss of an 35% owned associate, 宜昌新首鋼房地產有限公司 and assuming it becomes a 100% wholly owned subsidiary of the Group on 1 April 2008 and the Group fully shares its pre-acquisition loss of HK\$857,000.

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- note ix:

The amount represents the total consideration of HK\$986,000,000 net of the fair value adjustment on the Promissory Note of approximately HK\$76,460,000 (note (ii)).
- note x:

The amount represents the additional amortisation of the prepaid land lease payment as a result of fair value adjustments, which is expected to have a continuing effect on the Enlarged Group after the Completion of the Acquisition.

Calculation for the additional amortisation of intangible assets:

		HK\$'000
	Additional amortisation in relation to the prepaid land lease payment with remaining useful life of approximately 38 and 68 years	12,992
4.	For the purpose of the unaudited pro forma financial information of the Enlarged Group, amounts expressed in Renminbi have been translated to Hong Kong dollars at the rate of RMB1:HK\$1.134, which is the prevailing exchange rate as at 31 March 2009.	



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23 December 2009

The Board of Directors
China Timber Resources Group Limited
Room 1606, Office Tower,
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of China Timber Resources Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the acquisition of the entire equity interest in 首控 (北京) 管理諮詢有限公司 (Shoukong (Beijing) Management Consulting Company Limited (“Shoukong”, together with its subsidiary and the Group referred to as the “Enlarged Group”) might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed “Introduction” in Section 1 of Appendix III to the circular of the Company dated 23 December 2009.

RESPECTIVE RESPONSIBILITIES OF 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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing 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 29(7) of Chapter 4 of the Listing 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 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 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 does 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 purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose 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 actually occurred as at 31 March 2009 or any future date; and
- the results and cash flows of the Enlarged Group for the year ended 31 March 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 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

BDO Limited

Certified Public Accountants

Andy Choi

Practising Certificate Number P02410

Hong Kong

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

The Target Group comprises the Target Company and the Target Holding Company. Set out below is the management discussion and analysis on the Target Group for the period from 13 September 2006 to 31 December 2006, the year ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 (the “Relevant Periods”).

Business review and financial review

The Target Holding Company is an investment holding company and the principal activities of its subsidiary, the Target Company, are property development, asset management and investment consultation in the PRC. During the Relevant Periods, the Target Group had not generated any revenue from its operations.

Revenue

During the Relevant Periods, the Target Group had no revenue.

Interest income

During the Relevant Periods, the Target Group recorded bank interest income of approximately RMB2,000, RMB7,000, RMB276,000 and RMB59,000 respectively.

Deferred government grants

During the Relevant Periods, the Target Group recorded amortisation of deferred government grants of approximately RMB0, RMB0, RMB1.6 million and RMB0.9 million respectively.

Administrative expenses

During the Relevant Periods, the Target Group recorded administrative expenses of approximately RMB0, RMB7,000, RMB5.6 million and RMB4.2 million respectively.

Finance costs

The Target Group had no finance cost for the period ended 31 December 2006 and for the year ended 31 December 2007. For the year ended 31 December 2008 and

the six months ended 30 June 2009, the Target Group recorded finance costs of approximately RMB7.0 million and approximately RMB3.8 million respectively, which comprised interest expenses paid by the Target Company to its former holding company for the interest bearing portion of an advance for the purchase of land use rights of approximately RMB224.3 million and its general working capital.

Contingent liabilities

Pursuant to the Land Use Rights Contract dated 29 December 2006 made between the Target Company and the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) and a subsequent supplemental contract dated 29 December 2006, if the construction works for the development of the parcel of land located in Yiling District, Yichang City, is not commenced by the Target Company before 30 June 2007 as stipulated in the Land Use Rights Contract and should such delay exceed the date stipulated by over one year, the Target Company would be subject to a penalty payment of RMB22,434,000 to the government for land idling. In addition, if the construction works have not commenced by Yichang Xinshougang and the date stipulated is exceeded by over two years, the Bureau of Land Resource could repossess the land use right without compensation. So far, the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) has not issued any demand letter for payment of such penalty or repossession of the land use rights to the Target Company. If such penalty is demanded by the said Bureau, the Target Company shall be responsible for the payment. However, for any penalty claim paid, the Company could claim compensation from China Alliance pursuant to the S&P Agreement and the China Alliance Undertaking Letter dated 16 October 2009 issued by China Alliance which stipulated that all outstanding debts of the Target Group incurred before Completion shall be undertaken by China Alliance.

Save as aforesaid, the Target Group did not have any contingent liabilities during the Relevant Periods.

Loss for the period/years

The Target Company recorded a loss of approximately RMB0, RMB1.5 million, RMB11.5 million and RMB7.1 million during the year ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 respectively. During the Relevant Periods, the Target Holding Company recorded a gain of approximately RMB2,000 and losses of approximately RMB527,000, RMB11 million and RMB7.1 million respectively.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 December 2006, the audited total assets and net assets of the Target Company were approximately RMB122.0 million and RMB3.0 million respectively while the audited total assets and net assets of the Target Holding Company were approximately RMB3.1 million and RMB2.0 million respectively. The cash and cash equivalents amounted to approximately RMB3 million for the Target Company and approximately RMB2,000 for the Target Holding Company. The Target Company incurred total liabilities of approximately RMB119.0 million which was the amount advanced from its former shareholder for the purchase of land use rights and general working capital and was non-interest bearing and repayable on demand. The Target Holding Company incurred total liabilities of approximately RMB1.1 million which was a loan to the Target Holding Company for its capital contribution for the formation of the Target Company. Such amount was unsecured, non-interest bearing and repayable on demand. As at 31 December 2006, the gearing ratios of the Target Company and the Target Holding Company, calculated as a percentage of the total liabilities to the total assets, were approximately 97.5% and 35.5% respectively.

As at 31 December 2007, the audited total assets and net assets of the Target Company were approximately RMB224.5 million and RMB1.5 million respectively while the audited total assets and net assets of the Target Holding Company were approximately RMB3.1 million and RMB2.0 million respectively. The cash and cash equivalents amounted to approximately RMB3.0 million for the Target Company and approximately RMB5,000 for the Target Holding Company. The Target Company incurred total liabilities of approximately RMB223.0 million which comprised approximately RMB1,000 tax payable and approximately RMB119.0 million being the amount advanced from its former shareholder for the purchase of land use rights and approximately RMB104 million deferred government grants and general working capital and was non-interest bearing and repayable on demand. The Target Holding Company incurred total liabilities of approximately RMB1.1 million which was a loan to the Target Holding Company for its capital contribution for the formation of the Target Company. Such amount was unsecured, non-interest bearing and repayable on demand. As at 31 December 2007, the gearing ratios of the Target Company and the Target Holding Company, calculated as a percentage of the total liabilities to the total assets, were approximately 99.3% and 35.5% respectively.

On January 2008, the Target Company became the subsidiary of the Target Holding Company. As at 31 December 2008, the audited total assets and net liabilities

of the Target Group were approximately RMB238.9 million and RMB6 million respectively. The cash and cash equivalents amounted to approximately RMB18.1 million and the Target Group incurred total liabilities of approximately RMB244.9 million which comprised deferred government grants, other payables and the advances to the Target Company from its former shareholder for the purchase of land use rights and general working capital. Out of the approximately RMB142.7 million due from the Target Group to the former shareholder of the Target Company, approximately RMB57.8 million was interest free and repayable on demand and approximately RMB84.9 million was interest bearing at 9% per annum and repayable on or before 31 December 2009. The gearing ratio of the Target Group, calculated as a percentage of the Target Group's total liabilities to the Target Group's total assets, was approximately 102.5%.

As at 30 June 2009, the audited total assets and net liabilities of the Target Group were approximately RMB254.7 million and RMB13.5 million respectively. The cash and cash equivalents amounted to approximately RMB32.9 million and the Target Group incurred total liabilities of approximately RMB268.3 million which comprised tax payable, other payables, advances to the Target Company from its former shareholder for the purchase of land use rights, deferred government grants and general working capital, and amount due to former shareholders. Out of the approximately RMB136.1 million due from the Target Group to the former shareholder of the Target Company, approximately RMB51.2 million was interest free and repayable on demand and approximately RMB84.9 million was interest bearing at 9% per annum and repayable on or before 31 December 2009. The amounts due from the Target Group to its former shareholders were unsecured, non-interest bearing and repayable on demand. The gearing ratio of the Target Group, calculated as a percentage of the Target Group's total liabilities to the Target Group's total assets, was approximately 105.3%.

Pledge of assets

The Target Group did not pledge any assets during the Relevant Periods.

Capital commitments

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Target Group recorded capital commitments of approximately RMB0, RMB650 million, RMB650 million, RMB650 million respectively.

Significant investments, material acquisitions and disposals

During the period ended 31 December 2006, the Target Holding Company established the Target Company and held its equity interest of 35% with capital contribution of RMB 1.05 million. On January 2008, the Target Holding Company made additional contribution of RMB14.95 million to the Target Company for an additional 45% equity interest and the Target Company became its subsidiary. During the period ended 30 June 2009, the Target Holding Company acquired the remaining 20% equity interest in the Target Company and it became a wholly-owned subsidiary of the Target Holding Company.

During the period ended 31 December 2006, the Target Company, through a public auction, acquired a parcel of land with an area of approximately 587,726 square meters located in Meiziya Village, Yiling District, Yichang City, Hubei Province, the PRC with a cash consideration of approximately RMB224.3 million. The Target Company obtained the land use rights certificate from the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) in respect of the Yichang Land in March 2007 and subsequently during the year ended 31 December 2008, the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會) approved the Target Company to develop the property project on the Yichang Land which mainly includes the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), and the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房) with gross floor areas of approximately 34,907 square meters and 522,379 square meters respectively. During the six months ended 30 June 2009, the Target Company obtained the approval letter issued by the Tourism Bureau of Yichang City (宜昌市旅遊局) for the development of the Three Gorges State Guest House (三峽國賓館) on the Yichang Land with gross floor area of approximately 48,800 square meters.

Save for the investments in the Target Company and the acquisition of the Yichang Land by the Target Company as mentioned above, the Target Group did not have any other significant investments, material acquisitions and disposals during the Relevant Periods.

Employees and remuneration

During the Relevant Periods, no remuneration was paid to the directors of the Target Group. No staff cost was recorded for the period ended 31 December 2006 and for the year ended 31 December 2007 and the total staff costs for the year ended 31 December 2008 and the six months ended 30 June 2009 amounted to approximately RMB122,000 and RMB106,000 respectively. During the Relevant Periods, the Target Group did not adopt any remuneration policies, bonus and share option schemes and training schemes.

Exchange rate exposure

The Target Group had no exchange rate exposure during the Relevant Periods.

Prospects

The Target Group has no further plan for material investments and it is the intention of the Target Group to focus on the property development projects on the Yichang Land. The property development project will be completed in phases in the coming years and will generate stable revenues to the Target Group in the future.

2. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in forest operation and management, timber logging and trading, timber processing, manufacture and sale of timber products and cold storage warehouse management. The turnover of the Group was affected by the worldwide financial tsunami, leading to an audited net loss of approximately HK\$71.4 million. The credit crunch led to a decrease in demand of the Group's products in the whole PRC market. As a result, the wholesale and retail price of timber in the PRC dropped significantly.

The turnover contributed by timber logging and trading and other operation represented 96% of the overall turnover of the Group for the year ended 31 March 2009. Taking the advantage of low production and sales costs in the timber related products, the Group explored the manufacture and sale of furniture and handicrafts business in the PRC to maximize investment return. The Directors believe that in the long run, given the stimulation of the macro-economic by the PRC government, the internal demand for timber products will be boosted up and thus will provide a better gross margin. In addition, the Group's operation in cold storage warehouse rental business has become insignificant due to continuous decrease in rental

income for the past few years. Thus, it has been the strategy of the Company to continue seeking other investment opportunities to broaden the source of income of the Group.

The Directors are of the view that given the positive outlook of the PRC economy, the property market in the PRC will continue to prosper. Thus, the Directors believe it is an appropriate time to tap into the PRC property development market. As mentioned in the paragraph headed “REASONS FOR THE ACQUISITION” above, upon Completion, the Acquisition will also enable the Group to serve the uprising demand of exhibition and convention facilities and superior quality hotel rooms in Yichang City, which the Directors believe will become one of the famous tourist cities, and provide an additional source of income to the Group.

The Enlarged Group will continue its existing principal business of the Group and will look for opportunities to diversify into the property development market in the PRC. Save as the Acquisition, the Company does not have any agreement, arrangement, understanding or negotiation (whether concluded or not) about any other acquisitions, and the Board has no intention to make any significant changes to the Group’s existing business.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the despatch of this Circular,

(a) Borrowings

As at 31 October 2009, the Enlarged Group did not have any outstanding borrowings.

(b) Securities

As at 31 October 2009, the Enlarged Group had not pledged any of its assets to third parties and did not have any outstanding debt securities.

(c) Contingent Liabilities

Save as the contingent liabilities of the Target Group set out in section 1 of Appendix IV to this circular, as at 31 October 2009, the Enlarged Group did not have any contingent liabilities.

(d) Capital Commitment

As at 31 October 2009, the Enlarged Group have the following capital commitments:

- i. The Group has capital commitments of HK\$107 million for the acquisition of its plantation assets and property, plant and equipment.
- ii. The Target Group has capital commitment of HK\$737 million for the development of a piece of land in Yichang City, Hubei province.

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans debt securities or other similar indebtedness, finance leases or hire purchases commitments, liabilities under acceptance or acceptance credits or any guarantee or other material contingent liabilities outstanding as at 31 October 2009.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rate of exchange prevailing as at 31 October 2009.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group and the Target Group since 31 October 2009 up to the Latest Practicable Date.

4. WORKING CAPITAL

The initial estimation of the total investment on the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), the Three Gorges State Guest House (三峽國賓館) and the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房) was approximately RMB650 million and was only an approximation for the purpose of entering into the Land Use Rights Contract and the subsequent supplemental contract between the Target Company and the Bureau of Land Resource.

Based on the latest overall development plan of the Property Project and the prevailing costs of construction materials, the Directors expected that the total investment for the Property Project should be approximately RMB2,000 million.

The initial investment required for the development of the Property Project which will be incurred in the first year following Completion is expected to be approximately HK\$181 million. The Company currently envisages that such investment will be funded by internal resources of the Group, borrowings, issue of securities of the Company and other feasible ways of financing. Further details in this regard will be announced by the Company as and when appropriate.

In determining the sufficiency of the working capital of the Enlarged Group, the Directors have made the assumptions that the Enlarged Group will be able to raise sufficient funding (including but not limited to borrowings and equity financing such as issue of securities of the Company and other feasible ways of financing) for the development of the Property Project for a period of 12 months from Completion.

The Directors are of the opinion that in the absence of unforeseen circumstances, and after taking into account the internal resources available to the Enlarged Group and based on the assumptions as set out in the preceding paragraphs, the Enlarged Group will have sufficient working capital, for its present requirements in the next 12 months from the date of this circular.

A. VALUATION REPORT ON THE PROPERTY INTERESTS OF THE GROUP

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests of the Group.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROPERTY VALUERS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (the “IVS”) published by the International Valuation Standards Committee as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
287 – 291 Des Voeux Road Central
Hong Kong

23 December 2009

The Directors
China Timber Resources Group Limited
Suite 1606, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Timber Resources Group Limited (hereinafter referred to as the “Company”) to us to value certain designated properties in which the Company and its subsidiaries (collectively hereinafter with the Company referred to as the “Group”) have interests in Hong

Kong, Australia and in the People's Republic of China (hereinafter referred to as the "PRC" or "China"), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of values of the properties as at 30 September 2009 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) would form part of the Company's business due diligence to the properties and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching his business decision regarding the properties. Our findings and conclusion in this valuation are documented in a valuation report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and the valuation certificate) to summarise our findings and conclusion as documented in the valuation report for the purpose of inclusion in this circular at today's date for the Company's shareholders' reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. We considered that market value is the most appropriate basis of value for a wide range of applications, including the purpose of this engagement, thus, after discussed with the management of the Company, we have adopted the market value basis of the properties in our valuations.

The term "Market Value" is defined as "the estimated amount for which a property 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".

There are three generally accepted property valuation approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (also referred to as the Market Approach), the Cost Approach and the Income Approach.

In valuing the property in Group I, we have adopted the investment method of the Income Approach (or sometimes referred to as a method of the Market Approach for the reversionary interests and the rate of return are market-derived) by taking into account the current rent receivable from the existing tenancy agreement and the reversionary potential of the property interest. Our opinion of value of the property in this group was subject to the existing tenancy agreement, and otherwise with the benefit of vacant possession.

In valuing the properties in Group II, we have adopted the Sales Comparison Approach on the assumption that the properties were sold with the benefit of vacant possession. This method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

Unless otherwise stated, in valuing each of the properties in Groups I and II, we have assumed that:

1. the legally interested party in the property sells the property in the market in its existing state and at its permitted usage without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property;
2. the legally interested party in the property has free and uninterrupted rights to use or assign the property interests for its existing permitted usage for the whole of the unexpired term as granted and any premium payable has already been fully paid; and
3. the property can be freely disposed and transferred free of all encumbrances at the Date of Valuation for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have adverse impact to our valuations.

Properties in Groups III and IV are rented by the Group in Hong Kong and in the PRC. We have assigned no commercial values to these properties due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the market value basis of valuation, the management of the Company provided us the necessary documents to support that the legally interested party in each of the properties in Groups I and II has free and uninterrupted rights to assign, to mortgage or to let the property at its existing use (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Group has the right to occupy the properties. However, our procedures to value, as agreed with the management of the Company, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

For the sake of valuations, we have been provided with copies of the title documents of the properties in Groups I and II, and copies of tenancy agreement of the properties in Groups III and IV. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties valued. Any responsibility for our misinterpretation of the documents cannot be accepted.

The inherent defects in the land registration system of China forbidden us to inspect the original documents of the properties in Group II that filed in the relevant authorities and to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties in Group II. However, we have relied solely on the copies of the PRC legal opinions dated 26 November 2009 and 23 October 2009 respectively as provided by the management of the Company with regard to the Group's titles on the properties in Group II as disclosed in the attached valuation certificate. We are given to understand that the PRC legal opinions were prepared by the Company's PRC legal advisers, 廣東財富東方律師事務所 and 廣東法豪律師事務所 (translated as Guangdong Wisdom and Fortune Law Firm and Guangdong Fahao Law Firm), respectively. No responsibility or liability from our part is assumed.

In our valuations, we have assumed that the legally interested party in each of the properties in Groups I and II has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the named legally interested party to continue the ownership of the property. Should this not be the case, it will affect our conclusions in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability from our part is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have conducted inspection to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspection and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in the attached valuation certificate. The management of the Company has confirmed to us that the Group has no property interests other than those disclosed in the attached valuation certificate.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work product.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinion, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect the valuations. We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars. In valuing the properties, the adopted exchange rate was the prevailing rate as at the Date of Valuation, being Hong Kong dollars (HK\$) 6.84 per Australian dollar (AUD) 1 and Hong Kong dollars (HK\$) 1.14 per Renminbi Yuan (RMB) 1, and no significant fluctuation in exchange rates have been found between that date and the date of this report.

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our opinion of values of the properties in this summary report are valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special,

incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the IVS and the HKIS Standards. The valuations have been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us.

The valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Ho Chin Choi, Joseph
BSc PgD RPS (GP)
Managing Director

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS (GP)
Director

Contributing valuer:
Leslie Wong Tak Chiu *BSc BBA*

Notes:

1. *Mr. Joseph Ho Chin Choi has been conducting assets valuations and advisory work in Hong Kong, Macau, Taiwan, Mainland China, Japan, South East Asia, Australia, Finland, Scotland, Germany, Argentina, Guyana, Canada, and the United States for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*
2. *Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 10 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations, natural and man-made forests in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*

SUMMARY OF VALUES

Group I – Property owned by the Group in Australia and valued on market value basis

		Amount of valuation in existing state as at 30 September 2009 HK\$	Interest attributable to the Group as at 30 September 2009	Amount of valuation in existing state attributable to the Group as at 30 September 2009 HK\$
Property				
1.	A Storage Complex No. 1A Racecourse Road and its improvements West Gosford New South Wales Australia	43,100,000	100 per cent.	43,100,000
			Sub-total:	HK\$43,100,000

Group II – Properties held by the Group in the PRC and valued on market value basis

Property	Amount of valuation in existing state as at 30 September 2009 HK\$	Interest attributable to the Group as at 30 September 2009	Amount of valuation in existing state attributable to the Group as at 30 September 2009 HK\$
2. Level 7 Xinruike Building Futian Trade Zone Futian District Shenzhen City Guangdong Province The People’s Republic of China	12,500,000	100 per cent.	12,500,000
3. A parcel of vacant land known as DB2007-03 and situated at Shan Zhuang Avenue Huliao Town Dabu County Mei Zhou City Guangdong Province The People’s Republic of China	2,800,000	100 per cent.	2,800,000
Sub-total:			HK\$15,300,000

Group III – Property occupied by the Group under operating lease in Hong Kong

Property	Amount of valuation in existing state attributable to the Group as at 30 September 2009 HK\$
4. Suite 1606 on 16th Floor Office Tower Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	No Commercial Value
Sub-total:	NIL

Group IV – Properties occupied by the Group under operating leases in the PRC

Property	Amount of valuation in existing state attributable to the Group as at 30 September 2009 HK\$
5. Units 9-10 on Tower B Lidou Xinyuan No. 62 Xingcheng Xinnan Da Dao Xinning City Meizhou City Guangdong Province The People’s Republic of China	No Commercial Value
6. Danzhuba Yin Village Yinjiang Town Daibu County Meizhou City Guangdong Province The People’s Republic of China	No Commercial Value
Sub-total:	NIL
Grand-total:	HK\$58,400,000

VALUATION CERTIFICATE

Group I – Property owned by the Group in Australia and valued on market value basis

			Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and tenure	Particulars of occupancy	
1. A Storage Complex No. 1A Racecourse Road and its improvements West Gosford New South Wales Australia	The property comprises a parcel of rectangular shape land having a site area of approximately 10,520 sq.m. with two purpose built buildings erected thereon. The buildings comprise a single storey office building and an adjoining warehouse. The buildings were built in about 1972 with some extension done in the early 1980. They have a total gross floor area of approximately 4,557 sq.m. The land of the property is freehold in nature.	A small portion of the property fronting to Racecourse Road is currently subject to a licence agreement with Singleton’s Butchery Gosford Pty Ltd. at an annum rental of AUD 93,949 inclusive of rates and taxes but exclusive of GST. The licence can be terminated at any time by either party by giving a 3-months written notice or 3 months rents in lieu. The portion of the property is occupied for meat preparation, storage and retail purposes. Major portion of the property was vacant at the time of our inspection.	HK\$43,100,000 (100 per cent. interest)

Notes:

1. According to the Land and Property Information New South Wales Title Search (Folio No. 120/846754), the registered owner of the property is Seapower Resources Gosford Pty Limited. The land of the property is known as Lot 120 in deposited plan 846754 and held under the provision of the Real Property Act, within the Local Government area of Gosford, Parish of Gosford and County of Northumberland.
2. The property is zoned as Zone B6, Enterprise Corridor.
3. Seapower Resources Gosford Pty Limited is a wholly-owned subsidiary of the Company.
4. As advised by the management of the Company, the property will be sub-divided into various smaller lots for sale soon. We have considered this in our analysis.

Group II – Properties held by the Group in the PRC and valued on market value basis

			Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and tenure	Particulars of occupancy	
2. Level 7 Xinruike Building Futian Trade Zone Futian District Shenzhen City Guangdong Province The People’s Republic of China	The property comprises the whole of level 7 of a 7-storey industrial building which was completed in November 2002. The property has a gross floor area of approximately 2,736.75 sq.m. The land of which the property forms part of is held under Lot No. B105-29-2 for a term of 50 years commencing from 25 May 2001 and to be expired on 24 May 2051, and the land is restricted for high technology industrial purpose.	As advised by the management of the Company, the property is currently occupied by the Group for office purpose.	HK\$12,500,000 (100 per cent. interest)

Notes:

1. Pursuant to a Sale and Purchase Agreement dated 19 August 2005 and made between 袁藝 (translated as Yuan Yi) and 凱恩投資有限公司 (Triumph Kind Investment Limited and hereinafter referred to as “Triumph Kind”), the building ownership right with a gross floor area of approximately 2,736.75 sq.m. and its respective land use right were transferred to Triumph Kind at a consideration of RMB7,300,000.
2. Pursuant to a Realty Title Certificate known as Shen Fang Di Zi Di No. 9000489 and issued by Shenzhen Free Trade Zones Administrative Bureau dated 18 October 2005, the legally interested party in the property is Triumph Kind. According to the Certificate, the property has a gross floor area of approximately 2,736.75 sq.m. and subject to a land use term of 50 years commencing from 25 May 2001 to 24 May 2051 for high technology industrial purpose.
3. Triumph Kind is a wholly-owned subsidiary of the Company.
4. According to the legal opinion prepared by the Company’s PRC legal adviser, Guangdong Wisdom and Fortune Law Firm, the following opinions are noted:
 - (i) Triumph Kind is the legally interested party in the property;
 - (ii) Triumph Kind has the rights to occupy, use, lease, mortgage or freely transfer the property; and
 - (iii) the property is not subject to any mortgage or seizure.

			Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and tenure	Particulars of occupancy	
3. A parcel of vacant land known as DB2007-03 and situated at Shan Zhuang Avenue Huliao Town Dabu County Mei Zhou City Guangdong Province The People’s Republic of China	The property comprises a parcel of vacant land having a site area of approximately 16,859 sq.m. According to the information provided to us, the property is subject to a right to use the land for a term till 30 August 2077 for residential purpose.	As advised by the management of the Company, the property is currently a vacant land and will be developed for the Group’s future use.	HK\$2,800,000 (100 per cent. interest)

Notes:

1. The right to possess the land is held by the State and the right to use the land was granted to 樹人木業 (大埔) 有限公司 (translated as Shu Ren Wood (Da Bu) Limited and hereinafter referred to as “Shu Ren”), a wholly-owned subsidiary of the Company, via the following ways:
- (i) According to a transaction confirmation letter and a State-owned Land Use Rights Transaction Payment Contract both dated 31 August 2007 and issued by the Dabu Land Transaction Office, Shu Ren has purchased a parcel of land known as DB2007-03 and having a site area of approximately 16,859 sq.m. at a consideration of RMB2,530,000.

(ii) According to a State-owned Land Use Rights Certificate known as 埔府國用 (2007) 第31805號 (Bu Fu Guo Yong (2007) Di 31805 Hao) and issued by the People’s Government of Dabu County on 21 September 2007, the legally interested party in a parcel of land having a site area of approximately 16,859 sq.m. is Shu Ren with a term of land use till 30 August 2077 for residential purpose.

Pursuant to the State-owned Land Use Rights Certificate, the property is subject to a maximum plot rate of 2.5 and restricted to not more than 4 storeys in height.

- 2. According to the information provided by the management of the Company, the consideration stated in the contract mentioned in Note 1 has been fully paid.

- 3. According to the legal opinion prepared by the Company’s PRC legal adviser, Guangdong Fahao Law Firm, the following opinions are noted:
 - (i) Shu Ren has obtained the land use right of the property;

 - (ii) Shu Ren has the rights to use and handle the property; and

 - (iii) The legal interest of Shu Ren in the property is protected under the PRC law and shall not be interfered by any third party.

Group III – Property occupied by the Group under operating lease in Hong Kong

		Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and occupancy	
4. Suite 1606 on 16th Floor Office Tower Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	The property comprises an office unit on the 16th Floor of a 39-storeyed building which built over a 10-storeyed commercial and convention podium and with car-parking spaces provided on basement levels. The building was completed in 1990. According to the information made available to us, the property has a total saleable area of approximately 2,291 sq. ft. (212.87 sq.m.). The property is rented to the Group for a term of 2 years from 20 June 2009 to 19 June 2011 at a monthly rental of HK\$ 114,555.00 exclusive of rates, government rent, management fee and air-conditioning charge. The property was occupied by the Group for office purpose as at the Date of Valuation.	No Commercial Value

Notes:

- 1. The lessor of the property is Welcas Limited.
- 2. The lessee of the property is China Timber Resources Group Limited.

Group IV – Properties occupied by the Group under operating leases in the PRC

		Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and occupancy	
5. Units 9-10 on Tower B Lidou Xinyuan District No. 62 Xingcheng Xinnan Da Dao Xinning City Meizhou City Guangdong Province The People’s Republic of China	The property comprises two units on Level 1 of an 8-storeyed building which was completed in approximately 2002. According to the information made available to us, the property has a total gross floor area of approximately 319.01 sq.m. The property is rented to the Group for a term of 3 years from 1 July 2008 to 30 July 2011 at a total monthly rental of RMB1,600.00. The property was occupied by the Group for office purpose as at the Date of Valuation.	No Commercial Value

Notes:

1.

The lessor of the property is 興寧麗都房地產有限公司 (translated as “Xinning Lidou Real Estate Limited”).
2.

The lessee of the property is 興寧樹人木業有限公司 (translated as “Xinning Shuren Timber Resources Limited”), which is a wholly-owned subsidiary of the Company.

		Amount of valuation in existing state attributable to the Group as at 30 September 2009
Property	Description and occupancy	
6. Danzhuba Yin Village Yinjiang Town Daibu County Meizhou City Guangdong Province The People’s Republic of China	The property is a 2-storeyed office building which was completed in approximately 2007. According to the information made available to us, the property has a total gross floor area of approximately 788 sq.m. The property is rented to the Group for a term of 8 years from 6 March 2007 to 5 March 2015 at an annual rental of RMB40,000.00 for the first three years and RMB50,000.00 for the remaining 5 years. The property was occupied by the Group for office, production and staff quarters purposes as at the Date of Valuation.	No Commercial Value

Notes:

1.

The lessor of the property is 大埔縣銀江鎮人民政府 (translated as “The People’s Government of Yinjiang Town Dabu County”).
2.

The lessee of the property is 駿欣 (中國) 有限公司 (translated as “Smart Fancy (China) Limited”), which is a wholly-owned subsidiary of the Company.

B. VALUATION REPORT ON THE PROPERTY INTERESTS OF THE TARGET GROUP

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests of the Target Group.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROPERTY VALUERS

PLANT AND MACHINERY VALUERS

BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (the “IVS”) published by the International Valuation Standards Committee as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
287 – 291 Des Voeux Road Central
Hong Kong

23 December 2009

The Directors
China Timber Resources Group Limited
Suite 1606, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Timber Resources Group Limited (hereinafter referred to as the “Company”) to us to value certain designated properties in which the Company and its subsidiaries (collectively

hereinafter with the Company referred to as the “Group”) have intention to acquire in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of values of the properties as at 30 September 2009 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) would form part of the Company’s business due diligence to the properties and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching his business decision regarding the properties. Our findings and conclusion in this valuation are documented in a valuation report and submitted to the Company at today’s date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and the valuation certificate) to summarise our findings and conclusion as documented in the valuation report for the purpose of inclusion in this circular at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. We considered that market value is the most appropriate basis of value for a wide range of applications, including the purpose of this engagement, thus, after discussed with the management of the Company, we have adopted the market value basis of the properties in our valuations.

The term “Market Value” is defined as “the estimated amount for which a property 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”.

There are three generally accepted property valuation approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (also referred to as the Market Approach), the Cost Approach and the Income Approach.

In valuing the property in Group I, we have adopted the Sales Comparison Approach on the assumption that the property was sold with the benefit of vacant possession. This method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

Unless otherwise stated, in valuing the property in Group I, we have assumed that:

1. the legally interested party in the property sells the property in the market in its existing state and at its permitted usage without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property;
2. the legally interested party in the property has free and uninterrupted rights to use or assign the property interests for its existing permitted usage for the whole of the unexpired term as granted and any premium payable has already been fully paid;
3. the property can be freely disposed and transferred free of all encumbrances at the Date of Valuation for its existing use in the market to both local and overseas purchasers without payment of any premium to the government; and
4. the property is not an idle land and can continue be used, occupied and developed according to the scheduled development programme.

Should this not be the case, it will have adverse impact to our valuation.

Property in Group II is rented by the Target Group (as defined in page 5 of the circular) in the PRC. We have assigned no commercial value to this property due mainly to the short-term nature of the tenancy agreement or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the market value basis of valuation, the management of the Company provided us the necessary documents to support that the legally interested party in the property in Group I (i.e. the Target Group) has free and uninterrupted rights to assign, to mortgage or to let the property at its existing use (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Target Group has the right to occupy the property. However, our procedures to value, as agreed with the management of the Company, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the property from the relevant authorities.

For the sake of valuation, we have been provided with copies of the title documents of the property in Group I and a copy of the tenancy agreement in Group II. However, we have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties valued. Any responsibility for our misinterpretation of the documents cannot be accepted.

The inherent defects in the land registration system of China forbidden us to inspect the original documents of the property in Group I that filed in the relevant authorities and to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not

legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the property. However, we have relied solely on the copy of the PRC legal opinion dated 18 December 2009 as provided by the management of the Company with regard to the Target Group's titles on the property as disclosed in the attached valuation certificate. We are given to understand that the PRC legal opinion was prepared by the Company's PRC legal adviser, 天達律師事務所 (East Associates Law Firm). No responsibility or liability from our part is assumed.

In our valuations, we have assumed that the legally interested party in the property in Group I (i.e. the Target Group) has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue the ownership of the property. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability from our part is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have conducted inspection to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspection and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, letting, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Group. All properties on the list have been included in the attached valuation certificate. The management of the Company has confirmed to us that the Target Group has no property interests other than those disclosed in the attached valuation certificate.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no materials factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect the valuations. We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our opinion of values of the properties in this summary report is valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the IVS and the HKIS Standards. The valuations have been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuations.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us.

The valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the properties, the Group, the Target Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,

For and on behalf of

LCH (Asia-Pacific) Surveyors Limited

Ho Chin Choi, Joseph

BSc PgD RPS (GP)

Managing Director

Elsa Ng Hung Mui

B.Sc. M.Sc. RPS (GP)

Director

Contributing valuer:

Leslie Wong Tak Chiu *BSc BBA*

Notes:

1. *Mr. Joseph Ho Chin Choi has been conducting assets valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Finland, Scotland, Germany, Argentina, Guyana, Canada, and the United States for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*

2. *Ms. Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 10 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations, natural and man-made forests in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*

SUMMARY OF VALUES

Group I – Property held by the Target Group in the PRC and valued on market value basis

Property	Amount of valuation in existing state attributable to the Target Group as at 30 September 2009
1. A parcel of land known as Lot No. 302009190 and located at Meiziya Village Xiaoxita Yiling District Yichang City Hubei Province The People's Republic of China	868,000,000
Sub-total:	868,000,000

Group II – Property occupied by the Target Group under operating lease in the PRC

Property	Amount of valuation in existing state attributable to the Target Group as at 30 September 2009 <i>RMB</i>
2. Office Unit No. 1 on Level 2 No. 56 Fazhan Da Dao Dongshan Development District Yichang City Hubei Province The People's Republic of China	No Commercial Value
	Sub-total: NIL
	Grand Total: RMB868,000,000

VALUATION CERTIFICATE

Group I – Property held by the Target Group in the PRC and valued on market value basis

			Amount of valuation in existing state attributable to the Target Group as at 30 September 2009
Property	Description and tenure	Particulars of occupancy	
1. A parcel of land known as Lot No. 302009190 and located at Meiziya Village Xiaoxita Yiling District Yichang City Hubei Province The People’s Republic of China	The property comprises a parcel of land having a site area of approximately 587,726.09 sq.m. The property is subject to a right to use the land till 28 December 2046 for commercial, tourism and convention centre purposes and till 28 December 2076 for residential purpose (<i>See Note 1 below</i>).	As inspected and advised by the management of the Group that the property was vacant and unlevelled.	RMB868,000,000 (100 per cent. interest)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been granted to 宜昌新首鋼房地產開發有限公司 (translated as Yichang Xinshougang Property Development Ltd. and hereinafter referred to “Yichang Xinshougang”) via the following ways:
- (i)

pursuant to a Contract for the Grant of State-owned Land Use Rights No. Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao (國有土地使用權出讓合同編號：宜昌市夷陵區夷增國讓（合）字(2006)第438號) dated 29 December 2006 (hereinafter referred to as the “Contract”) and made between the Land Resource Bureau of Yichang City Yiling District (hereinafter referred to “Yichang Yiling Land Resource Bureau”) and Yichang Xinshougang, the land use rights of a parcel of land having a site area of approximately 587,726 sq.m. was granted to Yichang Xinshougang for a term of 40 years for commercial and tourism purposes and for 70 years for residential purpose at a consideration of RMB224,340,000;

(ii)

pursuant to a supplementary contract dated 29 December 2006 for the Contract, it was agreed that the development would be completed before 30 June 2009 and the fee for the land idling is equivalent to 10% of the consideration, i.e. RMB22,434,000. It was also agreed that the total investment for the development would be approximately RMB650,000,000; and

(iii)

pursuant to a State-owned Land Use Rights Certificate (國有土地使用權證) known as Yi Shi Yi Ling Guo Yong (2007) Di 302009190 Hao (宜市夷陵國用(2007)第302009190號) dated 29 March 2007 and issued by the People’s Government of Yichang City Yiling District, the subject property is a transferable land and has a land use term till 28 December 2046 for commercial, tourism and convention centre purposes and till 28 December 2076 for residential purpose. The site area of the subject property is approximately 587,726.09 sq.m. as recorded under the State-owned Land Use Rights Certificate.
2. The subject property is subject to the following development covenants under the Contract and its supplement contract both dated 29 December 2006. They were:
- Major building usage:

Convention centre, hotel, research and development centre, and residential building, etc.

Ancillary usage:

Roads, car parking spaces, greenery, etc.

Plot ratio:

≤1.0

Site Coverage:

≤25%

Greenery:

≥40%

Building height or storey:

according to the approved planning submission

Commencement of Construction Works:

Before 30 June 2007
3. Pursuant to a Planning Permit for Using Construction Usage Land No. Yi Shi Gui Yong Di (2007) 012 Hao (建設用地規劃許可證：宜市規用地(2007)012號) dated 9 April 2007, Yichang Xinshougang has the right to develop the property with a site area of approximately 587,726.14 sq.m.

4. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 31 March 2009, Yichang Xinshougang is a limited liability company registered in the PRC for an operational period commencing from 31 December 2006 to 30 December 2056.
5. According to the information provided by the management of the Company, the consideration as mentioned in Note 1 above has been fully paid.
6. Pursuant to an approval letter No. Yi Fa Gai She Hui 2008 264 Hao 宜發改社會 2008 264 號 dated 20 May 2008 and issued by the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會), approval was given to Yichang Xinshougang for the development of “Yichang Three Gorges International Convention Centre” (宜昌三峽國際會展中心). The gross floor area of the development is 34,907 sq.m and the development will comprise a 14-story convention centre upon completion.
7. Pursuant to an approval letter No. Yi Lu Wen 2009 2 Hao 宜旅文 2009 2 號 dated 12 January 2009 and issued by the Tourism Bureau of Yichang City (宜昌市旅游局), approval was given to Yichang Xinshougang for the development of “Three Gorges State Guest House” (三峽國賓館). The site area and the gross floor area of the development are 43,655 sq.m. and 48,800 sq.m., respectively. The development will comprise a 28-storey hotel building and 3 nos. of detached guesthouse upon completion.
8. Pursuant to an approval letter No. Yi Fa Gai Tou Zi 2008 273 Hao 宜發改投資 2008 273 號 dated 23 May 2008 and issued by the Development and Reform Committee of Yichang City (宜昌市發展和改革委員會), approval was given to Yichang Xinshougang for the development of “Three Gorges State Guest Garden” (三峽國賓花園). The gross floor area of the development is 522,379 sq.m.
9. Pursuant to an Administrative Enforcement Notice issued by Yichang Yiling Land Resource Bureau dated 3 April 2009, the Bureau informed Yichang Xinshougang that construction works have not yet commenced in accordance with the Contract. Yichang Xinshougang is required to commence the construction works as soon as possible.
10. With regard to the Administrative Enforcement Notice as mentioned in Note 9 above, Yichang Xinshougang confirmed that a ceremony for commencement of construction works was conducted on 27 May 2008 and the construction works had restarted on 8 June 2009. Pursuant to a confirmation letter issued by Yichang Xinshougang dated 10 October 2009, Yichang Xinshougang confirmed that they have not received any Notice for Penalty issued by any governmental department.

11. According to the legal opinion prepared by the Company's PRC legal adviser, East Associates Law Firm, the following opinions are noted:
- (i) Yichang Xinshougang has legally obtained the land use right of the property and paid the land premium in full. Yichang Xinshougang is the legally interested party in the property.
 - (ii) Yichang Xinshougang has the right to transfer, lease or mortgage the property. However, for the first time in transferring (including sale, exchange or gift) the remaining tenure of the land use right of the property, the transferor has to complete the investment for development of more than 25%.
 - (iii) Yichang Xinshougang has obtained the planning permit for using construction usage land. Pursuant to the Consent (the "Consent") to Commence for the Phase 1 Site Formation Works issued by the Committee of Land Requisition and Reconstruction, New Developing Area of Yiling District of Yichang City (夷陵區發展新區征地拆遷建設工作指揮部) (the "Committee") on 30 November 2009, approval has been given to Yichang Xinshougang for commencing the site formation works of the property. Yichang Xinshougang is in the process of applying the Construction Planning Permit (建設工程規劃許可證) and the Permit to Commence Construction (建築工程施工許可證) (the "Permits") for the commencement of construction of superstructure of the development. The construction of superstructure can be commenced after the issuance of the Permits. In view of the fact that the processing for the approval has taken some time, it is necessary for Yichang Xinshougang to speed up the development process. Failing which the property may become an idle land and may be subject to a levy.
 - (iv) Pursuant to the Contract, if the construction works have not commenced by Yichang Xinshougang and exceed the time limit as stipulated in the Contract by over one year, Yichang Yiling Land Resource Bureau can levy a land idling fee equivalent to 10% of the consideration amount. If the construction works have not been commenced and the time limit exceeded for over two years, the Land Resource Bureau can repossess the land use right without compensation.
12. As at the Latest Practicable Date, Yichang Xinshougang has not completed the investment for development of more than 25% mentioned in note 11(ii) above. As advised by its legal advisers, the Company confirmed that the transferability of the property will not affect the transfer of the equity interest of Shoukong (Beijing) Management Consulting Company Limited (首控(北京)管理諮詢有限公司) to the Group.

Group II – Property occupied by the Target Group under operating lease in the PRC

		Amount of valuation in existing state attributable to the Target Group as at 30 September 2009
Property	Description and occupancy	
2. Office Unit No. 1 on Level 2 No. 56 Fazhan Da Dao Dongshan Development District Yichang City Hubei Province The People’s Republic of China	The property comprises an office unit on the Level 2 of a 5-storeyed building which was completed in 2007. According to the information made available to us, the property has a gross floor area and saleable area of approximately 120 sq.m. and 92 sq.m., respectively. The property is rented to the Target Group for a term of 1 year from 1 September 2009 to 1 September 2010 at a monthly rental of RMB12,000. The property was occupied by the Target Group for office purpose as at the Date of Valuation.	No Commercial Value

Notes:

1.

The lessor of the property is 宜昌武大科技园有限公司 (translated as “Yichang Wuhan University Technology Park Limited”).
2.

The lessee of the property is Yichang Xinshougang.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard of the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the issue of the Consideration Shares and the Conversion Shares will be as follows (assuming no further Shares are issued or repurchased by the Company after the Latest Practicable Date up to the date of issue of the Consideration Shares and the Conversion Shares):

Authorised		HK\$
<u>30,000,000,000</u>	Shares as at the Latest Practicable Date	<u>300,000,000</u>
Issued and fully paid or credited as fully paid:		
10,137,064,686	existing Shares in issue	101,370,646.86
4,275,862,068	Consideration Shares to be issued upon Completion	42,758,620.68
<u>8,392,857,142</u>	Conversion Shares to be issued upon exercise of the Convertible Bonds in full	<u>83,928,571.42</u>
<u>22,805,783,896</u>	Shares in issue following the issue of the Consideration Shares and the Conversion Shares to be issued upon exercise of the Convertible Bonds in full	<u>228,057,838.96</u>

The Consideration Shares and Conversion Shares shall rank *pari passu* in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

3. DISCLOSURE OF INTERESTS

(a) Directors’ and chief executives’ interests in securities

As at the Latest Practicable Date, the interests and short positions of each of the Directors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which are required (a) 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 are taken or deemed to have taken under such provisions of the SFO), or (b) pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

Long positions in the Shares

Name of Director	Number of Shares directly beneficially owned	Number of Shares held through a controlled corporation	Total number of Shares held	Approximate percentage of issued share capital of the Company
Fung Tsun Pong <i>(Note)</i>	1,047,262,449	1,055,500,000	2,102,762,449	20.74%
Lau Sing Hung, Stephen	14,000,000	—	14,000,000	0.14%
Tsang Kam Ching, David	66,624,499	—	66,624,499	0.66%
Chow Ki Shui, Louie	1,000,000	—	1,000,000	0.01%

Note:

1,055,500,000 Shares, representing approximately 10.41% of the issued share capital of the Company, are held by Ocean Gain Limited (“OGL”) which is wholly-owned by Mr. Fung Tsun Pong, an executive Director.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning

of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders’ interests in securities

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following parties, other than the Directors or chief executives of the Company, had interests and short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and Division 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Notes	Capacity and nature of interest	Number of Shares	Approximate percentage of the Company’s issued share capital
Ocean Gain Limited	(1)	Beneficial Owner	1,055,500,000	10.41%
Allkeen Investments Limited	(2)	Beneficial Owner	1,016,000,000	10.02%
Liu Feng Lei		Beneficial Owner	513,833,992	5.06%

Note:

- 1. Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive director of the Company.
- 2. Allkeen Investments Limited is wholly-owned by Mr. Huang Wei Guang.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares, 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 March 2009, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Enlarged Group.

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Enlarged Group.

6. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

- (a) the framework agreement dated 13 April 2009 entered into between Best Idea and China Alliance (please refer to “Letter from the Board” of this circular for details);
- (b) the S&P Agreement (please refer to “Letter from the Board” of this circular for details);
- (c) the Share Subscription Agreement (please refer to “Letter from the Board” of this circular for details);
- (d) the CB Subscription Agreement (please refer to “Letter from the Board” of this circular for details);

- (e) the Contract for the Grant of State-owned Land Use Rights No.: Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao (國有土地使用權出讓合同編號：宜昌市夷陵區夷增國讓(合)字(2006)第438號) dated 29 December 2006 (the “Land Use Rights Contract”) made between the Target Company and the Bureau of Land Resource Yiling Autonomous County (宜昌市夷陵區國土資源局) pursuant to which the government grants a piece of land of 587,726 square meters to the Target Company at a land premium of RMB224,340,000 for the construction of five-star hotel, convention centre and residential properties for a term of 40 years; and
- (f) the supplemental contract dated 29 December 2006 to the Land Use Rights Contract pursuant to which the land idling penalty was reduced from 20% to 10% of the total land premium and the total investment on the land was set at about RMB650,000,000.

7. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Enlarged Group which is not expiring and determinable by the Enlarged Group within one year without payment of compensation other than statutory compensation.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009 being the date to which the latest published audited consolidated financial statements of the Group were made up.

10. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
BDO Limited	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited (“LCH”)	An independent firm of valuers
East Associates Law Firm	Practising lawyers in the PRC

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect shareholding, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of the above experts has respectively given and has not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective letter and references to their respective names in the form and context in which they are included.

Each of the above experts does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2009, the date to which the latest published financial statements of the Company were made up.

The letters and report from BDO Limited and LCH included herein are given as of the date of this circular.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents shall be available for inspection at the principal office of the Company at Room 1606, 16/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, during normal business hours on any weekday, except public holidays, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the accountants' reports on the Target Group and Target Company from BDO Limited, the text of which are set out in Appendix IIA and IIB to this circular;
- (c) the report on the unaudited pro forma financial information of the Enlarged Group from BDO Limited, the text of which is set out in Appendix III to this circular;
- (d) the valuation reports from LCH, the text of which is set out in Appendix IV to this circular;
- (e) the written consents of the experts referred to in the section headed "Experts and Consents" of this appendix;
- (f) the annual reports of the Company for years ended 31 March 2008 and 31 March 2009;
- (g) the material contracts referred to in the section headed "Material Contracts" of this appendix;
- (h) the legal opinion issued by East Associates Law Firm, pursuant to which the valuer's report as set out in Appendix V to this circular is based upon; and
- (i) a copy of this circular.

12. MISCELLANEOUS

- (a) Having made reasonable enquiries and to the best knowledge of the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.
- (b) Having made reasonable enquiries and to the best knowledge of the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.
- (c) The secretary of the Company for the purpose of the Listing Rules is Miss Ngan Wai Kam, Sharon, a Practicing Solicitor in Hong Kong.
- (d) The qualified accountant of the Company for the purpose of the Listing Rules is Mr. Tsang Kam Ching, David, a fellow member of the Chartered Association of Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.
- (e) The registered office of the Company is situated at The Office of Caledonian Bank & Trust Limited, Caledonian House, George Town, Grand Cayman, Cayman Islands.
- (f) The head office and principal place of business of the Company in Hong Kong is located at Room 1606, 16/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (g) The branch share registrar of the Company in Hong Kong is Tricor Progressive Limited, 26th Floor, Tesbury Centre, 18 Queen's Road East, Central, Hong Kong.
- (h) In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Timber Resources Group Limited (the “**Company**”) will be held at 11:30 a.m. on Tuesday, 12 January 2010 at 7th Floor, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China, for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as an Ordinary Resolution of the Company:

“THAT

- (a) the framework agreement dated 13 April 2009 (the “**Framework Agreement**”, a copy of which has been produced to the Meeting and marked “**A**” and initialed by the Chairman of the Meeting for the purpose of identification) entered into between Best Idea International Investment Limited (“**Best Idea**”), a wholly-owned subsidiary of the Company and China Alliance International Holding Group Limited* (中聚國際控股集團有限公司) (“**China Alliance**”); and the formal sale and purchase agreement in Chinese dated 9 May 2009 and the supplemental agreement dated 15 September 2009 (the “**SP Agreement**”, a copy of which has been produced to the Meeting and marked “**B**” and initialed by the Chairman of the Meeting for the purpose of identification) entered into between the Company, Best Idea, and China Alliance in relation to the acquisition of the entire equity interest of Shoukong (Beijing) Management Consulting Company Limited* (首控(北京)管理諮詢有限公司) (the “**Target Company**”) for a total consideration of HK\$986 million, the transactions contemplated thereunder or incidental to the SP Agreement, and all actions taken or to be taken by the Company pursuant to it as described in the circular to the shareholders of the Company dated 23 December 2009 (the “**Circular**”, a copy of which has been produced to the Meeting and marked “**C**” and initialed by the Chairman of the Meeting for the purpose of identification) be and are hereby generally and unconditionally approved, ratified and confirmed;

* For identification purposes only

NOTICE OF EGM

- (b) the conditional share subscription agreement in Chinese dated 9 May 2009 (the “**Share Subscription Agreement**”, a copy of which has been produced to the Meeting and marked “**D**” and initialed by the Chairman of the Meeting for the purpose of identification) made between the Company and China Alliance for the issue and allotment of 4,275,862,068 new shares of the Company (the “**Consideration Shares**”) at the subscription price of HK\$0.0435 for the settlement of HK\$186 million, be and are hereby generally and unconditionally approved, ratified and confirmed;
- (c) the conditional Convertible Bond Subscription agreement in Chinese dated 9 May 2009 (the “**CB Agreement**”, a copy of which has been produced to the Meeting and marked “**E**” and initialed by the Chairman of the Meeting for the purpose of identification) made between the Company and China Alliance for the issue of the convertible bonds in the principal amount of HK\$470 million (the “**Convertible Bonds**”) which could be converted into new shares of the Company at the conversion price of HK\$0.056 subject to adjustment (the “**Conversion Shares**”), be and are hereby generally and unconditionally approved, ratified and confirmed;
- (d) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Consideration Shares and Conversion Shares, the directors of the Company (the “**Directors**”) be and are hereby generally and specifically authorized to allot and issue up to (i) 4,275,862,068 new shares of HK\$0.01 each in the capital of the Company credited as fully paid at an issue price of HK\$0.0435 per Consideration Share for settlement of HK\$186 million, being part of the consideration; and (ii) the Conversion Shares of HK\$0.01 each in the capital of the Company credited as fully paid for settlement of HK\$470 million, being part of the consideration (the “**Special Mandate**”) in accordance with the terms and conditions of the SP Agreement, and that the Consideration Shares and the Conversion Shares shall, when allotted and issued, rank pari passu in all respects with all other shares of the Company in issue on the date of such allotments and issue, and that the Special Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 28 August 2009 or such other general or special mandate(s) which may from time to time be granted to the Directors prior to the passing of this Resolution; and

NOTICE OF EGM

- (e) any one director of the Company be and is hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute any agreements pursuant to and/or supplemental to the Framework Agreement, the SP Agreement, the Share Subscription Agreement and the CB Agreement; and all such other documents, deeds, instruments and agreements and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the said agreements or any of the transactions contemplated thereunder or incidental to any of them and all other matters incidental thereto.”

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

Hong Kong, 23 December 2009

Registered office:

The Office of Caledonian Bank & Trust Limited
Caledonian House, George Town
Cayman Islands

Principal office of business:

Room 1606, 16/F
Office Tower Convention Plaza
1 Harbour Road
Wan Chai, Hong Kong

NOTICE OF EGM

Notes:

- (a) A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxies to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member.
- (b) If the appointer is a corporation, the form of proxy must be under its common seal, or under the hand of an officer or attorney duly authorized on its behalf.
- (c) In order to be valid, a form of proxy must be deposited at the Company's Hong Kong branch share registrar, Tricor Progressive Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish. In the event that you attend the meeting after having lodged the form of proxy, the form of proxy will be deemed to have been revoked.
- (d) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote and will be accepted to the exclusion of other joint registered holders in respect hereof.
- (e) The EGM is expected not to exceed half an hour, and all member and proxies shall be responsible for their own traveling expenses.

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