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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)

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010

The Board of Directors (the “Board”) of China Timber Resources Group Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2010 together with comparative figures for the last year as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Turnover	5	21,171	17,841
Cost of sales		<u>(19,528)</u>	<u>(18,696)</u>
Gross profit/(loss)		1,643	(855)
Gain/(loss) on change in fair value of investment property		148	(5,236)
Gain on change in fair value less costs to sell of biological assets		4,869	35,548
Change in fair value of derivative financial instrument		29,820	—
Other income and other gains or losses	6	6,983	(7,704)
Realised gain/(loss) on financial assets at fair value through profit or loss		729	(27,529)
Selling and administrative expenses		(103,582)	(64,682)
Finance costs	7	<u>(9,633)</u>	<u>(799)</u>
Loss before taxation	8	(69,023)	(71,257)
Taxation credit/(charge)	9	<u>248</u>	<u>(185)</u>
Loss for the year		<u><u>(68,775)</u></u>	<u><u>(71,442)</u></u>
Attributable to:			
Owners of the Company		(65,223)	(67,436)
Minority interests		<u>(3,552)</u>	<u>(4,006)</u>
		<u><u>(68,775)</u></u>	<u><u>(71,442)</u></u>
		HK cents	HK cents
Loss per share	11		
— Basic		<u><u>(0.61)</u></u>	<u><u>(0.67)</u></u>
— Diluted		<u><u>(0.77)</u></u>	<u><u>(0.67)</u></u>

\* for identification purposes only

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Loss for the year	(68,775)	(71,442)
Other comprehensive income:		
Exchange differences on translating foreign operations	<u>3,105</u>	<u>6,245</u>
Other comprehensive income further year, net of tax	<u>3,105</u>	<u>6,245</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>(65,670)</u></b>	<b><u>(65,197)</u></b>
Total comprehensive income attributable to		
Owners of the Company	(62,808)	(61,329)
Minority interests	<u>(2,862)</u>	<u>(3,868)</u>
	<b><u>(65,670)</u></b>	<b><u>(65,197)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment property		44,900	37,000
Property, plant and equipment		131,492	95,774
Prepaid lease payments		1,082,288	32,810
Biological assets		94,014	71,950
Forest concession rights		528,545	530,783
Prepayments for acquisition of plantation assets and equipment		35,261	60,358
Derivative financial instrument		411,498	—
		<b>2,327,998</b>	828,675
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss		—	882
Inventories		128,646	120,603
Trade and other receivables	12	29,078	29,305
Prepaid lease payments		704	711
Cash and bank balances		19,759	132,736
		<b>178,187</b>	284,237
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	50,778	11,367
Promissory note		59,930	—
Deferred government grant		8,915	—
Amount due to a director		2,000	—
Borrowings		5,696	14,212
		<b>127,319</b>	25,579
<b>NET CURRENT ASSETS</b>		<b>50,868</b>	258,658
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,378,866</b>	1,087,333
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		1,574	1,574
Deferred government grant		111,871	—
Convertible bond		361,205	—
Promissory note		177,332	—
Acreage fees payable		11,083	11,368
		<b>663,065</b>	12,942
<b>TOTAL NET ASSETS</b>		<b>1,715,801</b>	1,074,391
<b>CAPITAL AND RESERVES</b>			
Share capital		144,129	101,370
Reserves		1,551,788	950,050
Equity attributable to owners of the Company		1,695,917	1,051,420
Minority interests		19,884	22,971
<b>TOTAL EQUITY</b>		<b>1,715,801</b>	1,074,391

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2010

### 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 “SEHK”). 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 engaged in forest operation and management, timber logging and trading, timber processing, sale of timber products, plantation and trading of seedlings, cold storage warehouse rental, property development and asset management.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

#### (a) Adoption of new and revised HKFRSs

The Group has adopted the following new or revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for the current accounting period.

HKFRS (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes:

#### ***HKAS 1 (Revised) Presentation of Financial Statements***

The revised standard has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (income statement and statement of comprehensive income). The Group has elected to present two statements: income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

#### ***HKFRS 8 Operating Segments***

HKFRS 8 replaces HKAS 14 “Segment Reporting, and requires operating segment to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

#### ***HKFRS 7 (Amendments) Improving Disclosures about Financial Statements***

The amendments to HKFRS 7 expand the disclosure relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

**(b) Potential impact arising on HKFRSs not yet effective**

The Group has not early applied the following new or revised HKFRSs (potentially relevant to the Group's operations) that have been issued, but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>3</sup>
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions <sup>4</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKFRS 9	Financial instruments <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods ending on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. It also requires an entity to attribute the share of profit or loss to non-controlling interest (previously known as minority interest) even if it results in the non-controlling interest having a deficit balance.

The amendment to HKAS 17 made under “Improvements to HKFRSs 2009”, mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in retained earnings.

The Group is in the process of making an assessment of the potential impact of other new or revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

### **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 disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

#### **(b) Basis of measurement**

The financial statements are prepared under the historical cost convention modified by the revaluation of investment property, building, certain financial instruments and biological assets.

#### 4. SEGMENT INFORMATION

HKFRS 8 “Operating Segments” replaces HKAS 14 “Segment Reporting” with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires that disclosure of information about the Group’s operating segments. It replaces the requirements under HKAS 14 to determine the primary (business) and secondary (geographical) operating segments of the Group. Adoption of this standard did not have any effect on the Group’s results of operations or financial position as the Group has determined that the operating segments are substantially the same as the business segments previously identified under HKAS 14.

The Group has four reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Timber logging and trading — sales of timber logs from forest concession, tree plantation area and outside suppliers
- Other timber operation — the manufacture and sale of furniture and handicrafts and sales of refined tea oil
- Property development and asset management
- Cold storage warehouse leasing

Segment assets exclude derivative financial instrument and cash and bank balances and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, promissory note and convertible bond and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There was no inter-segment sale or transfer during the year (2009: HK\$ Nil). Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments’ loss that is used by the chief operating decision makers for assessment of segment performance.

**(a) Reportable Segment****For the year ended 31 March 2010**

	Timber logging and trading <i>HK\$'000</i>	Other timber operation <i>HK\$'000</i>	Property development and asset management <i>HK\$'000</i>	Cold storage warehouse leasing <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>REVENUE</b>					
Revenue from external customers	14,383	6,106	—	682	21,171
Inter-segment revenue	—	—	—	—	—
Reportable segment revenue	<u>14,383</u>	<u>6,106</u>	<u>—</u>	<u>682</u>	<u>21,171</u>
Reportable segment loss	<u>(17,370)</u>	<u>(18,859)</u>	<u>(31,384)</u>	<u>(59)</u>	<u>(67,672)</u>
Reportable segment assets	<u>817,218</u>	<u>80,971</u>	<u>1,052,288</u>	<u>44,900</u>	<u>1,995,377</u>
Reportable segment liabilities	<u>(41,514)</u>	<u>(15,555)</u>	<u>(113,907)</u>	<u>(198)</u>	<u>(171,174)</u>
<b>Other segment information</b>					
Change in fair value of derivative financial instrument	—	—	—	—	<u>29,820</u>
Gain on change in fair value of investment property	—	—	—	148	<u>148</u>
Gain on change in fair value less costs to sell of biological assets	4,869	—	—	—	<u>4,869</u>
Interest income	59	85	—	—	144
Unallocated interest income					19
Total interest income					<u>163</u>
Finance costs	—	—	—	—	<u>9,633</u>
Depreciation and impairment loss	3,869	2,263	1	1	6,134
Unallocated depreciation					4,277
Total depreciation and impairment loss					<u>10,411</u>
Amortisation of forest concession rights	2,214	—	—	—	<u>2,214</u>
Release of lease payments for land under operating lease	623	—	32,184	—	<u>32,807</u>
Taxation credit	(248)	—	—	—	<u>(248)</u>
Additions to non-current assets	7,729	41,055	1,082,905	—	1,131,689
Unallocated additions to non-current assets					14,275
Total additions to non-current assets					<u>1,145,964</u>

**For the year ended 31 March 2009**

	<b>Timber logging and trading</b> <i>HK\$'000</i>	<b>Other timber operation</b> <i>HK\$'000</i>	<b>Cold storage warehouse leasing</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>REVENUE</b>				
Revenue from external customers	12,975	4,146	720	17,841
Inter-segment revenue	—	—	—	—
Reportable segment revenue	<u>12,975</u>	<u>4,146</u>	<u>720</u>	<u>17,841</u>
Reportable segment loss	<u>(43,712)</u>	<u>(7,811)</u>	<u>(369)</u>	<u>(51,892)</u>
Reportable segment assets	<u>846,368</u>	<u>34,005</u>	<u>37,000</u>	<u>917,373</u>
Reportable segment liabilities	<u>(20,630)</u>	<u>(13,337)</u>	<u>(152)</u>	<u>(34,119)</u>
<b>Other segment information</b>				
Loss on change in fair value of investment property	—	—	(5,326)	<u>(5,326)</u>
Gain on change in fair value less costs to sell of biological assets	35,548	—	—	<u>35,548</u>
Interest income	826	25	7	858
Unallocated interest income				<u>308</u>
Total interest income				<u>1,166</u>
Finance costs	264	535	—	<u>799</u>
Depreciation and impairment loss	3,886	1,431	1	5,318
Unallocated depreciation				<u>2,149</u>
Total depreciation and impairment loss				<u>7,467</u>
Taxation charge	185	—	—	<u>185</u>
Amortisation of forest concession rights	3,024	—	—	<u>3,024</u>
Release of lease payments for land under operating lease	630	—	81	<u>711</u>
Additions to non-current assets	38,587	9,507	—	48,094
Unallocated additions to non-current assets				<u>9,719</u>
Total additions of non-current assets				<u>57,813</u>

**(b) Reconciliation of reportable segment loss, assets and liabilities**

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Loss before taxation		
Reportable segment loss	<b>(67,672)</b>	(51,892)
Gain/(loss) on change in fair value of investment property	<b>148</b>	(5,236)
Gain on change in fair value less costs to sell of biological assets	<b>4,869</b>	35,548
Change in fair value of derivative financial instrument	<b>29,820</b>	—
Other income and other gains or losses	<b>6,592</b>	(7,263)
Realised gain/(loss) on financial assets at fair value through profit or loss	<b>729</b>	(27,529)
Unallocated corporate expenses	<b>(33,876)</b>	(14,086)
Finance costs	<b>(9,633)</b>	(799)
	<hr/>	<hr/>
Consolidated loss before taxation	<b>(69,023)</b>	(71,257)
	<hr/> <hr/>	<hr/> <hr/>
	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Assets		
Reportable segment assets	<b>1,995,377</b>	917,373
Derivative financial instrument	<b>411,498</b>	—
Cash and bank balances	<b>19,759</b>	132,736
Unallocated corporate assets	<b>79,551</b>	62,803
	<hr/>	<hr/>
Consolidated total assets	<b>2,506,185</b>	1,112,912
	<hr/> <hr/>	<hr/> <hr/>
	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Liabilities		
Reportable segment liabilities	<b>171,174</b>	34,119
Deferred tax liabilities	<b>1,574</b>	1,574
Promissory note	<b>237,262</b>	—
Convertible bond	<b>361,205</b>	—
Unallocated corporate liabilities	<b>19,169</b>	2,828
	<hr/>	<hr/>
Consolidated total liabilities	<b>790,384</b>	38,521
	<hr/> <hr/>	<hr/> <hr/>

(c) **Geographical information**

The Group operates in four principal geographical areas — the People's Republic of China (excluding Hong Kong) (the PRC), Hong Kong, Australia and Guyana.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
PRC	8,355	7,283	1,309,533	223,196
Hong Kong	3,191	2,076	425,514	15,025
Australia	682	720	44,900	37,000
Guyana	8,943	7,762	548,051	553,454
	<u>21,171</u>	<u>17,841</u>	<u>2,327,998</u>	<u>828,675</u>

(d) **Information about major customers**

The Group's customer base is not diversified and there were two customers with whom transactions have exceeded 10% of the Group's revenues. Revenues from one customer in the timber logging and trading segment was approximately HK\$5,536,000 (2009: HK\$7,209,000) and another customer from other timber operation was approximately HK\$4,134,000 (2009: HK\$2,197,000).

5. **TURNOVER**

Turnover represents the net invoiced value of goods sold and rental income earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Income from timber logging and trading	11,855	12,975
Sales of goods	5,125	4,146
Sales of seedlings	2,528	—
Sales of tea oil	981	—
Gross rental income from cold storage warehouse (before direct outgoings of HK\$49,000; 2009: HK\$24,000)	<u>682</u>	<u>720</u>
	<u>21,171</u>	<u>17,841</u>

## 6. OTHER INCOME AND OTHER GAINS OR LOSSES

Other income and other gains or losses comprises:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest income	163	1,166
Exchange gain/(loss), net	6,453	(8,081)
Loss on fair value changes on financial assets	—	(909)
Gain on deregistration of a subsidiary	225	—
Other income	142	120
	<u>6,983</u>	<u>(7,704)</u>

## 7. FINANCE COSTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest on short term borrowings wholly repayable within five years	—	799
Interest expenses on convertible bond maturing within five years	5,853	—
Interest expenses on promissory note maturing within five years	3,780	—
	<u>9,633</u>	<u>799</u>

## 8. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Auditor's remuneration	1,200	980
Depreciation of property, plant and equipment	10,411	7,467
Amortisation of forest concession rights	2,214	3,024
Release of lease payments for land under operating lease	32,807	711
Cost of inventories and timber harvested	19,528	18,696
Staff cost (excluding director's remuneration):		
— Salaries and allowances	25,437	17,970
— Pension fund contributions	357	598
	<u>101,950</u>	<u>68,546</u>

*Note:* Salaries and allowances of HK\$2,025,000 (2009: HK\$2,139,000) has been included in the cost of sales on the face of the consolidated income statement. Also depreciation charge of HK\$293,000 (2009: HK\$156,000) 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\$Nil (2009: HK\$1,956,000) and net write off of inventories of HK\$1,059,000 (2009: HK\$2,604,000).

## 9. TAXATION

The taxation charge/(credit) comprises:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Hong Kong profits tax	—	—
PRC enterprise income tax		
— (over)/under provision, in respect of prior years	<u>(248)</u>	<u>185</u>
Taxation (credit)/charge	<u><u>(248)</u></u>	<u><u>185</u></u>

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Loss before taxation	<u><u>(69,023)</u></u>	<u><u>(71,257)</u></u>
Taxation calculated at 16.5%	(11,389)	(11,757)
(Over)/under provision in prior years	(248)	185
Net effect of non-taxable/deductible items	669	3,270
Net effect of tax losses and temporary differences not recognised	14,266	19,242
Tax effect on tax exemption granted by PRC tax authority	(369)	(6,619)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(3,177)</u>	<u>(4,136)</u>
Taxation (credit)/charge	<u><u>(248)</u></u>	<u><u>185</u></u>

The statutory tax rate for Hong Kong profits tax is 16.5% (2009: 16.5%) 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.

The State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 (the “Implementation Rules”). According to the Implementation Rules, an entity engaged in forestry business is entitled to full exemption from PRC enterprise income tax commencing from 1 January 2008. 樹人木業(大埔)有限公司 and 樹人苗木組培(大埔)有限公司 are qualified as forestry operation enterprise by the local tax authorities and so they are fully exempted from PRC enterprise income tax.

For the year ended 31 March 2010, the statutory corporate income tax rates applicable to all other subsidiaries established and operating in the PRC is 25% (2009: 25%).

## 10. DIVIDEND

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2010 (2009: HK\$Nil).

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

## 11. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss attributable to owners of the Company

	<b>Group</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Loss for the purposes of basic loss per share	<b>(65,223)</b>	(67,436)
Interest on convertible bond	<b>5,853</b>	—
Fair value gain on the derivative component of convertible bond	<b>(29,820)</b>	—
Loss for the purposes of diluted loss per share	<b><u>(89,190)</u></b>	<b><u>(67,436)</u></b>
	<b>'000</b>	<b>'000</b>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>10,734,514</b>	10,137,065
Convertible bond	<b><u>839,285</u></b>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<b><u>11,573,799</u></b>	<b><u>10,137,065</u></b>

The computation of diluted loss per share does not assume the exercise of the Company's outstanding warrants as the exercise price of those warrants is higher than the average market price for shares for 2010 and 2009.

## 12. TRADE AND OTHER RECEIVABLES

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade receivables	2,903	5,733
Other receivables	5,566	2,812
Deposits paid	2,285	1,498
Prepayment	18,324	19,262
	<u>29,078</u>	<u>29,305</u>

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 or more 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.

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Outstanding balances aged:		
0 to 30 days	2,015	537
31 to 60 days	451	353
61 to 180 days	52	4,843
Over 180 days	385	—
	<u>2,903</u>	<u>5,733</u>

At 31 March 2009 and 2010, 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 at the end of reporting period.

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Renminbi	85	3,963
United States dollars	2,818	1,770
	<u>2,903</u>	<u>5,733</u>

### 13. TRADE AND OTHER PAYABLES

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade payables	2,256	5,294
Other payables and accruals	39,872	6,073
Deposit received from a customer	3,542	—
Purchase consideration payable	5,108	—
	<u>50,778</u>	<u>11,367</u>

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Outstanding balances aged:		
0 to 30 days	1,543	3,640
31 to 60 days	—	261
61 to 180 days	698	1,393
Over 180 days	15	—
	<u>2,256</u>	<u>5,294</u>

Trade and other payable were denominated in the following currencies:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Hong Kong dollars	30,283	1,392
Renminbi	18,345	9,273
United States dollars	1,946	551
Australian dollars	204	151
	<u>50,778</u>	<u>11,367</u>

#### 14. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 8 February 2010, the Group acquired a piece of land located in the PRC and its related assets and liabilities from China Alliance International Holding Group Limited (“China Alliance”), which is an independent third party, at a fair value consideration of HK\$964,461,000. The acquisition was made by way of acquisition of (i) the 100% equity interests in Shoukong (Beijing) Management Consulting Company Limited (首控(北京)管理諮詢有限公司) (“Shoukong Management”) and its subsidiary – Yichang Xinshougang Property Development Company Limited (宜昌新首鋼房地產開發有限公司) (“Yichang Xinshougang”) and (ii) the shareholder’s advance owed by Shoukong Management to China Alliance (the “China Alliance’s Loan”). This transaction has been reflected as a purchase of assets and liabilities. Further details are set out in the Company’s circular dated 23 December 2009.

The consideration was satisfied by (i) HK\$50,000,000 in cash; (ii) issue and allotment of 4,275,862,068 shares of the Company; (iii) issue of convertible bond with a principal amount of HK\$470,000,000 by the Company; and (iv) issue of promissory note with a principal amount of HK\$280,000,000 by the Company.

Details of the fair value of net assets acquired are as follows:

	2010 HK\$'000
Net assets acquired:	
Property, plant and equipment	1,598
Prepaid lease payments	1,082,905
Other receivables	40
Cash and cash equivalents	51
Other payables	(2,778)
The China Alliance’s Loan	(155,389)
Deferred government grant	(114,308)
	<hr/> 812,119
<i>Add: Assignment of the China Alliance’s Loan</i>	<hr/> 155,389
	<hr/> <b>967,508</b> <hr/>
Consideration satisfied by:	
Cash paid	44,892
Costs directly attributable to the acquisition	3,047
Shares of the Company ( <i>note</i> )	272,241
Convertible bond — at fair value	408,738
Promissory note — at fair value	233,482
Remaining cash balance payable to China Alliance	5,108
	<hr/> 967,508 <hr/>
Total consideration	<hr/> <b>967,508</b> <hr/>

*Note* — The value of 4,275,862,068 shares issued as part of the consideration was determined with reference to the fair value of the assets and liabilities acquired after deducting the cash paid and the fair values of the convertible bond and promissory note issued. Out of the total value of shares of HK\$272,241,000, HK\$42,759,000 was credited to share capital and the remaining balance of HK\$229,482,000 was credited to share premium account.

**2010**  
**HK\$'000**

Net cash outflow arising on acquisition:

Consideration paid in cash	<b>(44,892)</b>
Costs directly attributable to the acquisition	<b>(3,047)</b>
Cash and cash equivalents acquired	<b>51</b>
	<hr/>
	<b>47,888</b>
	<hr/> <hr/>

Shoukong Management is an investment holding company and Yichang Xinshougang has just commenced the property development activities and therefore Shoukong Management and Yichang Xinshougang have not contributed any amount to the Group's turnover during the year. Shoukong Management and Yichang Xinshougang contributed HK\$31,828,000 in total to the consolidated loss since the acquisition date. If the acquisition had occurred on 1 April 2009, the loss of the Group for the year would have been HK\$38,569,000.

## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2010**

### **BUSINESS REVIEW**

For the year ended 31 March 2010, the Group was principally engaged in forest operation and management, timber logging and trading, timber processing, sale of timber products, plantation and trading of seedlings, property development and asset management.

This financial year had been a very challenging year in which the pace of economic recovery was still weak over the world. However with enhanced marketing strategy and hard work, the Group's turnover for the year ended 31 March 2010 recorded an significant increase of 19% to approximately HK\$21.17 million (2009: HK\$17.84 million) and generated a gross profit of approximately HK\$1.64 million (2009: gross loss of HK\$0.86 million).

The Group has continued investing substantial financial resources in the development of its logging business and plantation and trading of seedlings. In addition, the Group has advanced to the property development market in the PRC through the acquisition of a parcel of land with an area of approximately 587,726 square meters located in Hubei Province, the PRC which will be developed into a convention centre, a five-star hotel and various commercial and residential properties. The Board believes the Group can continue to enjoy fruitful rewards in the future from the investment it made during the year.

### **FINANCIAL REVIEW**

For the year ended 31 March 2010, the Group's turnover increased by 19% to approximately HK\$21.17 million as compared with approximately HK\$17.84 million in 2009 financial year and the cost of sales was approximately HK\$19.53 million (2009: 18.70 million). The four reportable segments engaged by the Group, namely timber logging and trading, other timber operation (manufacture and sale of furniture and handicrafts and sales of refined tea oil), property development and asset management, and cold storage warehouse leasing contributed approximately HK\$14.38 million (68%), HK\$6.11 million (29%), HK\$0 million (0%) and HK\$0.68 million (3%) respectively to the Group's consolidated turnover. The Group's property development and asset management business is at a preliminary development stage and is unable to yield any return yet. Detailed segment turnover and contribution to loss before tax of the Group are shown in note 4 of Notes to the Financial Statements above. In addition, the Group experienced a gross profit of approximately HK\$1.64 million in this year.

The loss before taxation and net loss were approximately HK\$69.02 million (2009: HK\$71.26 million) and HK\$68.78 million (2009: HK\$71.44 million) respectively, which represent a slight decrease. The loss was mainly attributable to the effective interest expense of convertible bond and promissory note amounted to HK\$5.9 million (2009: Nil) and HK\$3.8 million (2009: Nil) respectively and selling and administrative expenses of approximately HK\$103.58 million (2009 HK\$64.68 million), which mainly comprises amortisation of lease payment for land under operating lease amounted to approximately

HK\$32.81 million (2009: HK\$0.7 million), increase of staff costs to approximately HK\$36.25 million (2009: approximately HK\$32.08 million) and depreciation amounted to approximately HK\$10.41 million (2009: approximately 7.47 million). The loss attributable to shareholders for the year was approximately HK\$65.22 million (2009: loss HK\$67.44 million).

## **LIQUIDITY AND FINANCIAL REVIEW**

As at 31 March 2010, the Group's net assets amounted to approximately HK\$1,715 million, as compared with net assets value of approximately HK\$1,074 million as at 31 March 2009, it represents an increase of 59.6%. Besides, the current assets of the Group were HK\$178 million (2009: HK\$284 million) which mainly includes inventories of approximately HK\$129 million, prepaid lease payments of approximately HK\$0.7 million and cash and bank balances of approximately HK\$19.76 million (2009: HK\$133 million). The current liabilities increased from HK\$25.58 million (2009) to HK\$127.32 million (2010) during the year due to the attribution of HK\$59.93 million by a promissory note, trade and other payables of HK\$50.78 million, secured bank loan of HK\$5.69 million, and deferred government grant of HK\$8.92 million. The gearing ratio of the Group, measured as total debts to total assets, was 31.5% (2009: 3.5%).

On 9 February 2010, the Group issued a promissory note with a principal amount of HK\$280,000,000 in connection with 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) ("Shoukong Management"), which was the immediate holding company of Yichang Xinshougang Property Development Company Limited (宜昌新首鋼房地產開發有限公司) ("Yichang Xinshougang"), a property development company in the PRC. The promissory note bears interests at 1.5% per annum payable quarterly commencing from the date of the issue by 14 installments of HK\$20,000,000 each with the interest accrued thereon. The first installment will be paid after the end of the reporting period.

Apart from the promissory note, the Group also issued a convertible bond of an aggregate principal amount of HK\$470 million on 9 February 2010 as part of the consideration for the acquisition of Shoukong Management and Yichang Xinshougang. The bond entitles the holders to convert into ordinary shares at a conversion price of HK\$0.056 per share. If the bond shall not have been converted, it shall be redeemed on 8 February 2013 at the principal amount. The interest of the bond is 2.15% per annum payable upon redemption or conversion of the bond.

As at 31 March 2010, the amount due to a director was HK\$2 million (2009: Nil) which is unsecured, interest free and repayable on demand.

As at 31 March 2010, the Group committed a bank loan of approximately HK\$5.69 million repayable within one year and secured by its subsidiary's prepaid lease payment with interest of 6.1065% 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 appreciation in Australian dollars has resulted in a net exchange gain. 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 minimise 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 2010, certain prepaid lease payments with a net book value of approximately HK\$2.78 million was pledged to secure the bank loan granted to the Group (2009: Nil).

As at 31 March 2010, the Group had capital commitments of HK\$134 million (2009: HK\$101 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.

## **MATERIAL EVENTS**

### **Acquisition of Yichang Xinshougang**

On 9 May 2009, the Company and its wholly owned subsidiary entered into a sale and purchase agreement for the acquisition of the entire equity interest of Shoukong Management together with its wholly owned subsidiary, Yichang Xinshougang. Yichang Xinshougang is a property holding and development company and its sole asset is a piece of land of approximately 587,700 square meters located in Yiling District, Yichang City, Hubei Province, the PRC, for the development of complex commercial and residential properties including 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). The acquisition was completed on 9 February 2010 and the consideration of HK\$986 million was settled by cash of HK\$50 million, a promissory note of HK\$280 million, consideration shares of HK\$186 million and a convertible bond of HK\$470 million.

### **Equity Line of Credit Agreement and Issue of Warrants**

On 5 January 2010, the Company, GEM Global Yield Fund Limited ("GEM Global") and GEM Investment Advisors, Inc. entered into an equity line of credit agreement (the "ELC Agreement") which is supplemented by an amendment deed dated 19 January 2010, pursuant to which, the Company had been granted an option to require GEM Global to subscribe for up to an aggregate of HK\$300 million in value of ordinary shares of the Company. Upon full exercise of the option, the Company may issue a maximum of 2,500 million new shares based on the minimum floor issue price of HK\$0.12 per share. The equity line of credit has not been utilised by the Company.

Further to the ELC Agreement, on 8 February 2010, the Company issued 1,000 million warrants to GEM Global, each warrant entitled the holder to subscribe for one new share at the exercise price of HK\$0.23 per share (subject to adjustments) on or before 8 February 2013. Exercise in full of the warrants would result in an issue of 1,000,000,000 shares of the Company. No registered holder of the warrants has exercised its rights to subscribe for shares in the Company.

## **PROSPECT**

### **Forest land reserve and logging business**

With forest resources in Guyana of South America of approximately 257,000 hectares and in Guangdong Province of the PRC of approximately 95,294 Chinese Mu, the Group has determined to position itself as an upstream timber supplier which targets at manufacturers of high-end furniture and construction materials. The Group will strive to achieve its goal by focusing on expanding its logging capacity, broadening its timber sales and distribution channels, and strengthening its business operation.

### **Sale and Distribution Centre in Shenzhen**

The flagship store of the Group 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) has achieved continuous improvement in sales record in the year of 2010. The Group will continue promoting 紫御尚品 with high grade classic chinese styled wood furniture, hard wood furniture and handicrafts to the public and to maximise its market share. Our hard wood furniture are made of first grade timbers imported from our Guyana forest such as 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).

### **Tea-oil processing base in Meizhou, Guangdong**

In 2009, our subsidiary (Xing Ning Shu Ren Wood Limited (興寧樹人木業有限公司) was appraised as a leading agriculture enterprise in Xing Ning (興寧市農業龍頭企業) and a leading forestry enterprise in Guangdong Province (廣東省林業龍頭企業). Xing Ning is the hometown of tea-oil and our tea-oil is mainly distributed in Meizhou (梅州) and some cities in Greater Pearl River Delta (珠江三角洲). The subsidiary has come to the final stage of the construction of a tea-oil processing center in Meizhou, the PRC which has a floor area of 22,437 square meters and is well equipped with cutting edge cold pressing facilities. The pilot production was very successful and it is estimated that up to 5,000 tonnes of tea-oil can be produced each year.

The company plans to increase its market share by developing tea-oil downstream products and to generate greater profits. It is expected that the demand for tea-oil will greatly increase in view of the fact that people nowadays are striving for a better and healthier life.

## **Sapling Incubation Centre in Da Bu County and Plantation**

Up to the end of this financial year, the Group has completed the acquisition of 95,294 Chinese Mu forest land in Da Bu County for replantation purpose. The Group's Sapling Incubation Centre situated in the forest mainly carries out plant tissue cultivation, mass sapling and mass production of fine tree species with high commercial value, such as Acacia Melanoxyton and Camphor tree, to meet the Group's replantation requirements and for sales.

During this year, the centre had completed afforestation of 10,823 Chinese Mu. In the year of 2010, the centre plans to complete afforestation of a further 6,775 Chinese Mu which will include 2,500 Chinese Mu camphor (1,100,000 trees).

For the year ended 31 March 2010, more than 2.4 million saplings such as Acacia Melanoxyton and Camphor saplings had been sold which generated an income of approximately RMB2.22 million. It is estimated that more than 3.40 million saplings will be available for sale in the next financial year. The centre had also introduced new variety of tea-oil camellia from Guangxi Province, the PRC for sapling incubation and was appraised as an improved variety of tea-oil camellia sapling incubation centre.

## **Property development in Yichang**

The Company has commenced the development of 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) which comprises commercial as well as residential properties.

## **Barges of the Group in Guyana**

The Company has completed construction of a 72TEU collection dual purpose barge in Guyana and a new 84TEU collection dual purpose barge is currently under construction and is expected to be completed in August 2010. The two barges will both serve the purpose of transporting wood logs and other goods such as rice, cement and sand. The Board expects that the barges will help generate more profits for the Group.

## **EMPLOYEES AND RETIREMENT BENEFIT SCHEME**

The Group had approximately 280 employees in Hong Kong, the PRC, Australia and Guyana as at 31 March 2010. 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.

## **DISPOSALS DURING THE YEAR**

W&J Forest Resources Development Limited and 廣州樹人裝修設計有限公司, being the subsidiaries of the Group were both in the process of deregistration during the financial year.

## **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. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group. The directors are not aware of any environmental liabilities as at the end of the reporting period and up to the date of this Announcement. The directors are also not aware of any violation to existing conditions attached to the Group's timber concession right, or subject to any significant costs, expenses, penalties and liabilities.

## **CAPITAL RAISING AND EXPENDITURE**

On 9 February 2010, 4,275,862,068 new ordinary shares of HK\$0.01 each were issued at HK\$0.0435 per share as settlement of the part of the consideration for the acquisition of Shoukong Management and Yichang Xinshougang, details of which are set out in sub-section above.

## **DIVIDENDS**

The Directors do not recommend the payment of any dividend for the year ended 31 March 2010 (2009: Nil).

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

## **THE MODEL CODE**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than the required standard set out in the Model Code in Appendix 10 of the Listing Rules and the Directors of the Company has confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

## **AUDIT COMMITTEE**

The Company has established its Audit Committee in accordance with the requirements of the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited. The Audit Committee comprising of all independent non-executive directors of the Company, namely Mr. Yip Tak On, Mr. Jing Bao Li and Mr. Bao Liang Ming is responsible for reviewing the Group's accounting practices and policies, the external audit, internal controls and risk evaluation.

The Group's annual results for the year ended 31 March 2010 have been reviewed by the Audit Committee of the Company.

## **REMUNERATION COMMITTEE**

To comply with the Code on Corporate Governance Practices, a remuneration committee was established with specific written terms of reference which deal clearly with its authority and duties. The remuneration committee comprises three independent non-executive directors, Mr. Yip Tak On, Mr. Jing Bao Li and Mr. Bao Liang Ming and an executive director, Mr. Tsang Kam Ching, David.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the financial period under review, the Company has complied with all those code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the board of the Company held only two regular board meetings instead of at least 4 for the financial year. Further details of the Company's corporate governance practices will be set out in the corporate governance report to be contained in the Company's 2010 Annual Report.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information required by paragraphs 46 of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course and at the website of the Company at <http://www.ctrg.com.hk>. An Annual Report for the year ended 31 March 2010 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board  
**China Timber Resources Group Limited**  
**Tsang Kam Ching, David**  
*Director*

Hong Kong, 28 July 2010

*As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Fung Tsun Pong and Mr. Tsang Kam Ching, David; and three independent non-executive Directors, namely Mr. Yip Tak On, Mr. Jing Baoli and Mr. Bao Liang Ming.*