THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 licensed securities dealer or registered institution 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 to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

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

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 ACQUISITIONS AND CONNECTED TRANSACTIONS IN RELATION TO (1) THE EXERCISE OF AN OPTION TO ACQUIRE 51% INTEREST AND THE PROPOSED ACQUISITION OF 49% INTEREST IN GARNER FOREST INDUSTRIES INC.; AND (2) THE PROPOSED ACQUISITION OF 44% INTEREST IN JALING FOREST INDUSTRIES INC.

Financial adviser to China Timber Resources Group Limited

Quam Capital Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Hantec Capital Limited

28 September 2007

* *For identification purpose only*

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

"2005 Garner Valuation Report"	a survey and valuation report dated 1 September 2005 prepared by an independent valuer, BJ Management & Associates, a forestry and civil consultant company located in Guyana that is also approved and registered under the GFC
"2006 Garner Announcement"	the announcement of the Company dated 17 May 2006, in relation to, among other things, the Garner Forest Option Agreement
"2006 Jaling Valuation Report"	a valuation report dated 1 September 2006 prepared by an independent valuer, LCH (Asia-Pacific) Surveyors Limited stating that the Jaling Forest has a gross fair value of about US$310 million (or about HK$2,418 million)
"51% Acquisition"	the acquisition of 51% equity interest in Jaling by Wide Forest completed in September 2006 at a total consideration of HK$154 million
"Board"	the board of Directors
"Business Day"	a day (other than Saturday and Sunday) on which commercial banks in Hong Kong are open for business
"Company"	China Timber Resources Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held to consider the ordinary resolution(s) to be proposed to approve, among others, the Proposed Acquisitions
"Enlarged Group"	the Company and its subsidiaries upon the Garner Completion and Jaling Completion

"Garner"	Garner Forest Industries Inc., a company incorporated in Guyana, South America, with limited liability
"Garner Acquisition"	the acquisition of the Garner Sale Shares and the Garner Option Shares
"Garner Acquisition Agreement"	the conditional agreement dated 5 July 2007 entered into among the Company, Vastrich, Garner and Mr. Danny Chan in respect of the acquisition of 49% equity interest in Garner by Vastrich
"Garner Completion"	completion of the Garner Acquisition Agreement and the exercise of the Garner Forest Option which shall take place simultaneously
"Garner Completion Date"	the date which Vastrich determines to be the third Business Day after the date on which all the conditions precedent of the Garner Acquisition Agreement shall have been fulfilled or waived, or such other date as the parties to the Garner Acquisition Agreement shall agree, on which the Garner Completion shall occur
"Garner Enlarged Group"	the Company and its subsidiaries upon the Garner Completion
"Garner Forest"	approximately 92,737 hectares of forest mainly located in the left bank of Mazaruni River, right bank of Puruni River, left bank of Putareng River of Guyana, South America granted under the Timber Sales Agreement dated 11 June 2005 by GFC in favour of Garner, which Garner had obtained an exclusive timber concession right for a period of twenty-five years
"Garner Forest Option"	a call option granted by Mr. Danny Chan to the Company, pursuant to the Garner Forest Option Agreement, at a consideration of HK$1, to purchase from Mr. Danny Chan 2,550 ordinary shares of Garner, representing 51% of the shareholding of Garner at the consideration of HK$60,000,000
"Garner Forest Option Agreement"	an option agreement dated 16 May 2006 entered into between the Company and Mr. Danny Chan in respect of the Garner Forest Option

"Garner Independent Shareholders"	Shareholders other than Mr. Danny Chan and his associates
"Garner Option Consideration"	a sum of HK$60,000,000, to be paid by Vastrich to Mr. Danny Chan pursuant to the Garner Forest Option Agreement
"Garner Option Shares"	2,550 ordinary shares of G$20 each fully paid in the capital of Garner and held by Mr. Danny Chan, being the subject of the Garner Forest Option, representing 51% of the issued share capital of Garner
"Garner Sale Shares"	2,450 ordinary shares of G$20 each fully paid in the capital of Garner being legally and/or beneficially owned by Mr. Danny Chan, representing 49% of the issued share capital of Garner
"Garner Sale Shares Acquisition"	the acquisition of the Garner Sale Shares pursuant to the Garner Acquisition Agreement
"Garner Shares Consideration"	a sum of HK$50,000,000 to be paid by Vastrich to Mr. Danny Chan pursuant to the Garner Acquisition Agreement
"Garner TSA"	the Timber Sales Agreement (TSA:03/2005) dated 11 June 2005 entered into between GFC and Garner, including all its supplements, replacements and amendments
"GFC"	Guyana Forestry Commission
"Group"	the Company and its subsidiaries
"Guyana"	the Co-operative Republic of Guyana, South America
"HKGAAP"	Hong Kong Generally Accepted Accounting Principles
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"IFA"	Hantec Capital Limited, an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders
"Independent Board Committee"	the Independent Board Committee, comprising Mr. Yip Tak On, Mr. Jing Baoli, Mr. Bao Liang Ming, established to give recommendation to the Independent Shareholders in respect of the Proposed Acquisitions
"Independent Shareholders"	the Garner Independent Shareholders and the Jaling Independent Shareholders
"Issue Price"	the issue price of HK$0.253 per Jaling Consideration Share, calculated based on a discount of 7.5% to the average closing price for the past 5 trading dates immediately preceding the date of the Jaling Acquisition Agreement
"Jaling"	Jaling Forest Industries Inc., a non-wholly owned subsidiary of the Company incorporated in Guyana, South America, with limited liability
"Jaling Acquisition"	the acquisition of the Jaling Sale Shares
"Jaling Acquisition Agreement"	the conditional agreement dated 16 August 2007 entered into among the Company, Wide Forest and Mr. Liu in respect of the acquisition of a 44% equity interest in Jaling by Wide Forest
"Jaling Completion"	completion of the Jaling Acquisition Agreement
"Jaling Completion Date"	the date which Wide Forest determines to be the third Business Day after the date on which all the conditions precedent of the Jaling Acquisition Agreement shall have been fulfilled or waived, or such other date as the parties to the Jaling Acquisition Agreement shall agree, on which the Jaling Completion shall occur
"Jaling Consideration"	a sum of HK$130 million to be settled by issue of new Shares pursuant to the Jaling Acquisition Agreement
"Jaling Consideration Shares"	513,833,992 new Shares to be issued and allotted to Mr. Liu pursuant to the Jaling Acquisition Agreement

"Jaling Enlarged Group"	the Company and its Subsidiaries upon the Jaling Completion
"Jaling Forest"	the forests granted or approved to be granted to Jaling by GFC of an aggregate area of approximately 164,800 hectares (407,000 acres) mainly located in the north bank of Amakura River, the south bank of Baramita Amerindian Reserve and Whana River, the east bank of Whannamaparu and Whana River and the west bank of border with Venezuela, State Forest of Guyana, South America, which Jaling has obtained an exclusive timber concession right for a period of 25 years
"Jaling Group"	Jaling and its subsidiary
"Jaling Independent Shareholders"	Shareholders other than Mr. Liu and his associates
"Jaling Sale Shares"	220,000 ordinary shares of G$1.00 each fully paid in the capital of Jaling being legally owned by Mr. Liu, representing 44% of the issued share capital of Jaling
"Jaling TSA"	the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 entered into between Jaling and GFC including all its supplements, replacements and amendments
"Latest Practicable Date"	24 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Danny Chan"	Mr. Chan Chiu Hung Danny, who holds no post in the Group save for the managing director of Jaling, is the legal and/or beneficial owner of 100% equity interest of Garner
"Mr. Liu"	Mr. Liu Feng Lei, the legal and beneficial owner of 44% equity interest of Jaling, who holds no position or roles in the Group
"Placing"	the placing effected by the Company in June 2007, details of which are set out in the announcement of the Company dated 14 June 2007

"PRC"	the People's Republic of China
"Proposed Acquisitions"	the Garner Acquisition and the Jaling Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Total Garner Consideration"	HK$110 million, an aggregate of the Garner Shares Consideration and the Garner Option Consideration
"Vastrich"	Vastrich Corporation Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
"Wide Forest"	Wide Forest Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
"G$"	Guyanese dollar(s), the lawful currency of Guyana, South America, and the exchange rate for the purpose of this circular is G$1=HK$0.0435
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollar(s), the lawful currency of the United States of America, and the exchange rate for the purpose of this circular is US$1=HK$7.8
"%"	per cent.

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
Mr. Lau Sing Hung, Stephen
Mr. Tsang Kam Ching, David
Mr. Chow Ki Shui, Louie

Independent non-executive Directors:
Mr. Yip Tak On
Mr. Jing Baoli
Mr. Bao Liang Ming

Registered office:
The Office of Caledonian
Bank & Trust Limited
Caledonian House
George Town
Cayman Islands

Principal place of business:
Room 1606, Office Tower
Convention Plaza
Wanchai
Hong Kong

28 September 2007

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS IN RELATION TO (1) THE EXERCISE OF AN OPTION TO ACQUIRE 51% INTEREST AND THE PROPOSED ACQUISITION OF 49% INTEREST IN GARNER FOREST INDUSTRIES INC.; AND (2) THE PROPOSED ACQUISITION OF 44% INTEREST IN JALING FOREST INDUSTRIES INC.

INTRODUCTION

On 5 July 2007, Vastrich, a wholly-owned subsidiary of the Company, entered into the Garner Acquisition Agreement with Mr. Danny Chan to acquire 49% equity interest of Garner and exercise the Garner Forest Option to acquire the other 51% equity interest in Garner simultaneously.

* *For identification purpose only*

On 16 August 2007, Wide Forest, a wholly-owned subsidiary of the Company, entered into the Jaling Acquisition Agreement with Mr. Liu to acquire 44% equity interest of Jaling.

Upon the Garner Completion and Jaling Completion, Garner will become a wholly-owned subsidiary of the Company and Jaling will become a 95% owned subsidiary of the Company. Completion of the Jaling Acquisition and the Garner Acquisition are not inter-conditional. Each of the Proposed Acquisitions constitutes a very substantial acquisition and a connected transaction for the Company and is conditional upon, among other things, the approval by the Independent Shareholders by poll at the EGM.

The purpose of this circular is to provide you with further information regarding, among other things, the Proposed Acquisitions. This circular also contains, among others, a letter from the Independent Board Committee, a letter from the IFA, valuation reports on Jaling Forest and Garner Forest and a notice of EGM which shall be convened for the purpose of considering and, if thought fit, approving the resolutions in relation to the Proposed Acquisitions.

EXERCISE OF THE GARNER FOREST OPTION

As disclosed in the 2006 Garner Announcement, the Company and Mr. Danny Chan entered into the Garner Forest Option Agreement pursuant to which the Company has been granted the Garner Forest Option to purchase the Garner Option Shares from Mr. Danny Chan at a consideration of HK$60 million.

After the trading hours of the Shares on 5 July 2007, the Directors resolved to exercise the Garner Forest Option to require Mr. Danny Chan to sell to Vastrich the Garner Option Shares, representing 51% equity interest of Garner, at a consideration of HK$60 million payable by Vastrich in cash. It is disclosed in the 2006 Garner Announcement that the Garner Option Consideration was determined after arm's length negotiation between the Company and Mr. Danny Chan with reference to the 2005 Garner Valuation Report. As stated in the aforesaid valuation report, the Garner Forest, which Garner has obtained an exclusive timber concession right for a period of twenty-five years commencing from 11 June 2005, has a gross fair value of not less than US$189 million. The Garner Option Consideration will be satisfied by the proceeds from the Placing and the payment arrangement thereof is set out in the sub-section headed "Total Garner Consideration for the Garner Acquisition" under the section headed "The Garner Acquisition Agreement" below.

The acquisition of the Garner Option Shares is subject to satisfaction of the conditions stipulated in the Garner Forest Option Agreement as set out in the 2006 Garner Announcement. As at the Latest Practicable Date, some of the conditions precedent have been satisfied or waived. Completion of the acquisition of the Garner Option Shares and the Garner Sale Shares shall take place simultaneously.

THE GARNER ACQUISITION AGREEMENT

Date	:	5 July 2007
Purchaser	:	Vastrich Corporation Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
Vendor	:	Mr. Danny Chan, the managing director of Jaling Forest Industries Inc., a non-wholly owned subsidiary of the Company, is the legal and/or beneficial owner of the entire equity interest of Garner

Asset to be acquired

2,450 ordinary shares of G$20 each fully paid in the capital of Garner being legally and/or beneficially owned by Mr. Danny Chan, representing 49% of the issue share capital of Garner.

The Garner Shares Consideration

Consideration for the Garner Sale Shares Acquisition

The Garner Shares Consideration payable in cash by Vastrich is HK$50 million (subject to adjustment). The Garner Shares Consideration has been determined after arm's length negotiation between the parties involved with reference to the 2005 Garner Valuation Report and the Garner Option Consideration. The Directors have also taken into account the current operation status, the financial position and the working capital requirement of Garner for commercial production of the Garner Forest (including but not limited to, logging cost, processing cost, transportation cost and management cost) upon its full operation in determining the Garner Shares Consideration. The difference between the Garner Shares Consideration and the Garner Option Consideration represents the premium paid to obtain the controlling stake in Garner.

The Garner Shares Consideration shall be adjusted downwards on a dollar for dollar basis, in accordance with the net indebtedness of Garner as of the close of business on the day immediately prior to the Garner Completion Date. Mr. Danny Chan shall be liable to pay to Vastrich an amount equal to the aforesaid net indebtedness, which is deductible from the Garner Shares Consideration payable by Vastrich to Mr. Danny Chan.

Total Garner Consideration for the Garner Acquisition

The Total Garner Consideration of HK$110 million will be satisfied by the proceeds from the Placing payable in the following manner pursuant to the Garner Acquisition Agreement:

— a deposit of HK$60 million in aggregate (the "Deposit") for the Garner Acquisition upon signing of the Garner Acquisition Agreement; and

— the remaining balance of HK$50 million (subject to adjustment) upon the Garner Completion.

In the event that the Garner Acquisition Agreement fails to complete in accordance with the terms and conditions therein or being terminated in accordance to termination clause therein, the entire Deposit shall be returned to Vastrich forthwith, without interest and without any deduction, set-off or withholding whatsoever, within three Business Days of such failure or termination. The Directors (including the independent non-executive Directors) consider that the aforesaid arrangement, being a usual and common commercial arrangement, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions precedent

The Garner Completion is conditional upon:

(a) Vastrich notifying Mr. Danny Chan that it is satisfied with the results of its due diligence activities in respect of the assets, liabilities, contracts, commitments, business, financial, legal and taxation or other aspects of Garner;

(b) Vastrich having obtained a legal opinion issued by a Guyana lawyer certifying that (i) Garner is duly incorporated with limited liability and validly existing in good standing under the laws of Guyana and Mr. Danny Chan is the registered legal and/or beneficial owner of the Garner Sale Shares and the Garner Option Shares free from all incumbrances; (ii) Garner has all the necessary lawful and valid government approvals, concessions, and contractual rights and entitlement for the exploration, exploitation and occupation of the Garner Forest and undertaking such business operations and activities of and in connection with the Garner Forest under the terms of the Garner TSA and any supplemental or amendments thereto and all other transactions as contemplated by the Garner Acquisition Agreement; and (iii) the Garner TSA and/or the Garner TSA as amended from time to time is good, valid and subsisting under the Guyana laws and regulations and is not liable to cancellation or forfeiture by the Guyana government;

(c) Vastrich having obtained a survey and valuation report on the value of the Garner Forest to be issued by an international surveyor appointed by Vastrich and the assessment results to be provided by the said independent international surveyor shall be satisfactory to Vastrich;

(d) requisite approval and consents having granted by the regulatory and governmental authorities in Hong Kong and Guyana for the sale and purchase of the Garner Sale Shares and exercise of the Garner Forest Option (if applicable);

(e) any requirement imposed on the Company or its subsidiary by the Stock Exchange or the Listing Rules in connection with the matters contemplated under the Garner Acquisition Agreement having been complied with;

(f) any other necessary approval, including without limitation from the Shareholders, being given for the Garner Acquisition Agreement and the exercise of the Garner Forest Option;

(g) the warranties remaining true and accurate in all respects as at the date of the Garner Acquisition Agreement and on the Garner Completion Date;

(h) completion of the sale and purchase of the Garner Option Shares pursuant to the Garner Forest Option Agreement; and

(i) Vastrich having received, in form and substance satisfactory to it, (1) the audited financial statement of Garner as at 31 March 2007 prepared by a firm of accountants as Vastrich may appoint; (2) the unaudited balance sheet and profit and loss account of Garner as at the Garner Completion Date; and (3) a report prepared by the reporting accountants in conformity with HKGAAP in relation to Garner's financial position for the period from its incorporation to 31 March 2007.

Save for conditions precedent (e) and (f), Vastrich may waive any or all of the above conditions. The Company was advised by its Guyana lawyer that, as at the date of the Garner Acquisition Agreement, the exercise of the Garner Forest Option and the Garner Acquisition do not require approval from the Guyana government. If any of the above conditions precedent shall not have been fulfilled or waived on or before 31 October 2007 or such later date as Vastrich may notify Mr. Danny Chan in writing, the Garner Acquisition Agreement shall terminate and become null and void.

As at the Latest Practicable Date, save for conditions precedent (a), (c), (e), (f), (g) and (h), all of the above conditions precedent have been fulfilled.

The Garner Completion

The Garner Completion shall take place on or before 4:00 p.m. on the Garner Completion Date, or at such other time as shall be mutually agreed in writing. Upon the Garner Completion, Garner will become an indirect wholly-owned subsidiary of the Company.

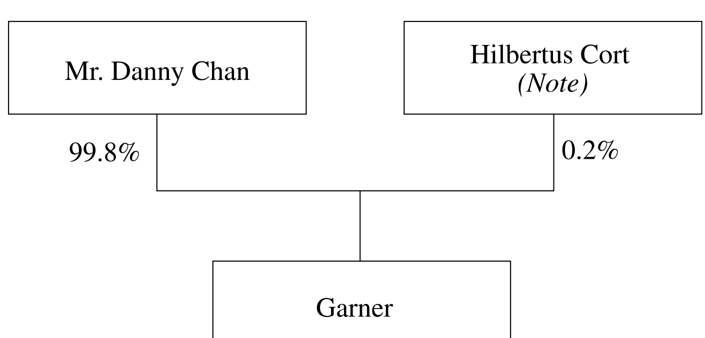
INFORMATION ON GARNER

Garner was incorporated in Guyana, South America, on 9 March 2006 as a private company with limited liability, and will principally engaged in logging and forest exploitation, operation and management. The only asset of Garner is the possession of the exclusive concession right to occupy the Garner Forest for the purpose of carry out logging and forest exploitation activities for a period of 25 years commencing on 11 June 2005. The granting of the aforesaid exclusive concession right is subject to payment of an annual acreage fee of US$0.12 (equivalent to approximately HK$0.94) per acre by Garner.

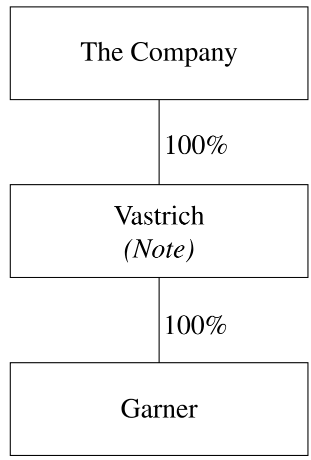
Garner has not commenced any business activities and has not made any profit since its incorporation. The Directors confirmed that save for the Garner Option Consideration and the Garner Shares Consideration, the Group has no other capital commitment in respect of the Garner Acquisition. The Company was advised by Mr. Danny Chan that the initial investment of Garner amounted to approximately HK$65 million. As at 30 June 2007, Garner has an unaudited net asset value of G$100,000 (equivalent to approximately HK$4,350).

Shareholding structures of Garner immediately before and after the Garner Completion are as follows:

Before the Garner Completion



After the Garner Completion



Note: Mr. Hilbertus Cort, a Guyana resident, is a nominee of and holds 10 shares (0.2%) in Garner in trust for Mr. Danny Chan and after completion of the Garner Acquisition Agreement, for Vastrich.

THE JALING ACQUISITION AGREEMENT

Date	:	16 August 2007
Purchaser	:	Wide Forest Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
Vendor	:	Mr. Liu Feng Lei, the legal and beneficial owner of 44% equity interest of Jaling

Asset to be acquired

The Jaling Sale Shares, being 220,000 ordinary shares of G$1.00 each fully paid in the capital of Jaling being legally and beneficially owned by Mr. Liu, representing 44% of the issued share capital of Jaling. Mr. Liu has confirmed with the Company that the purchase price of the Jaling Sale Shares was about RMB110 million (or about HK$113.3 million).

The Jaling Consideration

The Jaling Consideration of HK$130 million was determined after arm's length negotiation between the parties involved with reference to the 51% Acquisition and the attributable gross fair value of about US$158 million (or about HK$1,232 million) based on the 2006 Jaling Valuation Report, which values the Jaling Forest with a gross fair value of approximately US$310 million (or about HK$2,418 million). Upon the Jaling Completion, Wide Forest would be entitled to an additional 44% interest over the forest which, with reference to the 2006 Jaling Valuation Report, has an attributable gross fair value of approximately US$136.4

million (or about HK$1,063.92 million). The 2006 Jaling Valuation Report was prepared using the market approach, which considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect the condition and utility of the appraised assets relative to the market comparative. The approach does not discount the major costs incurred in estimating the value. It is the gross value of the product under valuation. As such, the Directors have taken into account various factors in determining the Jaling Consideration including substantial costs arising out of harvesting, processing, export, management and operation.

The Jaling Consideration will be settled by the issue of the Jaling Consideration Shares under a specific mandate. The issue price of HK$0.253 per Jaling Consideration Share was calculated based on a discount of 7.5% to the average closing price for the past 5 trading dates immediately preceding the date of the Jaling Acquisition Agreement. The issue price of HK$0.253 per Jaling Consideration Share represents a discount of approximately 14.24% to the closing price of HK$0.295 per Share on the Latest Practicable Date. The Jaling Consideration Shares represent approximately 6% of the existing issued share capital and 5.65% of the issued share capital of the Company as enlarged by the Jaling Consideration Shares. The Directors confirmed that there will not be a change of control of the Company upon Jaling Completion. As at the Latest Practicable Date, 1,717,593,946 Shares are available for issue under the general mandate granted at the annual general meeting of the Company held on 23 August 2007.

The Jaling Consideration Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment. Application has been made to the Stock Exchange for the listing and permission to deal in the securities.

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Jaling Completion:

	As at the Latest Practicable Date		**Immediately after the Jaling Completion**		**Immediately after the Jaling Completion assuming all other existing outstanding convertibles and options are exercised**	
	Number of shares	*%*	*Number of shares*	*%*	*Number of shares*	*%*
Ocean Gain Limited *(Note 1)*	1,055,500,000	12.29%	1,055,500,000	11.60%	1,055,500,000	10.48%
Richest Billion Limited *(Note 2)*	1,045,000,000	12.17%	1,045,000,000	11.48%	1,045,000,000	10.38%
Allkeen Investments Limited *(Note 3)*	1,000,000,000	11.64%	1,000,000,000	10.99%	1,000,000,000	9.93%
Mr. Liu *(Note 4)*	0	0.00%	513,833,992	5.65%	513,833,992	5.10%
General public *(Note 5)*	5,487,469,734	63.90%	5,487,469,734	60.29%	6,457,469,734	64.11%
Sub-total of all public shareholders	5,487,469,734	63.90%	6,001,303,726	65.94%	6,971,303,726	69.22%
Total	8,587,969,734	100%	9,101,803,726	100%	10,071,803,726	100%

Notes:

1. Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive Director.

2. Richest Billion Limited is wholly-owned by Ms. Li Shi Miao, an independent third party who holds no position or roles in the Group.

3. Allkeen Investments Limited is wholly-owned by Ms. Wong Yat Ping, an independent third party who holds no position or roles in the Group.

4. Mr. Liu is independent of all the substantial shareholders of the Company and their ultimate beneficial owners and it is intended that Mr. Liu will hold no position or roles in the Group upon the Jaling Completion.

5. As at the Latest Practicable Date, there are 960,000,000 unlisted warrants and 10,000,000 share options outstanding, all of which are held by independent third parties. Assuming all of the aforementioned existing outstanding convertibles and options are exercised, 970,000,000 shares will be issued to independent third parties.

The purchase method of accounting to be adopted for the Jaling Acquisition is the same accounting treatment for the 51% Acquisition. The excess of the Jaling Consideration over the unaudited fair value of the Group's share of the net identifiable assets of Jaling at the Jaling Completion Date will be accounted for as goodwill. The goodwill will be carried at cost less accumulated impairment losses and tested annually for impairment.

Conditions precedent

The Jaling Completion is conditional upon:

(a) Wide Forest obtaining a legal opinion to be issued by a Guyana lawyer certifying that Mr. Liu is the registered legal and beneficial owner of the Jaling Sale Shares free from all encumbrances;

(b) requisite approval and consents having granted by the regulatory and governmental authorities in Hong Kong and Guyana for the sale and purchase of the Jaling Sale Shares (if applicable);

(c) any requirement imposed on the Company or its subsidiary by the Stock Exchange or the Listing Rules in connection with the matters contemplated under the Jaling Acquisition Agreement having been complied with (including, without limitation, any disclosure requirement of the Company);

(d) approval by the Shareholders, being given for the Jaling Acquisition Agreement and the issue and allotment of the Jaling Consideration Shares;

(e) the Listing Committee of the Stock Exchange granting its approval for the listing of, and permission to deal in, all the Jaling Consideration Shares and, where such approval is granted subject to certain conditions being fulfilled, such conditions being reasonably satisfactory to the Company; and

(f) the warranties remaining true and accurate in all respects as at the date of the Jaling Acquisition Agreement and on the Jaling Completion Date.

Save for conditions precedent (c) to (e), Wide Forest may waive any or all of the above conditions. The Company was advised by its Guyana lawyer that the Jaling Acquisition does not require approval from the Guyana government. If any of the above conditions precedent shall not have been fulfilled or waived on or before 30 November 2007 or such later date as Wide Forest may notify Mr. Liu in writing, the Jaling Acquisition Agreement shall be terminated and become null and void.

As at the Latest Practicable Date, save for conditions precedent (c), (d), (e) and (f), all of the above conditions precedent have been fulfilled.

The Jaling Completion

The Jaling Completion shall take place on or before 4:00 p.m. on the Jaling Completion Date, or at such other time as shall be mutually agreed in writing. Upon the Jaling Completion, Jaling will remain as an indirectly non-wholly owned subsidiary of the Company and Mr. Liu will hold approximately 5.65% of the issued share capital of the Company as enlarged by the Jaling Consideration Shares and become a substantial shareholder of the Company as defined under Part XV of the Securities and Futures Ordinance. The Directors are of the view that there will not be any changes in the Board upon the Jaling Completion.

INFORMATION ON JALING

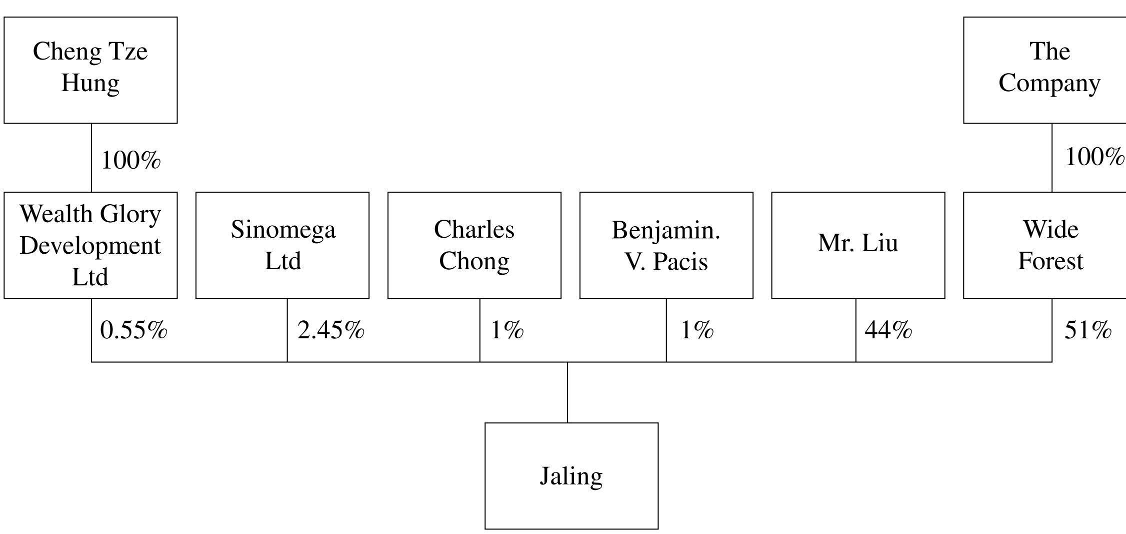
Jaling was incorporated in Guyana, South America, in January 2002, as a private company with limited liability, having an authorised share capital of G$500,000 divided into 500,000 shares of G$1.00 each, all of which have been issued and fully paid.

On 22 August 2003 Jaling was granted a State Forest Exploratory Permit (1/2003) by GFC, 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 by GFC 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 — Venezuela border, right bank of Whannamaparu River and left bank of Barima River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River. Under these exploratory permit and concession right, the Company shall pay a total acreage fee of approximately HK$9 million 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 GFC, GFC has committed in principle to find an additional area in the proximity of the current concession which would compensate more or less of 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 identical to the aforesaid concession right. Based on a letter from GFC dated 19 January 2006, the GFC has approved the grant of two more additional areas at Baramita and Sebai reservations to Jaling.

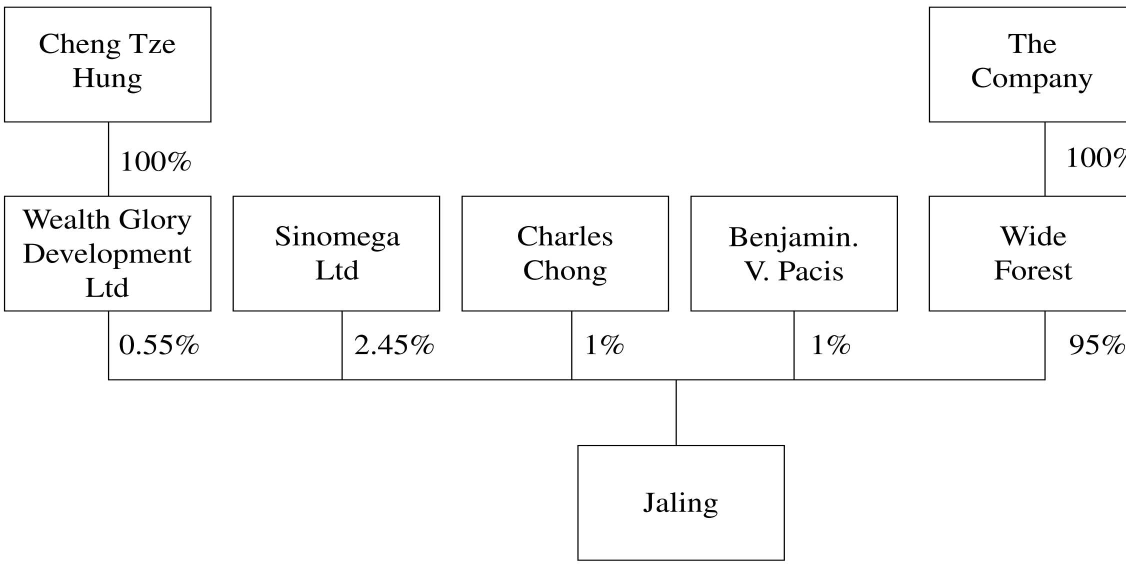
The Group acquired a 51% equity interest of Jaling and Jaling became a non-wholly owned subsidiary of the Company since 21 September 2006. With reference to the 2007 annual report of the Company prepared based on HKFRS, Jaling Group has commenced its business activities and has a turnover of HK$11.24 million and a profit of HK$0.24 million for the financial year ended 31 March 2007. Furthermore, Jaling Group has an audited net asset value of HK$20,000 as at 31 March 2007. On 18 June 2007 Jaling and Wuchang State-owned Forestry Company ("Wuchang") mutually agreed to terminate the joint venture agreement dated 22 December 2004 ("Joint Venture Agreement"). Since the termination of the Joint Venture Agreement, the Company has taken up the exploitation of the Jaling Forest rather than via the joint venture. The new arrangement allows the Company to capture the logging fee of US$44 per cubic meter of timber otherwise paid to Wuchang under the Joint Venture Agreement. The Directors consider that the termination of the Joint Venture Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Shareholding structures of Jaling immediately before and after the Jaling Completion are as follows:

Immediately before the Jaling Completion



Immediately after the Jaling Completion



REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITIONS

The Group is principally engaged in forest operation and management, logging and timber processing and trading. The Group is also engaged in operation of cold storage warehousing and logistics management services. It is the current intention of the Directors that the Group, as it considers appropriate, will cease to operate its cold storage warehousing and logistics management services businesses and focus its efforts on the forestry business. However, the Group currently has no fixed timeframe to cease the cold storage operations. The Directors will ensure compliance with the Listing Rules from time to time, and will make further announcement as and when necessary. The Directors are in the opinion that timber is one of the natural resources which has a continuous global demand particularly in the PRC.

As such, the Directors are in the opinion that the Jaling Acquisition would enable the Company to capture the majority stake of the revenue generated from the operation of Jaling. As at the Latest Practicable Date, the Company has no intention to acquire the remaining 5% equity interest of Jaling. The Company has also been actively seeking suitable opportunities for any further business development related to the forestry business of the Group.

By leveraging on its experience in the forestry business accumulated through the operation and management of Jaling, the Company has decided to further expand its investment in natural resources. In view of the above, the Directors, including the independent non-executive Directors, consider that the Garner Acquisition would enlarge the natural resources reserve of the Group, allowing the Group to increase its production capacity and expand its income base.

Both the Jaling Acquisition and Garner Acquisition will adopt a similar accounting treatment as the 51% Acquisition. Upon completion of the Proposed Acquisitions, the concession rights under Garner TSA and the Jaling TSA will be treated as intangible assets of the Company. The Directors (including the independent non-executive Directors) also consider that both the Garner Acquisition and Jaling Acquisition are conducted in the ordinary and usual course of business of the Company, and are fair, reasonable and on normal commercial terms.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that both the Garner Acquisition and Jaling Acquisition are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITIONS

As at 31 March 2007, the Group recorded an audited net asset value of approximately HK$121.68 million. Based on the unaudited pro forma statement of assets and liabilities of the Garner Enlarged Group, the Jaling Enlarged Group and the Enlarged Group as set out in Appendix IV, V and VI respectively to this circular, the unaudited pro forma consolidated net assets values of the Garner Enlarged Group immediately after the Garner Completion is approximately HK$471.28 million, the Jaling Enlarged Group immediately after the Jaling Completion is approximately HK$601.41 million and the Enlarged Group immediately after the completion of the Proposed Acquisitions is approximately HK$601.41 million.

Upon completion of the Proposed Acquisitions, Garner and Jaling will be 100% and 95% beneficially owned by the Company respectively, and therefore each of Garner and Jaling will be a subsidiary of the Company. Accordingly, the financial results of Garner and Jaling will be consolidated into those of the Group. It is noted that the earnings base of the Group will be strengthened in the long run, but the quantification of such impact depends on the future performance of the Enlarged Group.

IMPLICATION UNDER THE LISTING RULES

The Garner Acquisition

The 51% Acquisition from Mr. Peter Chan, the son of Mr. Danny Chan, an associate as defined under the Listing Rules, was completed on 21 September 2006. Pursuant to Rules 14.22 and 14A.25 of the Listing Rules, the 51% Acquisition and the Garner Acquisition are being aggregated. Notwithstanding the above, the Garner Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules and are subject to, and conditional on, among other things, the approval of the Garner Independent Shareholders by poll at the EGM. Mr. Danny Chan is the managing director of Jaling, a non-wholly owned subsidiary of the Company, and therefore, a connected person as defined under the Listing Rules. Pursuant to the Listing Rules, Mr. Danny Chan and his associates, holding approximately 5.64% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions in respect of the Garner Acquisition to be proposed at the EGM.

The Jaling Acquisition

Mr. Liu is a substantial shareholder of Jaling and therefore, a connected person as defined under the Listing Rules. The Jaling Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules and will be subject to, and conditional on, among other things, the approval of the Jaling Independent Shareholders by poll at the EGM. Furthermore, Mr. Liu and his associates are required to abstain from voting on the resolutions in respect of the Jaling Acquisition to be proposed at the EGM. Mr. Liu confirmed that, as at the Latest Practicable Date, Mr. Liu and his associates do not hold any Shares and they do not have any prior transactions or relationships with the Group that require aggregation under Rules 14.22 and 14A.25 of the Listing Rules. Furthermore, Mr. Liu confirmed that he is not an associate of Mr. Danny Chan and/or Mr. Peter Chan as defined under the Listing Rules.

THE EGM

A notice of the EGM to be held at 7/F, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China (中國深圳福田市保稅區鑫瑞科大樓7層), on Thursday, 18 October 2007 at 11:30 a.m. is set out on pages 227 to 230 of this circular, among others, for the purpose to consider and, if thought fit, to approve the Proposed Acquisitions.

The form of proxy for use in the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete and return the enclosed from of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof, should you so desire.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Under Article 81 of the Articles of Association of the Company, at any general meeting of the Company, resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for poll) demanded by:

(i) the chairman of the meeting; or

(ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder(s) present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) any Shareholder(s) present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring the right.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman of the general meeting that a resolution has been carried or lost or has or has not been carried by any particular majority, and an entry to that effect in the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number, proportion or validity of the votes recorded in favour of or against such resolution.

On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy, shall have one vote for every Share of which he is the holder which is fully paid or credited as fully pai (but so that no amount paid or credited as paid on a share in advance of calls or installments shall be treated as paid on the share). A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all his votes in the same way.

GENERAL INFORMATION

Shareholders and potential investors should note that the Proposed Acquisitions are subject to a number of conditions precedent and may or may not be completed. Shareholders and the investing public should exercise caution when dealing in the Shares, and if you are in any doubt about your position, you should consult your professional advisers.

The Independent Board Committee

The Independent Board Committee, comprising Mr. Yip Tak On, Mr. Jing Baoli, Mr. Bao Liang Ming, has been established to give recommendation to the Independent Shareholders in respect of the Proposed Acquisitions. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on pages 23 to 24 of this circular.

The Independent Financial Adviser

Hantec Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition. Your attention is drawn to its advice letter to the Independent Board Committee and the Independent Shareholders set out on pages 25 to 39 of this circular.

RECOMMENDATION

The Directors believe that the Proposed Acquisitions are fair and reasonable and in the interest of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve these transactions.

You are advised to read carefully the letter from the Independent Board Committee on pages 23 to 24 of this circular. The Independent Board Committee, having taken into account the advice of the IFA, the text of which is set out on pages 25 to 39 of this circular, considers that the terms of the Proposed Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve these transactions.

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

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)

28 September 2007

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS IN RELATION TO (1) THE EXERCISE OF AN OPTION TO ACQUIRE 51% INTEREST AND THE PROPOSED ACQUISITION OF 49% INTEREST IN GARNER FOREST INDUSTRIES INC.; AND (2) THE PROPOSED ACQUISITION OF 44% INTEREST IN JALING FOREST INDUSTRIES INC.

We refer to the letter from the Board set out in the circular dated 28 September 2007 (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular, unless the otherwise defined herein.

We have been appointed as the Independent Board Committee to consider the Proposed Acquisitions and to advise the Independent Shareholders as to whether the terms of the Proposed Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to recommend whether the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Acquisitions. Hantec Capital Limited has been appointed to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Hantec Capital Limited which contains its advice to us and the Independent Shareholders regarding the Proposed Acquisitions.

* *For identification purpose only*

Having taken into account the principal factors and reasons considered by, and the opinion of Hantec Capital Limited, we consider that the terms of the Proposed Acquisitions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Acquisitions.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Yip Tak On	**Mr. Jing Baoli**	**Mr. Bao Liang Ming**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*

The following is the text of the letter of advice from Hantec Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Proposed Acquisitions.

Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

28 September 2007

To the Independent Board Committee and the Independent Shareholders of
China Timber Resources Group Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTIONS IN RELATION TO (1) THE EXERCISE OF AN OPTION TO ACQUIRE 51% INTEREST AND THE PROPOSED ACQUISITION OF 49% INTEREST IN GARNER FOREST INDUSTRIES INC.; AND (2) THE PROPOSED ACQUISITION OF 44% INTEREST IN JALING FOREST INDUSTRIES INC.

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the exercise of an option to acquire 51% interest and the proposed acquisition of 49% interest in Garner Forest Industries Inc. and the proposed acquisition of 44% interest in Jaling Forest Industries Inc, details of which are contained in the Letter from the Board (the "**Letter from the Board**") set out in the circular (the "**Circular**") of the Company to the Shareholders dated 28 September 2007, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 5 July 2007, Vastrich, a wholly-owned subsidiary of the Company, entered into the Garner Acquisition Agreement with Mr. Danny Chan to acquire 49% equity interest of Garner and exercise the Garner Forest Option to acquire the other 51% equity interest of Garner simultaneously.

On 16 August 2007, Wide Forest, a wholly-owned subsidiary of the Company, entered into the Jaling Acquisition Agreement with Mr. Liu to acquire 44% equity interest of Jaling.

Upon the Garner Completion and Jaling Completion, Garner will become a wholly-owned subsidiary of the Company and Jaling will become a 95% owned subsidiary of the Company. Completion of the Jaling Acquisition and the Garner Acquisition are not inter-conditional. Each of the Garner Acquisition and Jaling Acquisition constitutes a connected transaction and a very substantial acquisition for the Company under the Listing Rules and is subject to, and conditional on, among others, the approval of the Independent Shareholders by poll at the EGM. Pursuant to the Listing Rules, Mr. Danny Chan and his associates, holding approximately 5.64% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions in respect of the Garner Acquisition to be proposed at the EGM, while Mr. Liu and his associates, are required to abstain from voting on the resolutions in respect of the Jaling Acquisition to be proposed at the EGM. Mr. Liu confirmed that, as at the Latest Practicable Date, Mr. Liu and his associates do not hold any Shares and they do not have any prior transactions or relationships with the Group that require aggregation under Rules 14.22 and 14A.25 of the Listing Rules. Furthermore, Mr. Liu confirmed that he is not an associate of Mr. Danny Chan and/or Mr. Peter Chan as defined under the Listing Rules.

The Independent Board Committee, comprising three independent non-executive Directors, namely Mr. Yip Tak On, Mr Jing Baoli and Mr. Bao Liang Ming, has been established to advise the Independent Shareholders in respect of the Proposed Acquisitions.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

The principal factors and reasons that we have taken into consideration in assessing the Proposed Acquisitions and the terms thereof and arriving at our opinion are set out as follows:

1. Information on the Group

The Group is principally engaged in forest operation and management, logging and timber processing and trading. The Group is also engaged in operation of cold storage warehousing and logistics management services.

The Group only commenced its forestry business in the second half of the financial year ended 31 March 2007 after the completion of its acquisition of a majority stake in Jaling, the principal business of which is forest logging, exploitation, operation and management, on 21 September 2006 and was granted with the exclusive concession right to occupy and harvest forests in Guyana of area of approximately 136,900 hectares (338,000 acres). In addition, based on a letter from GFC dated 19 January 2006, GFC has approved the grant of two more additional areas in Guyana of area of approximately 27,930 hectares to Jaling. Such area was compensated by GFC to bring the total concession acreage as close as possible to 167,000 hectares at terms identical to the concession right of the said 136,900 hectares as Jaling was permitted to carry out exploratory work on an area of 167,000 hectares according to a State Forest Exploratory Permit (1/2003) by GFC. The Directors are in the opinion that timber is one of the natural resources which has a continuous global demand. By leveraging on its experience in the forestry business accumulated through the operation and management of Jaling, the Company is open to forestry investment opportunities and has decided to further expand its investment in natural resources. The Company has been actively seeking suitable opportunities for any further business development related to the forestry business of the Group.

As set out in the annual report of the Company for the year ended 31 March 2007, the turnover generated from timber logging and trading amounted to approximately HK$6 million, representing approximately 58% of the Group's total turnover for the year although the forestry business of the Group was only commenced in the second half of the financial year. 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 and accordingly, it is the current intention of the Directors that the Group will cease to operate its cold storage warehousing and logistics management at the time the Directors consider appropriate and when the forestry business of the Group matures.

As advised by the Directors, the principal target market for the sale of the Group's timber products is China at this stage. According to Forest Trends, an international non-profit organization, in the past decade, China has become the most dynamic developing economy in the Asia-Pacific region, with implications for forest trade across the globe. The volume of China's total forest product imports more than tripled between 1997 and 2006, rising from 40 million to 141 million cu. m. roundwood equivalent. During the same period, the import value rose from US$6.4 billion to US$17.9 billion. This trend is expected to continue in the near future. China's domestic supply of industrial wood is unlikely to keep pace with the growing domestic and external consumption. China's National Development Reform Committee forecast an annual shortfall of more than 150 million cu. m. of industrial roundwood by 2010.

2. The Garner Acquisition

(1) Reasons for and benefits of the Garner Acquisition

Garner was incorporated in Guyana, South America, on 9 March 2006 as a private company with limited liability, and will be principally engaged in logging and forest exploitation, operation and management. The only asset of Garner is the possession of the exclusive concession right to occupy the Garner Forest for the purpose of carrying out logging and forest exploitation activities for a period of 25 years commencing on 11 June 2005. The granting of the aforesaid exclusive concession right is subject to payment of an annual acreage fee of US$0.12 (equivalent to approximately HK$0.94) per acre by Garner.

Garner has not commenced any business activities and has not made any profit since its incorporation. The Directors confirmed that save for the Garner Option Consideration and the Garner Shares Consideration, the Group has no other capital commitment in respect of the Garner Acquisition. The Company was advised by Mr. Danny Chan that the initial investment of Garner amounted to approximately HK$65 million. As at 30 June 2007, Garner has an unaudited net asset value of G$100,000 (equivalent to approximately HK$4,350).

Upon the Garner Completion, Garner will become an indirect wholly-owned subsidiary of the Company.

The Directors (including the independent non-executive Directors) consider that the Garner Acquisition would enlarge the nature resources reserve of the Group, allowing the Group to increase its production capacity and expand its income base. The Directors (including the independent non-executive Directors) also consider that the Garner Acquisition is in the ordinary and usual course of business, fair and reasonable and on normal commercial terms, and is therefore in the interests of the Company and the Shareholders as a whole.

In light of (i) the Garner Acquisition is in line with the Company's business strategy; (ii) the Garner Acquisition represents a further step for the Group to strengthen its foothold in the timber business and enhance its investment portfolio in natural resources; and (iii) there is soaring demand for timber in China, the target market for the Group's sale of timber products, we are of the opinion that the Garner Acquisition is in the interests of the Group and the Independent Shareholders as a whole.

(2) Consideration of the Garner Acquisition Agreement

The Total Garner Consideration amounted to HK$110 million and comprises the Garner Shares Consideration and the Garner Option Consideration. The Garner Shares Consideration for the Garner Sale Shares payable by Vastrich is HK$50 million (subject to adjustment) in cash. The Garner Shares Consideration has been determined after arms' length negotiation between the parties involved with reference to the 2005 Garner Valuation Report and the Garner Option Consideration. The Directors have also taken into account the current operation status, the financial position and the working capital requirement of Garner for commercial production of the Garner Forest (including but not limited to, logging cost, processing cost, transportation cost and management cost) upon its full operation in determining the Garner Shares Consideration. The Garner Option Consideration was determined after arm's length negotiation between the Company and Mr. Danny Chan with reference to the 2005 Garner Valuation Report. The difference between the Garner Shares Consideration and the Garner Option Consideration represents the premium paid to obtain the controlling stake in Garner.

The Garner Shares Consideration shall be adjusted downwards on a dollar for dollar basis, in accordance with the net indebtedness of Garner as of the close of business on the day immediately prior to the Garner Completion Date. Mr. Danny Chan shall be liable to pay to Vastrich an amount equal to the aforesaid net indebtedness, which is deductible from the Garner Shares Consideration payable by Vastrich to Mr. Danny Chan.

Pursuant to the Garner Acquisition Agreement, the Total Garner Consideration of HK$110 million will be satisfied by the proceeds from the Placing and has been paid and shall be payable in the flowing manner:

— a deposit of HK$60 million in aggregate (the "Deposit") for the Garner Acquisition upon signing of the Garner Acquisition Agreement; and

— the remaining balance of HK$50 million (subject to adjustment) upon the Garner Completion.

In the event that the Garner Acquisition Agreement fails to complete in accordance with the terms and condition therein or being terminated in accordance to termination clause therein, the entire Deposit shall be returned to Vastrich forthwith, without interest and without any deduction, set-off or withholding whatsoever, within three Business Days of such failure or termination. The Directors (including the independent non-executive Directors) consider that the aforesaid arrangement, being a usual and common commercial arrangement, is fair and reasonable and in interest of the Company and the Shareholders as a whole.

Since Garner has not commenced any business activities and the only asset of Garner is the possession of the exclusive concession right to occupy the Garner Forest, it is not possible to assess the fairness and reasonableness of the Total Garner Consideration by comparing with the price-to-earnings ratio or price-to-book ratio of other companies engaged in the forestry business.

In order to assess the fairness and reasonableness of the Total Garner Consideration, we have reviewed the valuation report made by LCH (Asia-Pacific) Surveyors Limited ("**LCH**") in relation to the market value of the Garner Forest, which are set out in Appendix VII to the Circular, and discussed with LCH as to the methodology and the principal bases and assumptions adopted in the valuation report. We understand that LCH has adopted market approach and uses the present market value of round logs in terms of price per unit volume and the total operable volume of timber in the Garner Forest as basis for coming up with the valuation of the Garner Forest at US$191 million (equivalent to approximately HK$1,490 million) as at 31 August 2007 (the "**Garner Forest Valuation**"). The valuation reflects the gross value of the Garner Forest and does not deduct costs to be incurred in the business operation. We have no reason to doubt the fairness and appropriateness of the methodology adopted and assumptions used by LCH in arriving at the Garner Forest Valuation. The Total Garner Consideration of HK$110 million represents only approximately 7.4% of the Garner Forest Valuation. As set out above, the Directors have also taken into account the current operation status, the financial position and the working capital requirement of Garner for commercial production of the Garner Forest (including but not limited to, logging cost, processing cost, transportation cost and management cost) upon its full operation in determining the Garner Share Consideration. As a reference and to demonstrate the approximate costs for operating the Garner Forest, we understand from the Directors that for the Jaling Forest, Jaling has engaged subcontractors to log, pack, process, transport and export timber at a total fee of US$75 per cu. m., which translate into a total fee of US$117 million (equivalent to approximately HK$913 million) based on the total volume of timber of the Garner Forest of 1.56 million cu. m. as mentioned in the Garner Forest Valuation and assuming that the same costs are applied to the Garner Forest. Such a total fee of US$117 million represents approximately 61.3% of the Garner Forest Valuation. Based on the substantial discount between the Total Garner Consideration and the Garner Forest Valuation, we consider that the Directors have used a fair and reasonable basis to determine the Total Garner Consideration.

On the other hand, as set out in the 2006 Garner Announcement, the Garner Option Consideration was determined after arm's length negotiation between the Company and Mr. Danny Chan with reference to the 2005 Garner Valuation Report. Shareholders are reminded that at the time to determine the Garner Option Consideration, Mr. Danny Chan was a third party independent from the Company and its connected persons and their respective associates. The Garner Shares Consideration of HK$50 million, which represents the consideration for acquiring 49% equity interest of Garner, and the Garner Option Consideration of HK$60 million, which represents the consideration for acquiring 51% equity interest of Garner, are roughly in proportion to the percentage of equity interest acquired having considered the premium paid to obtain the controlling stake in Garner.

Moreover, as a further reference, the acquisition cost of 51% equity interest in Jaling, which has the concession right of forest in Guyana with an area of approximately 136,900 hectares (338,000 acres), by the Group from a third party independent from the Company and its connected persons and their respective associates in September 2006 was HK$154 million. We also noted from the Letter from the Board that, Jaling was permitted to carry out exploratory work on an area of 167,000 hectares according to a State Forest Exploratory Permit (1/2003) by GFC; and GFC 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 at terms identical to the concession right of the said 136,900 hectares according to a letter dated 23 November 2004 by GFC. Based on the total acreage of 167,000 hectares, such acquisition cost translates into a per hectare cost of approximately HK$1,808. On the other hand, the Total Garner Consideration of HK$110 million, which represents the purchase cost of 100% interest in Garner that has the concession right of forest in Guyana of approximately 92,737 hectares, translates into a per hectare cost of approximately HK$1,186. Since both the Garner Forest and the Jaling Forest are located in Guyana, we consider it fair and reasonable to compare the relevant considerations with each other.

In view of the above analysis, we are of the view that the terms of the Garner Acquisition is considered fair and reasonable so far as the Independent Shareholders are concerned.

(3) Financial effects of the Garner Acquisition on the Group

Earnings

For the year ended 31 March 2007, the Group recorded turnover and net loss attributable to equity holders of the Company of approximately HK$10.4 million and HK$14.2 million respectively. Based on the unaudited pro forma financial information upon completion of the Garner Acquisition as set out in Appendix IV to the Circular, the Garner Enlarged Group's turnover and net loss attributable to equity holders of the Company would almost remain unchanged since Garner has not commenced any business activities.

Gearing ratio and working capital

As stated in the Letter from the Board, the Total Garner Consideration will be satisfied by the proceeds from the Placing in cash. As at 31 March 2007, the audited cash and bank balances of the Group were approximately HK$9.1 million and the gearing ratio of the Group was approximately 2.7%. Based on the unaudited pro forma financial information upon completion of the Garner Acquisition as set out in Appendix IV to the Circular, the cash position of the Garner Enlarged Group would remain unchanged while the gearing ratio of the Garner Enlarged Group remain almost the same if not counting the effect of the Placing.

Net assets value

The audited net asset value of the Group was approximately HK$120.5 million as at 31 March 2007. Based on the unaudited pro forma financial information upon completion of the Garner Acquisition as set out in Appendix IV to the Circular, the net asset value of the Garner Enlarged Group would remain almost the same if not counting the effect of the Placing.

3. The Jaling Acquisition

(1) Reasons for and benefits of the Jaling Acquisition

Jaling was incorporated in Guyana, South America, in January 2002, as a private company with limited liability, having an authorized share capital of G$500,000 divided into 500,000 shares of G$1.00 each, all of which have been issued and fully paid.

On 22 August 2003 Jaling was granted a State Forest Exploratory Permit (1/2003) by GFC, 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 by GFC 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 — Venezuela border, right bank of Whannamaparu River and left bank of Barima River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River. Under these exploratory permit and concession right, the Company shall pay a total acreage fee of approximately HK$9 million 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 GFC, GFC 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 closed as possible to the original 167,000 hectares (approximately 412,000 acres) at terms identical to the aforesaid concession right. Based on a letter from GFC dated 19 January 2006, GFC has approved the grant of two more additional areas (the "Additional Forests") at Baramita and Sebai reservations to Jaling.

The Group acquired 51% equity interest of Jaling and Jaling became a non-wholly owned subsidiary of the Company since 21 September 2006. With reference to accountants' report on Jaling Group prepared based on HKFRS as set out in Appendix III to the Circular, Jaling Group has commenced its business activities and had a turnover of approximately HK$11.24 million and a loss of approximately of HK$67,000 for the financial year ended 31 March 2007. Furthermore, Jaling Group had an audited net liabilities of approximately HK$288,000 as at 31 March 2007.

Upon the Jaling Completion, Jaling will remain as an indirect non wholly-owned subsidiary of the Company.

The Directors are in the opinion that the acquisition of the additional equity interest of Jaling would enable the Company to capture the majority stake of the revenue generated from the operation of Jaling. The Directors (including the independent non-executive Directors) consider that the Jaling Acquisition would enlarge the revenue basis of the Group and the Jaling Acquisition is fair and reasonable, on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

In light of (i) the Jaling Acquisition is in line with the Company's business strategy; (ii) the Jaling Acquisition represents a further step for the Group to strengthen its foothold in the timber business and enhance its investment portfolio in natural resources; and (iii) there is soaring demand for timber in China, the target market for the Group's sale of timber products, we are of the opinion that the Jaling Acquisition is in the interests of the Group and the Independent Shareholders as a whole.

(2) Consideration of the Jaling Acquisition Agreement

Basis of the Jaling Consideration

The Jaling Consideration of HK$130 million was determined after arm's length negotiation between the parties involved with reference to the 51% Acquisition and the attributable gross fair value of about US$158 million (or about HK$1,232 million) based on the 2006 Jaling Valuation Report, which values the forest occupied by Jaling with a gross fair value of approximately US$310 million (or about HK$2,418 million). Upon the Jaling Completion, Wide Forest would be entitled to an additional 44% interest over the forest which, with reference to the 2006 Jaling Valuation Report, has an attributable gross fair value of approximately US$136.4 million (or about HK$1,064 million). The 2006 Jaling Valuation Report was prepared using the market approach, which considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. The approach does not discount the major costs incurred in estimating the value. It is the gross value of the product. As such, the Directors have taken into account various factors in determining the Jaling Consideration including substantial costs arising out of harvesting, processing, export, management and operation.

In order to assess the fairness and reasonableness of the Jaling Consideration, we have reviewed the valuation report made by LCH in relation to the market value of the Jaling Forest, which are set out in Appendix VIII to the Circular, and discussed with LCH as to the methodology and the principal bases and assumptions adopted in the valuation report. We understand that LCH has adopted market approach and uses the present market value of round logs in terms of price per unit volume and the total operable volume of timber in the Jaling Forest as basis for coming up with the valuation of the Jaling Forest at US$336 million (equivalent to HK$2,621 million) as at 31 August 2007 (the "**Jaling Forest Valuation**") based on the assumption that the Additional Forests belong to Jaling. The valuation reflects the gross value of the Jaling Forest and does not deduct costs to be incurred in the business operation. We have no reason to doubt the fairness and appropriateness of the methodology adopted and assumptions used by LCH in arriving at the Jaling Forest Valuation. Based on the Jaling Forest Valuation, 44% equity interest in Jaling represents a value of approximately HK$1,153 million. The Jaling Consideration of HK$130 million represents only approximately 11.3% of the value of the Jaling Forest attributable to 44% equity interest of Jaling. As set out above, the Directors have taken into account the various factors in determining the Jaling Consideration including substantial costs arising out of harvesting, processing, export, management and other operating expenses. As a reference and to demonstrate the approximate costs for operating the Jaling Forest, as mentioned in the section headed "Consideration of the Garner Acquisition Agreement" above, Jaling has engaged subcontractors to log, pack, process, transport and export timber at a total fee of US$75 per cu. m., which translate into a total fee of US211.5 million (equivalent to approximately HK$1,650 million) based on the total volume of timber of the Garner Forest of 2.82 million cu. m. as mentioned in the Jaling Forest Valuation. Such a total fee of US$211.5 million represents approximately 62.9% of the Jaling Forest Valuation.

As a further reference, according to the accountants' report of Jaling in Appendix III to the Circular, Jaling had a gross profit margin of approximately 34% for the year ended 31 March 2007.

Based on the substantial discount between the Jaling Consideration and the Jaling Forest Valuation, we consider that the Directors have used a fair and reasonable basis to determine the Jaling Consideration.

Shareholders are reminded that the Jaling Consideration of HK$130 million, which represented consideration for the acquisition of 44% equity interest in Jaling, is in proportion to consideration under the 51% Acquisition of HK$154 million, which represented consideration for the acquisition of 51% interest in Jaling by the Group from a third party independent from the Company and its connected persons and their respective associates .

In view of the above, we are of the view that the Jaling Consideration is considered fair and reasonable so far as the Independent Shareholders are concerned.

The Jaling Consideration Shares

The Jaling Consideration will be settled by the issue of the Jaling Consideration Shares under a specific mandate. The issue price of HK$0.253 per Jaling Consideration Share was calculated based on a discount of 7.5% to the average closing price for the past 5 trading days immediately preceding the date of the Jaling Acquisition Agreement. The Issue Price represents a premium of approximately 5.86% to the closing price of HK$0.239 per Share on 16 August 2007, being the last trading day (the "Last Trading Day") prior to suspension of trading in the Shares pending the issue of the announcement of the Company dated 22 August 2007.

In order to assess the fairness and reasonableness of the Issue Price, we have identified and reviewed, on a best effort basis, the transactions involving issue of consideration shares to satisfy all or part of the consideration for the acquisition of assets or equity interests in target companies announced by companies listed on the main board of the Stock Exchange (the "**Comparable Issues**") within one month up to 22 August 2007, being the date of the announcement of the Company in relation to the Jaling Acquisition, as summarized below:

Company name (Stock code)	**Date of announcement**	**Issue price** *HK$*	**Premium/ (discount) of issue price to the closing price as at the last trading day prior to the date of announcement** *%*	**Premium/ (discount) of issue price to the average closing price for the last five trading days prior to the date of announcement** *%*
SRE Group Limited (1207)	17 August 2007	3.04	3.40	0.33
Sino-Tech International Holdings Limited (724)	16 August 2007	5	(1.77)	14.94
Orient Resources Group Company Limited (467)	15 August 2007	1.61	(8.52)	(17.00)
Li & Fung Limited (494)	15 August 2007	28.07	12.51	5.88
Wo Kee Hong (Holdings) Limited (720)	14 August 2007	1.1514	(6.39)	(5.00)
Macro-Link International Holdings Limited (472)	7 August 2007	0.27	(70.33)	(66.75)
Vitop Bioenergy Holdings Limited (1178)	6 August 2007	0.35	(2.78)	(6.17)
Extrawell Pharmaceutical Holdings Limited (858)	1 August 2007	2.563	(15.69)	(6.66)
Greater China Holdings Limited (431)	31 July 2007	0.476	(0.53)	(0.53)
Culturecom Holdings Limited (343)	30 July 2007	0.213	(10.13)	(14.53)
Fortune Telecom Holdings Limited (110)	27 July 2007	2.1905	(21.77)	(3.33)
Uni-Bio Science Group Limited (690)	24 July 2007	5.5	(17.42)	(8.49)
Highest premium			**12.51**	**14.94**
Highest discount			**(70.33)**	**(66.75)**
Median			**(7.46)**	**(5.59)**
Mean			**(11.62)**	**(8.99)**
The Company (269)	22 August 2007	0.253	5.86	(7.5)

Source: www.hkex.com.hk

As shown in the table above, the premium/(discount) of issue price to the closing price as at the last trading day of the Comparable Issues range from a discount of approximately 70.33% to a premium of approximately 12.51% with median and mean of a discount of approximately 7.46% and a discount of approximately 11.62% respectively. The premium of approximately 5.86% represented by the Issue Price to the closing price per Share on the Last Trading Day is at the high end of the range of the Comparable Issues.

The premium/discount of issue price to the average closing price for the last five trading days of the Comparable Issues range from a discount of approximately 66.75% to a premium of approximately 14.94% with median and mean of a discount of approximately 5.59% and a discount of approximately 8.99% respectively. The discount of approximately 7.5% represented by the Issue Price to the average closing price per Share for the past 5 trading days up to the Last Trading Day falls within the said range and is closed to the median and mean of the Comparable Issues.

Based on the above comparison with the Comparable Issues, we are of the view that the Issue Price is fair and reasonable so far as the Company and the Shareholders are concerned.

Effect on the shareholding structure

A total of 513,833,992 Jaling Consideration Shares represent approximately 6% of the existing issued share capital and 5.65% of the issued share capital of the Company as enlarged by the Jaling Consideration Shares. The shareholding structure of the Company as at the Latest Practicable Date and immediately after the Jaling Acquisition is as follows:

	As at the Latest Practicable Date		**Immediately after the Jaling Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Ocean Gain Limited	1,055,500,000	12.29%	1,055,500,000	11.60%
Richest Billion Limited	1,045,000,000	12.17%	1,045,000,000	11.48%
Allkeen Investments Limited	1,000,000,000	11.64%	1,000,000,000	10.99%
Mr. Liu	0	0.00%	513,833,992	5.65%
General public	5,487,469,734	63.90%	5,487,469,734	60.29%
Sub-total of all public shareholders	5,487,469,734	63.90%	6,001,303,726	65.94%
Total	8,587,969,734	100%	9,101,803,726	100%

As illustrated above, upon the Jaling Completion, Mr. Liu will hold approximately 5.65% of the issued share capital of the Company as enlarged by the Jaling Consideration Shares and become a substantial shareholder of the Company as defined under Part XV of the Securities and Futures Ordinance. The Directors are of the view that there will not be any changes in the Board upon the Jaling Completion. The shareholding of the existing public Shareholders will be diluted slightly by approximately 5.65% from approximately 63.90% as at the Latest Practicable Date to approximately 60.29% upon the Jaling Completion. Taking into account (i) the issue and allotment of the Jaling Consideration Shares as contemplated by the Jaling Acquisition will not result in a change of control of the Company; (ii) the reasons for and benefits of the Jaling Acquisition as referred to above; (iii) the positive financial effects to be discussed below; and (iv) the issue of the Jaling Consideration Shares will enlarge and strengthen capital base of the Company, we consider the decrease in the shareholding of the existing public Shareholders upon the issue and allotment of the Jaling Consideration Shares to be acceptable and is in the interest of the Independent Shareholders.

(3) Financial effects of the Jaling Acquisition on the Group

The purchase method of accounting will be adopted for the Jaling Acquisition which is the same accounting treatment for the 51% Acquisition.

Earnings

For the year ended 31 March 2007, the Group recorded turnover and net loss attributable to equity holders of the Company of approximately HK$10.4 million and HK$14.2 million respectively. Based on the unaudited pro forma financial information upon completion of the Jaling Acquisition as set out in Appendix V to the Circular, the Jaling Enlarged Group's turnover remained unchanged since Jaling has already been a subsidiary of the Group before the Jaling Acquisition. The net loss attributable to equity holders of the Company would increase slightly as a result of the increase in the share of loss of the Jaling Group arising from the increased interest in Jaling.

Gearing ratio and working capital

As stated in the Letter from the Board, the Jaling Consideration will be satisfied by issue of the Consideration Shares under a specific mandate. As at 31 March 2007, the audited cash and bank balances of the Group were approximately HK$9.1 million and the gearing ratio of the Group was approximately 2.7%. Based on the unaudited pro forma financial information upon completion of the Jaling Acquisition as set out in Appendix V to the Circular, the cash position of the

Jaling Enlarged Group will remain unchanged if not counting the effect of the Placing while the gearing ratio of the Jaling Enlarged Group will be decreased as a result of the increase in total assets of the Group.

Net assets value

The audited net asset value of the Group was approximately HK$120.5 million as at 31 March 2007. Based on the unaudited pro forma financial information upon completion of the Jaling Acquisition as set out in Appendix V to the Circular, the net asset value of the Jaling Enlarged Group will be increased to approximately HK$250.5 million if not counting the effect of the Placing.

RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that each of the Garner Acquisition and the Jaling Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of each of the Garner Acquisition Agreement and Jaling Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Garner Acquisition and the Jaling Acquisition.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Kinson Li
Director

1. FINANCIAL SUMMARY

Financial Summary
Year ended 31 March 2007

	For the year ended 31 March				
	2003	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	16,881	9,996	9,521	4,129	10,380
Loss from operations	(14,243)	(8,359)	(7,521)	(13,171)	(13,975)
Finance costs	(45,948)	(23,572)	(476)	(406)	(426)
Other non-operating losses and expenses	—	—	—	—	—
Gain on disposal of subsidiaries	—	706,083	—	—	—
Gain arising from debts discharged under Schemes of Arrangement	—	632,718	—	—	—
(Loss)/gain on disposal of leasehold properties	9,341	—	—	—	—
Loss arising from liquidation of subsidiaries	—	—	—	—	—
Loss on disposal of investment properties	—	—	—	—	—
Provision for impairment loss of properties held for development	—	—	—	—	—
Share of results of associates and jointly controlled entities	—	—	—	—	—
(Loss)/profit before taxation	(50,850)	1,306,870	(7,997)	(13,577)	(14,401)
Taxation — credit/(charge)	3,200	(7,809)	185	—	(434)
(Loss)/profit before minority interests	(47,650)	1,299,061	(7,812)	(13,577)	(14,835)
Minority interests	—	18	—	—	590
(Loss)/profit for the year	(47,650)	1,299,079	(7,812)	(13,577)	(14,245)

	At 31 March				
	2003	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	43,398	28,533	28,722	67,550	230,334
Total liabilities	(1,346,979)	(15,187)	(8,655)	(7,133)	(108,650)
Minority interests	(509)	—	—	—	(1,183)
Shareholders' funds	(1,304,090)	13,346	20,067	60,417	120,501

2. AUDITED FINANCIAL STATEMENTS

Consolidated income statement
For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
TURNOVER	5	10,380	4,129
COST OF SALES		(4,065)	(3,955)
GROSS PROFIT		6,315	174
OTHER REVENUE	5	463	128
OTHER INCOME	6	4,203	2,187
GAIN ON FAIR VALUE CHANGE OF INVESTMENT PROPERTY	16	1,845	—
SELLING AND ADMINISTRATIVE EXPENSES		(26,801)	(15,660)
LOSS FROM OPERATIONS	7	(13,975)	(13,171)
FINANCE COSTS	8	(426)	(406)
LOSS BEFORE TAXATION		(14,401)	(13,577)
TAXATION	9	(434)	—
LOSS FOR THE YEAR		(14,835)	(13,577)
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY	12	(14,245)	(13,577)
MINORITY INTERESTS		(590)	—
		(14,835)	(13,577)
DIVIDENDS	13	—	—
LOSS PER SHARE			
BASIC	14	(0.21 cents)	(0.21 cents)
DILUTED		N/A	N/A

Consolidated balance sheet
At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment property	16	29,640	—
Property, plant and equipment	17	8,441	29,311
Prepaid lease payments	18	3,473	3,554
Goodwill	19	160,596	—
Forest concession rights	20	8,332	—
		210,482	32,865
Current assets			
Financial assets at fair value through profit or loss	22	3,516	1,683
Derivative financial instruments	23	1,040	—
Inventories	24	3,470	—
Trade and other receivables	25	2,629	955
Prepaid lease payments	18	81	81
Short-term fixed deposits	26	—	15,000
Cash and bank balances	27	9,116	16,966
		19,852	34,685
Current liabilities			
Bank overdrafts		—	171
Trade and other payables	28	99,821	2,148
Amounts due to derecognised former subsidiaries under liquidation		490	490
Amount due to a director of a subsidiary	30	1,205	—
Bank loan — due within one year (secured)	29	—	555
Taxation payable		434	—
		101,950	3,364
Net current (liabilities)/assets		(82,098)	31,321
Total assets less current liabilities		128,384	64,186
Non-current liabilities			
Bank loan — due after one year (secured)	29	6,250	3,528
Deferred tax liabilities	31	450	241
		6,700	3,769
TOTAL ASSETS LESS TOTAL LIABILITIES		121,684	60,417
CAPITAL AND RESERVES			
Share capital	32	71,261	66,023
Reserves		49,240	(5,606)
Total equity attributable to equity holders of the Company		120,501	60,417
Minority interests		1,183	—
TOTAL EQUITY		121,684	60,417

Balance sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	617	670
Interests in subsidiaries	21	87,154	9,101
		87,771	9,771
Current assets			
Financial assets at fair value through profit or loss	22	3,516	1,683
Derivative financial instruments	23	1,040	—
Trade and other receivables	25	1,379	578
Short-term fixed deposits	26	—	15,000
Cash and bank balances	27	8,227	16,592
		14,162	33,853
Current liabilities			
Trade and other payables	28	1,297	956
Amounts due to subsidiaries	30	629	484
		1,926	1,440
Net current assets		12,236	32,413
TOTAL ASSETS LESS CURRENT LIABILITIES		100,007	42,184
Equity			
Share capital	32	71,261	66,023
Reserves		28,746	(23,839)
TOTAL EQUITY		100,007	42,184

Statements of changes in equity

For the year ended 31 March 2007

Group

	Attributable to equity holders of the Company											
	Share capital	Share premium	Warrant reserve	Share-based compensation reserve	Capital redemption reserve	Capital reserve	Asset revaluation reserve	Translation reserve	Accumulated loss	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	62,466	432,722	–	–	3,800	20,918	7,965	(1,002)	(506,802)	20,067	–	20,067
Issue of new ordinary shares	3,557	41,762	–	–	–	–	–	–	–	45,319	–	45,319
Exchange differences	–	–	–	–	–	–	–	182	–	182	–	182
Revaluation surplus	–	–	–	–	–	–	8,667	–	–	8,667	–	8,667
Deferred tax arising from revaluation of building	–	–	–	–	–	–	(241)	–	–	(241)	–	(241)
Loss for the year	–	–	–	–	–	–	–	–	(13,577)	(13,577)	–	(13,577)
At 31 March 2006 and 1 April 2006	66,023	474,484	–	–	3,800	20,918	16,391	(820)	(520,379)	60,417	–	60,417
Issue of new ordinary shares	5,238	60,461	–	–	–	–	–	–	–	65,699	–	65,699
Issue of share warrants	–	–	4,000	–	–	–	–	–	–	4,000	–	4,000
Exchange differences	–	–	–	–	–	–	–	428	–	428	–	428
Revaluation surplus	–	–	–	–	–	–	370	–	–	370	–	370
Acquisition of a subsidiary *(Note 33)*	–	–	–	–	–	–	–	–	–	–	1,773	1,773
Deferred tax arising from revaluation of building	–	–	–	–	–	–	(209)	–	–	(209)	–	(209)
Recognition of equity-settled share-based compensation	–	–	–	4,041	–	–	–	–	–	4,041	–	4,041
Loss for the year	–	–	–	–	–	–	–	–	(14,245)	(14,245)	(590)	(14,835)
At 31 March 2007	71,261	534,945	4,000	4,041	3,800	20,918	16,552	(392)	(534,624)	120,501	1,183	121,684

Company

	Issued capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrant reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 April 2005	62,466	432,722	—	—	3,800	64,314	(554,920)	8,382
Issue of new ordinary shares	3,557	41,762	—	—	—	—	—	45,319
Loss for the year	—	—	—	—	—	—	(11,517)	(11,517)
At 31 March 2006 and 1 April 2006	66,023	474,484	—	—	3,800	64,314	(566,437)	42,184
Issue of new ordinary shares	5,238	60,461	—	—	—	—	—	65,699
Issue of share warrants	—	—	—	4,000	—	—	—	4,000
Recognition of equity-settled share-based compensation	—	—	4,041	—	—	—	—	4,041
Loss for the year	—	—	—	—	—	—	(15,917)	(15,917)
At 31 March 2007	71,261	534,945	4,041	4,000	3,800	64,314	(582,354)	100,007

Share-based compensation reserve represents the fair value of the 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.

Warrant 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 form the date of allocation and issue of the warrants.

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 Articles of Association, the reserve available for distribution to shareholders of the Company as at 31 March 2007 amounted to HK$24,705,000 (2006: Nil).

Consolidated cash flow statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
LOSS BEFORE TAXATION		(14,401)	(13,577)
Adjustments for:			
Interest expenses		426	406
Interest income		(463)	(128)
Depreciation		567	1,699
Share-based compensation *(note 34)*		4,041	—
Gain on fair value change of investment property		(1,845)	—
Amortization of prepaid lease payments		81	81
Amortization of Forest Concession right		488	—
Gain on disposal of property, plant and equipment		—	(20)
Unrealized loss on financial assets		—	9
		3,295	2,047
OPERATING CASH OUT FLOW BEFORE CHANGES IN WORKING CAPITAL		(11,106)	(11,530)
Increase in assets at fair value through profit or loss		(1,833)	—
Increase in derivative financial instruments		(1,040)	—
Increase in inventories		(3,470)	—
Decrease in trade and other receivables		503	1,446
Increase in amount due to a director of a subsidiary		1,205	—
Increase/(decrease) in trade and other payables		541	(979)
		(4,094)	467
NET CASH USED IN OPERATIONS		(15,200)	(11,063)
Interest paid		(426)	(406)
Interest received		463	128

	Note	2007 HK$'000	2006 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(15,163)	(11,341)
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		—	518
Purchase of investment property, property, plant and equipment		(3,901)	(4,765)
Purchase of land use rights		—	(3,716)
Purchase of financial assets		—	(1,692)
Acquisition of a subsidiary *(Note 33)*		(9,988)	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(13,889)	(9,655)
NET CASH OUTFLOW BEFORE FINANCING		(29,052)	(20,996)
FINANCING			
Repayment of bank loan		(4,083)	(955)
New bank loan obtained		6,250	—
Proceeds from issue of share warrants		4,000	—
Proceeds from issue of new ordinary shares *(Note 32(b)(iii))*		2,999	45,319
NET CASH INFLOW FROM FINANCING		9,166	44,364
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(19,886)	23,368
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(2,793)	1,607
CASH AND CASH EQUIVALENTS AT BEGINNING		31,795	6,820
CASH AND CASH EQUIVALENTS AT END OF YEAR		9,116	31,795
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		9,116	16,966
Short-term bank deposits		—	15,000
Bank overdrafts		—	(171)
		9,116	31,795

Notes to the financial statements

31 March 2007

1. General Information

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

The Group is principally engaged in cold storage warehousing and logistics management services during the year under review and, commencing from September 2006 onwards, in timber logging and trading businesses.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

2. Principal Accounting Policies

(a) Going concern basis

The Group had loss attributable to equity holders for the year of HK$14,245,000 for the year ended 31 March 2007 and net current liabilities for the year ended HK$82,098,000 as at 31 March 2007.

However, the Group subsequently raised fund of approximately HK$349.6 million from a share placement on 13 June 2007 for general working capital of the Group. Further details are set out in Note 41(b).

In the opinion of the Directors, the Group will have sufficient working capital to meet its debts as and when they fall due, and to carry on its business as a going concern in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. The effect of these potential adjustments has not been reflected in the financial statements.

(b) Statement of compliance

These financial statements have been prepared in accordance with applicable 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"), 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(c) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and other financial assets at fair value through profit or loss which are carried at fair value.

Adoption of new or amended HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these consolidated financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: *Amendments as a consequence of the Companies (Amendment) Ordinance 2005*
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS — Int 4	Determining whether an Arrangement Contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The effects of Change in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the HKAS 27 Amendment has had no material impact on these financial statements.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts. In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKFRS 4, Insurance contracts and HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 April 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognized, less accumulated amortization, and the amount of the provision, if any, that should be recognized in accordance with HKAS 37.

The new accounting policy has been applied retrospectively by restating opening balances at 1 April 2005 and 2006 to the extent that guarantees were unexpired at those dates, with consequential adjustment to comparatives for the year ended 31 March 2007. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the profit or loss. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(d) HKFRS — Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

Certain new standards, amendments and interpretations to existing standards which have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, are as follows:

HKAS 1 (Amendment)	Capital Disclosures(i)
HKFRS 7	Financial Instruments: Disclosures(i)
HKFRS 8	Operating Segments(ii)
HK(IFRIC) — Int 8	Scope of HKFRS 2(iii)
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives(iv)
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment(v)
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions(vi)
HK(IFRIC) — Int 12	Service Concession Arrangements(vii)

(i) effective for annual periods beginning on or after 1 January 2007
(ii) effective for annual periods beginning on or after 1 January 2009
(iii) effective for annual periods beginning on or after 1 May 2006
(iv) effective for annual periods beginning on or after 1 June 2006
(v) effective for annual periods beginning on or after 1 November 2006
(vi) effective for annual periods beginning on or after 1 March 2007
(vii) effective for annual periods beginning on or after 1 January 2008

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

(d) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March 2007.

(i) Subsidiaries

Subsidiaries are all entities over which the Group had the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control was transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group during the year. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group was recorded as goodwill. If the cost of acquisition was less than the fair value of the net assets of the subsidiary acquired, the difference was recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the 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.

(ii) 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 the income statement.

Change in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of the Group entities (one 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 profit and loss account are translated 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 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.

(g) Property, plant and equipment

Properties comprise mainly buildings. Properties are stated at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All property, plant and equipment are stated at historic cost less depreciation and impairment losses. Historic cost includes expenditure that is directly attributable to the acquisition of the item.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increase in the carrying amount arising on revaluation of properties are credited to the asset revaluation reserve. Decreases that offset previous increase of the same asset are charged against asset revaluation reserve directly, all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residue values over their estimated useful lives. The principal annual rates used for this purpose are:

Furniture machinery and equipment	20%
Motor vehicles	20%

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount.

(h) Investment property

Investment property is land and buildings 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 when it is transferred from "Property, Plant and Equipment".

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 the consolidated income statement 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 recognized in the consolidated income statement.

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill on acquisitions of associated companies is included in investments in associated companies. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Forest Concession Right

Forest concession licences acquired by the Group are stated at cost less accumulated amortisation (see below) and any accumulated impairment losses (see note 2 (j)). These licences give the Group rights to harvest trees in the allocated concession forests in designated areas in Guyana.

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

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use.

Forest concessions are amortised over the shorter of their useful lives estimated based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

(j) Impairment of assets

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

(i) Property, plant and equipment (other than properties carried at revalued amounts);

(ii) Pre-paid interest in leasehold land classified as "Prepaid lease payments":

(iii) Forest Concession Rights;

(iv) Interests in subsidiaries; and

(v) Goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

— Recognition of impairment losses

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

— Reversal of impairment losses

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

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

(k) Investments

The Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as long-term receivables and account receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment with 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date-basis the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investment are based on current bid prices. For unlisted securities are determined by using valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model refined to reflect the issuer's specific circumstances.

The Group reassesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case equity securities classified as available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable 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 costs formula and comprises all costs of purchase, costs of conversion and other cots incurred in bringing the inventories to their present location and condition. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized 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 realizable value, is recognised as a reduction in the amount of inventories recognised as an expenses in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original teams of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalent include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

(o) Financial liabilities and equity

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities 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.

(ii) Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iv) Equity instruments

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

(p) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(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 the income statement 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 lease 12 months after the balance sheet date.

(r) Deferred income tax

Deferred income tax was 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arose from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax was determined using tax rates that are enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset was realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit would be available against which the temporary differences could be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference would not reverse in the foreseeable future.

(s) Employee benefits

(i) Retirement benefit cost

The Group operates a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those the Group in an independently administered fund.

(ii) Share-based payments

The Group has granted options under the new share option scheme. The fair value of the employee services in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(u) Revenue recognition

(i) Revenue from sales of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Cold storage service income is recognised pro-rata over the life of the agreement and on an accrual basis.

(iii) Logistics management service income is recognised when the services are rendered.

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

(v) Dividend income is recognised when the shareholders' rights to receive payment is established.

(vi) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the 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 of 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.

(v) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are expenses in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payments is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(w) Borrowing costs

Borrowing costs are recognised in the income statement in which they are incurred.

(x) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group also holds or issues derivative financial for trading purposes.

Derivative financial instruments are recognized 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 the income statement. 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 parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party 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.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, fair value, interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Market risks

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history

(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 rate 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) Natural 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 in 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 utilizing different transportation modes and stockpiling, but its daily operations may be unfavourably affected by interruption of transportation due to bad weather or other reasons.

4. Critical Accounting Estimates and Judgements

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

The Group made 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

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 recognizes 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) Fair value estimation of share options

The Group estimates the fair value of share options using the Black-Scholes valuation model which involves the use of estimates. Details of the significant inputs to the valuation model are disclosed in Note 34.

(d) 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 2(j). 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 indications that the goodwill and forest concession right have or would have suffered any impairment at the balance sheet date.

(e) 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 instruments 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 interest rate that is available to the Group for similar financial instruments.

5. Turnover and Other Revenue

The Company is an investment holding company. The Group is engaged in the provision of timber logging and trading, cold warehouse rental, warehousing and logistics management services.

	2007	**2006**
	HK$'000	*HK$'000*
Turnover		
Income from timber logging and trading	6,002	—
Rental income from cold storage warehouse	4,378	—
Income from cold storage warehousing and logistics management	—	4,129
	10,380	4,129
Other revenue		
Interest income	463	128
	10,843	4,257

6. Other Income

Other income comprises:

	2007	**2006**
	HK$'000	*HK$'000*
Exchange gain, net	2,235	—
Gain on disposal of property, plant and equipment	—	19
Realized gain on disposal of financial assets	1,920	785
Loan waived by a former director	—	1,310
Others	48	73
	4,203	2,187

7. Loss from Operations

Loss from operations is stated after charging:

	2007	**2006**
	HK$'000	*HK$'000*
Depreciation	567	1,699
Amortisation of lease payments for land under operating lease	81	81
Amortization of forest concession rights	488	—
Cost of inventories	4,065	—
Royalties	121	—
Exchange loss, net	—	1,288
Staff costs:	8,409	4,395
including		
— Share options granted to directors and employees	4,041	—
— MPF scheme contribution	299	80

8. Finance Costs

	2007	**2006**
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	426	406

9. Taxation

The charge comprises:

	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong Profits Tax	434	—
Deferred income tax	—	—
	434	—

The charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Loss before taxation	(14,401)	(13,577)
Calculated at a taxation rate of 17.5% (2006: 17.5%)	(2,520)	(2,375)
Over-provision in prior years	249	—
Net effect of non-taxable/deductible items	(207)	1,538
Utilised tax losses	—	(70)
Net effect of tax losses and temporary differences not recognized	2,912	907
	434	—

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year whereas no provision had been made for profits tax in the last year as no assessable profits arose thereof. For overseas jurisdictions, no provision for income tax has been provided for both years as the Group did not have any assessable profits derived in such jurisdictions.

10. Directors' Remuneration

The remuneration of every director charged to the consolidated income statement for the year ended 31 March 2007 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Share options HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors						
Fung Tsun Pong	—	688	—	210	24	922
Tsang Kam Ching, David	—	688	—	2,099	24	2,811
Independent non-executive directors						
Yip Tak On	120	—	—	—	—	120
Jing Baoli	120	—	—	—	—	120
Bao Liang Ming	120	—	—	—	—	120
	360	1,376	—	2,309	48	4,093

The remuneration of every director charged to the consolidated income statement for the year ended 31 March 2006 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Fung Tsun Pong	—	689	—	—	13	702
Tsang Kam Ching, David	—	71	—	—	4	75
Zhao Ming	—	—	—	—	—	—
Chan Chun Hing	—	—	—	—	—	—
Independent non-executive directors						
Liu Ka Lim, Louis	120	—	—	—	—	120
Yip Tak On	120	—	—	—	—	120
Jing Baoli	—	—	—	—	—	—
Wang Ji Cheng	50	—	—	—	—	50
	290	760	—	—	17	1,067

11. Individuals with Highest Emoluments

During the year, the five highest paid individuals included two (2006: one) director, details of whose emoluments are set out above. The emoluments of the three (2006: four) individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	6,003	2,078
MPF Scheme contributions	116	52
	6,119	2,130

The emoluments of the employees are within the following band:

	Number of employees	
	2007	2006
Nil — HK$1,000,000	3	4

During the years ended 31 March 2007 and 2006, no emoluments were paid by the Group to the five individuals with the highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office.

12. Loss Attributable to Equity Holders of the Company

The consolidated loss attributable to equity shareholders of the Company for the year ended 31 March 2007 includes a loss of approximately HK$15,917,000 (2006: Loss of HK$11,517,000) which has been dealt with in the financial statements of the Company.

13. Dividends

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2007 (2006: Nil).

14. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the year of approximately HK$14,245,000 (2006: loss of HK$13,577,000) and on the weighted average number of 6,910,472,656 (2006: 6,353,365,217) shares in issue during the year.

Diluted loss per share for both years is not presented as the Company's potential ordinary shares outstanding during the year and at the balance sheet date would have an anti-dilutive effect on the basic loss per share.

15. Segment Information

(a) Business Segments

For the year ended 31 March 2007, the Group is engaged in the following two business segments:

(i) Timber logging and trading — the sale of timber logs from forest concession

(ii) Warehousing and logistics — cold storage warehouse rental, warehousing and logistics management services

For the year ended 31 March 2006, the Group was engaged in only one business segment, warehousing and logistics.

Segment information by business is presented as follows:

For the year ended 31 March 2007

	Timber logging and trading HK$'000	Warehousing and logistics HK$'000	Total HK$'000
REVENUE			
External revenue	6,002	4,378	10,380
Other revenue	—	6	6
Total revenue	6,002	4,384	10,386
Segment result	(724)	3,655	2,931
Unallocated other revenue			457
Unallocated other income			1,968
Unallocated expenses			(19,331)
Loss from operation			(13,975)
Finance cost			(426)
Loss before taxation			(14,401)
Taxation			(434)
Loss for the year			(14,835)
OTHER INFORMATION			
Segment assets	173,288	30,941	204,229
Unallocated			26,105
Total assets			230,334
Segment liabilities	102,056	6,594	108,650
Unallocated			—
Total liabilities			108,650
Capital expenditure	44	221	265
Unallocated			3,636
Total capital expenditure			3,901
Depreciation and amortisation	668	—	668
Unallocated			648
Total depreciation and amortisation			1,316

For the year ended 31 March 2006

	Timber logging and trading *HK$'000*	Warehousing and logistics *HK$'000*	Total *HK$'000*
REVENUE			
External revenue	—	4,129	4,129
Other revenue	—	11	11
Total revenue	—	4,140	4,140
Segment result	—	(3,895)	(3,895)
Unallocated other revenue			117
Unallocated other income			2,187
Unallocated expenses			(11,580)
Loss from operation			(13,171)
Finance cost			(406)
Loss before taxation			(13,577)
Taxation			—
Loss for the year			(13,577)
OTHER INFORMATION			
Segment assets	—	25,168	25,168
Unallocated			42,382
Total assets			67,550
Segment liabilities	—	4,548	4,548
Unallocated			2,585
Total liabilities			7,133
Capital expenditure	—	1,180	1,180
Unallocated			3,585
Total capital expenditure			4,765
Depreciation and amortisation	—	875	875
Unallocated			824
Total depreciation and amortisation			1,699

(b) ***Geographical segments***

The following table presents revenue, results and certain assets and expenditure for the Group's geographical segments for the two years ended 31 March 2007 and 2006:

	Hong Kong & PRC		Guyana		Australia		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE								
External revenue	6,002	—	—	—	4,378	4,129	10,380	4,129
Other revenue	6,505	117	—	—	6	11	6,511	128
Total revenue	12,507	117	—	—	4,384	4,140	16,891	4,257
SEGMENT RESULTS	(15,845)	(9,276)	(1,785)	—	3,655	(3,895)	(13,975)	(13,171)
Other information:								
Segment assets	35,152	42,382	164,241	—	30,941	25,168	230,334	67,550
Segment liabilities	92,630	2,585	8,979	—	7,041	4,548	108,650	7,133
Capital expenditure	3,636	3,585	44	—	221	1,180	3,901	4,765
Depreciation and amortisation	800	824	7	—	76	875	883	1,699

16. Investment Property

	2007	**2006**
	HK$'000	*HK$'000*
Valuation:		
At 1 April	—	—
Reclassified from Property, Plant and Equipment	24,589	—
Fair value gain	1,845	—
Exchange difference	3,206	—
At 31 March	29,640	—

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

In last year, the cold storage warehouse with a net book value of HK$22,900,000 was held under freehold for own operation of cold warehousing outside Hong Kong. Due to the change in mode of operation at the beginning of the current year, the cold storage warehouse has been reclassified as investment property for rental purpose.

The Group's investment property was revalued at 31 March 2007 by an independent firm of chartered surveyors, LCH (Asia-Pacific) Surveyors Limited. Due to the lack of an established market upon which to base 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 optimatization." The gain from the change in fair value estimated by the valuer on 31 March 2007 amounted to HK$1,845,000 has been credited to the consolidated income statement for the year ended 31 March 2007 (2006: Nil).

17. Property, Plant and Equipment

Group

	Cold storage Warehouse		Building		Furniture, machinery and equipment		Motor vehicles		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation										
At 1 April	22,900	18,681	4,190	—	9,117	9,546	642	697	36,849	28,924
Reclassified to investment property	(22,900)	—	—	—	(6,967)	—	—	—	(29,867)	—
Exchange adjustments	—	(1,483)	—	—	24	(589)	89	(55)	113	(2,127)
Additions	—	—	—	3,460	3,751	1,305	150	—	3,901	4,765
Surplus on revaluation	—	5,702	370	730	—	—	—	—	370	6,432
Disposals	—	—	—	—	—	(1,145)	—	—	—	(1,145)
At 31 March	—	22,900	4,560	4,190	5,925	9,117	881	642	11,366	36,849
Analysis of cost or valuation										
At cost	—	—	—	—	5,925	9,117	881	642	6,806	9,759
At valuation	—	22,900	4,560	4,190	—	—	—	—	4,560	27,090
	—	22,900	4,560	4,190	5,925	9,117	881	642	11,366	36,849
Accumulated depreciation and amortization or impairment										
At 1 April	—	1,517	—	—	6,960	7,359	578	547	7,538	9,423
Written back on reclassification to investment property	—	—	—	—	(5,278)	—	—	—	(5,278)	—
Exchange adjustments	—	(157)	—	—	16	(498)	82	(47)	98	(702)
Charge for the year	—	875	—	—	484	746	83	78	567	1,699
Written back on revaluation	—	(2,235)	—	—	—	—	—	—	—	(2,235)
Eliminated on disposals	—	—	—	—	—	(647)	—	—	—	(647)
At 31 March	—	—	—	—	2,182	6,960	743	578	2,925	7,538
Net book value										
At 31 March	—	22,900	4,560	4,190	3,743	2,157	138	64	8,441	29,311

Company

	Furniture, machinery and equipment	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 April		
Cost	1,049	924
Additions	172	125
At 31 March	1,221	1,049
Accumulated depreciation		
At 1 April	379	185
Charge for the year	225	194
At 31 March	604	379
Net book value		
At 31 March	617	670

18. Prepaid Lease Payments

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 April	3,635	—
Addition	—	3,716
Amortization	(81)	(81)
At 31 March	3,554	3,635
Classified as current portion	(81)	(81)
Classified as non-current portion	3,473	3,554

19. Goodwill

	HK$'000
Cost:	
Arising on acquisition of Jaling Forest Industries Inc. ("Jaling") (note 33) and at 31 March 2007	160,596
Accumulated impairment losses:	
Impairment losses recognized for the year and at 31 March 2007	—
Carrying amount:	
At 31 March 2007	160,596

Goodwill arose in the business combination as set out in note 33 to financial statement, is attributable to the benefits of expected revenue growth and future market development. Goodwill arising from business combination is wholly allocated to the timber logging and processing business segment for impairment testing. An independent valuer, LCH (Asia-Pacific) Surveyors Limited ("LCH"), has been appointed to conduct the impairment testing on goodwill at 31 March 2007. The recoverable amounts of goodwill are determined based on value in use calculation. The key assumptions for the value in use calculation are based upon the discount rates, and budgeted profit margin and turnover during the forecast period. The budgeted profit margin, turnover and growth rates are based on judgment of the management about their ability to harvest and to generate economic income stream through the sale of the logs to their customers. The projections (including profit margin, revenue and the growth rates) are based on the management's view of the most likely action to be taken by Jaling in the operation of the business with reference to past performance and future expectations for future market development. The management expects the profit margin of timber logging business at 54.6% on budgeted revenue in the forecast period. The valuer has adopted the Weighted Average Cost of Capital ("WACC") Model in the estimation of the discount rate. In estimating the WACC in the valuer's valuation, the valuer has adopted a market-derived WACC of similar publicly traded companies in the Stock Exchange of Hong Kong, they can form a reliable representative industry of forestry business.

The Group prepares cash flow forecasts based on the management's view of the most likely action to be taken by Jaling in the operation of the business. The rate used by the valuer to discount the cash flow forecasts of the timber logging business is 12.58% (pre-tax discount rate).

For the estimation of long term growth rate, the valuer has taken the growth of similar companies , the forest industry, the local and the global economy as a whole. The valuer has adopted a long term growth rate of 2 per cent in his computation.

The directors of the Company are of the opinion that based on the valuation performed by the valuer at 31 March 2007, the recoverable amount of the goodwill arising from the acquisition of Jaling exceeds its carrying amount in the consolidated balance sheet at 31 March 2007, and therefore no impairment loss is recognised.

20. Forest Concession Rights

The Forest Concession Rights in Guyana is stated at cost less accumulated amortisation and any accumulated impairment losses. The costs of Forest Concession Right includes 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	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 April	—	—
Acquisition of a subsidiary *(Note 33)*	9,000	—
At 31 March	9,000	—
Accumulated amortization		
Acquisition of a subsidiary *(Note 33)*	(180)	—
Charge for the year	(488)	—
At 31 March	(668)	—
Net book value at 31 March	8,332	—

During the year, the Group acquired 51% equity interest in Jaling Forest Industries Inc. ("Jaling") as referred to note 33 to the financial statements. On 22 August 2003 Jaling was granted a State Forest Exploratory Permit (1/2003) by the Commissioner of Forests, 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 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 ("the Forest"), which include a block located on the left bank of Whana River, Guyana — Venezuela border, right bank of Whannamaparu River and left bank of Barima River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River ("Forest Concession Right"). Under these exploratory permit and concession right, the Company 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, Guyana Forestry Commission, 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 Right. Based on a letter from Guyana Forestry Commission dated 19 January 2006, the Guyana Forestry Commission has approved to grant two more additional areas at Baramita and Sebai reservations to Jaling, however, the relevant concession right has not yet been issued to the Company as at 31 March 2007 and up to date of this report. Jaling has completed the necessary exploratory studies to obtain the Forest Concession Right during the Relevant Periods.

The recoverable amount of the forest concession rights are determined based on the value in use calculations for which the key assumptions are the discount rates, budgeted profit margin and turnover during the forecast period, which are same as those applied for testing the recoverable amount of goodwill as referred to Note 19. The estimated recoverable amount of the forest concession rights exceeds their carrying amount at the balance sheet date and therefore, no impairment loss is recognised.

21. Interest in Subsidiaries

	Company	
	2007	***2006***
	HK$'000	*HK$'000*
Unlisted shares, at cost	10	10
Amounts due from subsidiaries	474,007	395,954
	474,017	395,964
Less: Impairment losses recognized	(386,863)	(386,863)
	87,154	9,101

Particulars of the Company's subsidiaries as at 31 March 2007 are set out in Note 40 to the financial statements.

The amounts due from subsidiaries are unsecured, interest free and not repayable within the next twelve months from the balance sheet date. The Directors of the Company considered that the carrying value of the interest in subsidiaries net of the impairment losses recognised approximate to their fair value at the balance sheet date.

22. Financial Assets at Fair Value Through Profit or Loss

	Group and Company	
	2007	**2006**
	HK$'000	*HK$'000*
Trading securities		
— Listed equity securities in Hong Kong	3,516	1,683
Market value of listed securities	3,516	1,683

23. Derivative Financial Instruments

	Group and Company	
	2007	**2006**
	HK$'000	*HK$'000*
Held for trading		
— Hong Kong Hang Seng Index future contracts	1,040	—

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

24. Inventories

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Timber logs	3,470	—

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$4,065,000 (2006: Nil).

25. Trade and Other Receivables

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	1,149	299	—	—
Other receivables	77	40	68	40
Deposits paid	837	504	836	493
Prepayments	566	112	475	45
	2,629	955	1,379	578

The Group allows an average credit period of 60 days to its trade customers.

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 30 days	713	40	—	—
31 — 60 days	426	259	—	—
61 — 180 days	10	—	—	—
Over 180 days	—	—	—	—
	1,149	299	—	—

Trade receivables were denominated in the following currencies:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Australian Dollars	853	299	—	—
Guyana Dollars	296	—	—	—
Renminbi	—	—	—	—
	1,149	299	—	—

26. Short-term Fixed Deposits

	Group and Company	
	2007	**2006**
	HK$'000	*HK$'000*
Short-term bank deposits	—	15,000

The effective interest rate of short-term fixed deposits was 3.82% per annum. The deposits had an average maturity of 32 days and were eligible for immediate cancellation without receiving any interest for the last deposit period.

27. Cash and Bank Balances

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	9,116	16,966	8,227	16,592
	9,116	16,966	8,227	16,592

Cash and bank balances were denominated in the following currencies:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollars	265	—	—	—
Hong Kong Dollars	8,495	16,598	8,227	16,592
Australian Dollars	349	368	—	—
Guyana Dollars	7	—	—	—
	9,116	16,966	8,227	16,592

28. Trade and Other Payables

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	603	—	—	—
Other payables and accruals	99,218	2,148	1,297	956
	99,821	2,148	1,297	956

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 30 days	—	—	—	—
31 — 60 days	—	—	—	—
61 — 90 days	—	—	—	—
Over 90 days	603	—	—	—
	603	—	—	—

Trade and other payable were denominated in the following currencies:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollars	7,838	—	—	—
Hong Kong Dollars	91,643	1,854	1,297	956
Australian Dollars	340	294	—	—
	99,821	2,148	1,297	956

29. Bank Loan

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Bank loan — secured	6,250	4,083

The bank loan is repayable as follows:

Within one year or on demand	—	555
More than one year, but not exceeding two years	6,250	555
More than two year, but not exceeding five years	—	1,664
Over five years	—	1,309
	6,250	4,083
Less: Amount due within one year or on demand and shown under current liabilities	—	(555)
Amount due after one year	6,250	3,528

30. Amounts Due to a Director of a Subsidiary/Subsidiaries

The amounts due to a director (Mr. Chan Chiu Hung, Danny) of a subsidiary/subsidiaries are unsecured, interest free and repayable within the next twelve months from the balance sheet date.

31. Deferred Tax Liabilities

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 April	241	—
Deferred taxation charged directly to reserves	209	241
At 31 March	450	241

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

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 April	241	—
Revaluation of properties	209	241
At 31 March	450	241

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 unrecognized tax losses of HK$55,098,000 (2006: HK$51,247,000) 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$17,506,000 (2006: HK$15,661,000) for which deferred tax liabilities have not been recognised. No liability has been recognised in respect of these differences because the Group's overseas subsidiaries had sufficient tax losses carried forward to offset the liability.

32. Share Capital

	Note	No. of shares	Value
			HK$'000
Authorised:			
At 31 March 2007 and at 31 March 2006 ordinary shares of HK$0.01 each		10,000,000,000	100,000
Issued and fully paid:			
At 1 April 2005 ordinary shares of HK$0.01 each		6,246,587,084	62,466
Issue of new ordinary shares	*(a)*	355,706,583	3,557
At 31 March 2006 ordinary share of HK$0.01 each		6,602,293,667	66,023
Issue of new ordinary shares	*(b)*	523,843,750	5,238
At 31 March 2007 ordinary share of HK$0.01 each		7,126,137,417	71,261

(a) On 29 June 2005, 106,400,000 ordinary shares of HK$0.01 each were issued at HK$0.115. The proceeds were used as additional working capital for the Group.

On 3 November 2005, 53,994,083 ordinary shares of HK$0.01 each were issued at HK$0.13 as consideration for the acquisition of land and buildings in the PRC under a sale and purchase agreement dated 19 August 2005. Details of which were disclosed in the announcement of the Company dated 22 August 2005.

On 24 March 2006, 195,312,500 ordinary shares of HK$0.01 each were issued at HK$0.128 as consideration for the acquisition of 51% equity interest in 河南阜源石油化工有公司. Details of which were disclosed in the announcement of the Company dated 12 January 2006.

(b) (i) On 5 June 2006, 60,156,250 new ordinary shares of HK$0.01 each were issued at HK$0.128 each per the subscription agreements dated 16 May 2006 to an independent third party in full settlement of consultancy fee of HK$7,700,000 incurred in relation to the acquisition of Jaling *(Note 33)*.

(ii) On 21 September 2006, 234,375,000 new ordinary shares of HK$0.01 each were issued at HK$0.128 per share amounting to HK$30,000,000 as partial settlement of the consideration for the acquisition of 51% equity interest in Jaling.

(iii) On 29 November 2006, 34,000,000 new ordinary shares of HK$0.01 each were issued at HK$0.0882 per share to an independent third party to provide additional general working capital of the Company for its daily operations.

(iv) On 5 January 2007, 195,312,500 ordinary shares were issued at HK$0.128 each for net cash proceeds of HK$25 million, which was intended to be used as partial cash settlement consideration for acquiring 51% equity interest in Jaling.

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

33. Business Combination

On 21 September 2006, the Group acquired 51% of the issued share capital of Jaling, engaged in felling and processing of timber lot export, for a cash and share consideration of HK$154,000,000, which gave rise to a goodwill amounted to HK$160,596,000.

Set forth below is a calculation of goodwill:

	HK$'000
Purchase consideration:	
Cash	39,000
New ordinary shares	115,000
Total purchase consideration *(note (a))*	154,000
Direct cost relating to the acquisition *(Note 32(b)(i))*	7,700
Less: Fair value of net assets acquired *(note (c))*	(1,104)
Goodwill	160,596

The goodwill is attributable to the anticipated profitability of the forestry business of Jaling.

(a) The consideration of HK$154,000,000 is satisfied to HK$39,000,000 in cash and HK$115,000,000 by issue of consideration shares of the Company at the issuing price equal to the average price of the last 15 days prior to the issue but not less than HK$0.128 per consideration share ("Consideration Share").

The direct cost relating to the acquisition of HK$7,700,000 was settled by the issue of new shares as referred to Note 32(b)(i) to the financial statements.

(b) At 31 March 2007, the consideration not yet settled includes HK$29,000,000 payable in cash and HK$60,000,000 to be settled by issue of Consideration Shares of the Company at the average price of the last 15 days prior to the issue but not less than HK$0.128 per share.

(c) The major components of assets and liabilities arising from the acquisition are as follows:

	HK$'000
Fair value of net assets acquired:	
Cash and cash equivalents	12
Forest concession right, HK$9,000,000 less amortisation of HK$180,000	8,820
Other receivables	2,177
Other payables	(8,132)
	2,877
Minority interest	(1,773)
Net assets acquired	1,104

The carrying value of the assets and liabilities acquired approximate to their fair value at the acquisition date.

Net cash outflow of cash on acquisition of subsidiaries:

	HK$'000
Cash paid	10,000
Cash and cash equivalents of the subsidiary acquired	(12)
	9,988

As disclosed in Note 32(b)(ii) and (iv), HK$55,000,000 out of the total purchase consideration payable of HK$154,000,000 were settled by way of issue of 429,687,500 new ordinary shares of HK$0.01 each of the Company at the issue price of HK$0.128 per share on 21 September 2006 and 5 January 2007.

The acquired business contributed approximately HK$4,397,000 to the Group's turnover and approximately HK$1,279,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

34. Share Option Scheme

The Share Option Scheme adopted on 30 September 1999 was terminated and replaced by a New Share Option Scheme on 16 July 2004. The New Share Option Scheme 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 Sock Exchange closing price of the Company's shares 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.

As at 31 March 2007, the number of shares in respect of which options was granted and not exercised under the Share Option Scheme was 128,286,948, representing 1.8% 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 following table shows the movement of the Company's share options during the year ended 31 March 2007.

Employee

Date of share options granted	Outstanding at the beginning of the year	Number of share options granted and fully accepted during the year	Number of share options exercised during the year	Number of share options outstanding at the end of the year	Exercise price *(HK$)*	Exercise period
9 June 2006	—	128,286,948	—	128,286,948	0.078	9 June 2006 to 8 June 2009

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Black-Scholes option pricing model which was performed by an independent valuer, Greater China Appraisal Limited, has been used. In current year, an amount of share options expenses of HK$4,041,000 has been recognised and charged to the consolidated income statement for the year ended 31 March 2007 (2006: Nil).

Share options granted and fully accepted during the year ended 31 March 2007:

Date of Granted	:	9 June 2006
Vesting Period	:	N/A
Exercise Period	:	9 June 2006 to 8 June 2009
Exercise Price	:	HK$0.078 per share

	Number of share options granted at 9 June 2006	Share options value at 9 June 2006	Number of share options at 31 March 2007
Grantee:			
Employee	128,286,948	4,014,000	128,286,948

Notes:

(1) The closing price of the ordinary Shares of the Company on the date when the options were granted was HK$0.078.

(2) According to the Black-Scholes model, the theoretical aggregate value of the options was estimated at HK$4,041,000 as at 9 June 2006 (when the options were granted) with the following variables and assumptions:

— Risk Free Interest Rate	:	4.445%, being the approximate yield of the 4-year Exchange Fund Note traded on 6 June 2006
— Expected Volatility	:	68.836%, being the annualized standard deviations 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	:	3 years from the date of granting

— Share Price at grant date : HK$0.078

— Expected Dividends : Nil

(3) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary Shares available to be issued under the relevant share option scheme.

35. Retirement Benefit Schemes

With effect from 1 December 2000, the Group has also joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme.

The MPF Scheme is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose is HK$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

36. Operating Lease Commitments

The Group leases its office and staff quarter under non-cancelled operating lease arrangements with remaining lease terms ranging from one to two years.

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	455	882
In the second to fifth years, inclusive	—	130
	455	1,012

37. Contingent Liabilities

The Group's operations are regulated by various laws and regulations in Guyana. Guyana laws and regulations protecting 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 for violations of existing conditions attached to the licences whether or not caused or known by 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 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 right, or subject to any significant costs, expenses, penalties and liabilities.

38. Pledge of Assets

At 31 March 2007, investment property with a carrying value of HK$29,640,000 (2006: cold storage warehouse and plant and equipment with aggregate net book value of HK$24,075,000) were pledged as security for bank loan facilities granted to the Group.

39. Related Party Transactions

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Consultancy fee paid to Chan Chiu Hung, Danny	150	—	—	—

Mr. Chan Chiu Hung, Danny is a director of Jaling. A monthly consultancy fee of HK$50,000 is payable for his services rendered to Jaling after the Group acquired 51% issued share capital of Jaling, Mr. Chan Chiu Hung, Danny beneficially owns the remaining 49% issued capital of Jaling at 31 March 2007.

40. Particulars of Subsidiaries

Particulars of the Company's subsidiaries as at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share	Percentage of issued share capital held by the Company*/ subsidiaries %	Percentage of issued share capital attributable to the Group %	Principal activities
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
iPowerB2B.com Limited	Hong Kong	HK$2 shares	100	100	Investment holding
iPower Holdings Limited	British Virgin Islands/ Hong Kong	US$45,000 shares	100 *	100	Investment holding
iPower Warehousing Management System Limited	British Virgin Islands/ Hong Kong	US$1 share	100	100	Warehousing management system holding
Pentagon Profits Limited	British Virgin Islands/ PRC	US$1 share	100 *	100	Dormant
Seapower China Investments Limited	Hong Kong/ PRC	HK$2 shares	100	100	Logistics management services

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share	Percentage of issued share capital held by the Company*/ subsidiaries %	attributable to the Group %	Principal activities
Seapower Developments (Indonesia) Limited	British Virgin Islands/ Indonesia	US$1 share	100 *	100	Dormant
Seapower Resources Australia Pty Ltd	Australia	A$7,00,002 shares	100	100	Investment holding
Seapower Resources Investments Pty Ltd.	Australia	A$2,000,002 shares	100	100	Investment holding
Seapower Resources Gosford Pty Ltd.	Australia	A$4,200,002 shares	100	100	Cold storage warehousing
Seapower Secretaries Limited	Hong Kong	HK$100 shares	100 *	100	Provision secretarial services
Topcrown Investments Limited	Hong Kong	HK$10,000 shares	100 *	100	Management services
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 Investment (China) Limited	Hong Kong	HK$10,000 shares	100	100	Investment holding
Jaling Forest Industries Inc	Guyana	G$500,000 shares	100	51	Timber logs
W&J Forest Resources Development Limited	Hong Kong	HK$10,000 shares	100	25.5	Timber trading
Glory Success Investment Limited	Hong Kong	HK$10 shares	100	70	Trading
Vastrich Corporation Limited	Hong Kong	HK$1 share	100	100	Investment holding
Triumph Max Investment Limited	Hong Kong	HK$1 share	100	100	Investment holding

41. Post Balance Sheet Events

(a) On 5 July 2007, the Directors of the Company resolved to exercise the Garner Forest Option to require Mr. Danny Chan, the managing director of Jaling Forest Industries Inc., a non-wholly owned subsidiary of the Company, to sell to the Vastrich Corporation Limited ("Vanstrich"), a wholly-owned subsidiary of the Company, the Option Shares, representing 51% equity interest of Garner Forest Inc ("Garner"), at a consideration of HK$60 million payable by the Vastrich in cash.

Upon completion of the acquisition of the Option Shares, Vastrich will acquire 2,450 ordinary shares of G$20 each fully paid in the capital of Garner being legally and/or beneficially owned by Mr Danny Chan, representing the remaining 49% of the issue share capital of Garner. The consideration payable in cash by Vanstrich is HK$50 million (subject to adjustment).

The total consideration for acquiring 100% issued capital of Garner will be HK$110 million.

(b) Pursuant to the Placing Agreement entered into between the Company and the placing agent CITIC Securities Corporate Finance (HK) Limited ("CITIC") on 13 June 2007, CITIC subscribed 1,250,000,000 new shares at a price of HK$0.29 each. Net proceed of approximately HK$349.6 million was subsequently raised on 27 June 2007, which will be used as general working capital of the Group.

42. Capital Commitment

	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for	26,500	26,500

This represents capital commitment for the capital contribution for 51% equity interest in the enlarged paid-up capital of the Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

At the balance sheet date, the Group is still in negotiations with the relevant authorities and the seller for obtaining the necessary approvals to complete the transaction.

43. Comparative Figures

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

3. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion analysis extracted from the annual report of the Company for the years ended 31 March 2005, 2006 and 2007.

Business review for the year ended 31 March 2005

For year ended 31 March 2005, the Company has principally engaged in the operation of its core business of cold storage warehousing and logistics management service.

The business of the Group experienced a mild slow-down mainly because certain multinational customers cut down their external warehousing requirement by developing or upgrading their own storage facilities. As a way out, the Group has been sourcing import traders which have increasing demand on storage space and actively seeking new business opportunities through strategic alliance with potential business partners.

Financial position

For the year ended 31 March 2005, the Group recorded a consolidated turnover of approximately HK$8.52 million representing a decrease of approximately 14.76% over that of the previous year. The direct operating expenses of the year was approximately HK$6.6 million representing a decrease of 22% which was greatly contributed to more effective cost management of the Group. The loss after taxes and minority interest attributable to shareholders for the year was approximately HK$7.81 million. The operating loss was approximately HK$7.52 million for the year representing an improvement of 10% over previous year. The net asset of the Group for the year was approximately HK$20 million representing an increase of 50%.

Current assets amount to HK$9.2 million which consists of cash and bank balances of HK$6.8 million. Current liabilities amounted to HK$4.2 million, the reduction was mainly due to the HK$5 million convertible note converted during the year. The gearing ratio of the Group, measured as total debts to total assets was 30%.

All of the bank borrowings was in Australian dollars. The Board considered foreign exchange risk being minimal. Bank borrowing was subject to floating interest rate. 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.

In January 2005, the Company entered into a legally non-binding strategic cooperation memorandum of understanding with Guangdong Guangye Assets Management Company Limited ("Guangye") expressing the strong intention on the part of both the Company and Guangye to cooperate in the development of business involving clean energy project(s). The signing of the said memorandum of understanding could be a milestone in the Group's future business development.

The continuing strong growth of the PRC economy has been accompanied by domestic increase in demand for energy supply in recent years. With growing consciousness of environmental protection and more stringent environmental legislation and regulation, it is foreseen that clean energy supply will constitute a more substantial proportion of energy supplied and consumed in China. The Group believes that strong alliance with Guangye will enable the Group to capture extensive business opportunities in the PRC in particular in the area of clean energy projects. Recently, the Company has been actively engaged in negotiation with third parties for the acquisition of certain clean energy business recommended by Guangye.

The Group will continue to devote its efforts to consolidating existing resources, so as to enhance its control capabilities for the operational management and to capture new business opportunities. At the same time, the Group will continue to maintain its existing cold storage warehousing and logistics management services and to further expand such services whenever business opportunities that will benefit the Group arise.

Segment information

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

Employees

The Group had approximately 11 employees in Hong Kong, the PRC and Australia as at 31 March 2005. For the year ended 31 March 2005, certain directors of the Company including executive and independent non-executive directors, such as Fung Tsun Pong, Tsang Kam Ching David, Zhao Ming, Liu Ka Lim, Yip Tak On and Wang Ji Cheng, have waived their remuneration. The Group ensures that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

Share Option Scheme

The Share Option Scheme adopted on 30 September 1999 was terminated and replaced a new Share Option Scheme on the 16 July 2004. The new Share Option Scheme shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

On the 10 August 2004, the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of, and permission to deal in, any shares of the Company which may fall to be issued pursuant to the exercise of the options to be granted under the new Share Option Scheme.

No share option has been granted, exercised, cancelled or lapsed under the new Share Option Scheme during the year ended 31 March 2005 or outstanding as at 31 March 2005.

Contingent liabilities

As at 31 March 2005, the Company has given a guarantee to a financial institution in respect of credit facilities utilised by one of its subsidiaries to the extent of approximately HK$5 million.

Charges an assets

As at 31 March 2005, the Group's property, plant and equipment amounted to HK$18,351,000 have been pledged to secure credit facilities granted to and utilised by the Group.

Related Party Transaction

For the year ended 31 March 2005, HK$120,000 were paid to Integration Project Solutions Limited, a company in which the Company's director, Mr. Chan Chun Hing, Kenneth was a common director and beneficial owner, as management fees for its consultancy services provided to the Company during the year.

Business Review for the year ended 31 March 2006

For year ended 31 March 2006, the Company has been principally engaged in the operation of its core business of cold storage warehousing and logistics management service.

The business of the Group experienced a scaled-down as certain major customers continued cutting their demand for external warehousing services by developing or upgrading their own storage facilities. To address these changes, the Group has been sourcing import traders which have increasing demand for storage space and actively seizing new business opportunities to expand its scope of business and diversify its revenue bases.

Financial position

For the year ended 31 March 2006, the Group recorded a consolidated turnover of approximately HK$4.13 million (2005: HK$8.52 million) representing a decrease of approximately 52% over that of the previous year which was mainly due to continuous decease in demand for its warehousing services. The direct operating expenses of the year amounted to approximately HK$3.96 million (2005: HK$6.62 million) representing a decrease of 40% which is in line with the reduction in turnover for the year. The operating loss was approximately HK$13.17 million for the year (2005: HK$7.52 million) representing an increase of 75% and the loss after taxes attributable to the equity holders of the Company for the year was approximately HK$13.58 million (2005: HK$7.81 million) representing an increase of 74%, 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$60.42 million (2005: HK$20.07 million) which was almost treble that of last year and was primarily contributed by the value of a real estate acquired in Shenzhen and various funds raised by issue of new shares for potential acquisitions. Liquidity of the group for the year was largely improved with current assets amount to approximately HK$34.60 million (2005: HK$9.22 million) which consists of cash and bank balances of approximately HK$16.97 million (2005: HK$6.82 million) and time deposit of approximately HK$15 million (2005: Nil). Current liabilities as at 31 March 2006 amounted to approximately HK$3.36 million (2005: HK$4.22 million), the reduction was mainly due to decease in trade and other payables. The gearing ratio of the Group, measured as total debts to total assets, was 11% (2005: 30%).

The bank borrowings of the Group for the year amounted to approximately HK$4.08 million (2005: HK$5.04 million) of which approximately HK$3.52 million (2005: HK$4.43 million) will be due after one year. The bank borrowings were denominated in Australian dollars and subject to floating interest rate. The Board considered foreign exchange risk being minimal.

During the year, the Company has given a guarantee to a financial institution in respect of credit facilities utilised by one of its subsidiaries to the extent of approximately HK$5.3 million (2005: HK$5.0 million). As at 31 March 2006, the Group's cold storage warehouse, plant and equipment amounted to approximately HK$24.08 million (2005: HK$18.35 million) were pledged to secure credit facilities granted to and utilised 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.

Throughout the fiscal year, the Company set its priorities to ensure that resources and efforts were more effectively allocated in searching potential strategic partners in the energy industry and natural resources market. The Company, through its wholly-owned subsidiaries, entered into various acquisitions which were briefly outlined as below.

In August 2005, the Company acquired a real estate in Shenzhen for setting up the head office of the Group in the PRC as well as for investment purpose.

On 7 January 2006, the Company entered into a capital injection agreement to acquire a 51% equity interest of 河南阜源石油化工有限公司(Henan Fu Yuan Petroleum and Chemical Engineering Company Limited) ("Fuyuan") for a consideration of approximately HK$26.5 million. Fuyuan is a private company incorporated in the PRC engaging in wholesale and retail of oil and gas products including gasoline, petroleum, diesel oil and lubricating oil. A total of approximately HK$24.8 million net proceed was raised by issue of new shares for the purpose of funding the acquisition. The acquisition constitutes a very substantial acquisition to the Company under the Listing Rules and was approved by the shareholders of the Company on 12 June 2006 pending completion which is subject to various conditions.

In addition, on 10 April 2006, the Company and Wide Forest Limited, its wholly-owned subsidiary, entered into an acquisition agreement to acquire a 51% equity interest of Jaling Forest Industries Inc. ("Jaling"), a private company incorporated in Guyana, South America, for a consideration of HK$154 million. Jaling is principally engaged in logging and forest exploitation, operation and management. The Company intends to finance the acquisition by issue of new shares to the vendor as well as by way of internal resources and debt or equity financing. Details of the said acquisition have been disclosed by an announcement of the Company dated 20 April 2006. The acquisition constitutes a very substantial acquisition to the Company under the Listing Rules and will be subject to, and conditional on, among others, the approval of the shareholders of the Company.

The Company also entered into an option agreement on 16 May 2006, pursuant to which the Company has been granted an option to purchase, within 5 years, a 51% shareholding of another forestry company engaging in logging and forest exploitation, operation and management in Guyana, at a total price of HK$60 million. Details of the said option agreement have been disclosed by an announcement of the Company dated 17 May 2006. It is the intention of the Company to exercise the said option to further expand its timber production capacity if the acquisition of Jaling is proven to be profitable.

The aforesaid acquisitions, that the Company recently entered into, are intended to advance the business of the Company in the energy industry and natural resources market. With a clear focus on such sectors, the directors of the Company believe that the Company will be able to strengthen and expand the Group's earning base and asset quality.

Segment information

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

Employees

The Group had approximately 12 employees in Hong Kong, the PRC and Australia as at 31 March 2006. For the year ended 31 March 2006, certain directors of the Company including executive and independent non-executive directors, such as Zhao Ming, Chan Chun Hing Kenneth and Jing Baoli have waived their remuneration. 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 Company's directors are determined based on the scope of work, level of involvement, experience and seniority.

Share Options Scheme

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

No share option has been granted, exercised, cancelled or lapsed under the new Share Option Scheme during the year ended 31 March 2006 or outstanding as at 31 March 2006.

Contingent liabilities

The Company has executed guarantee for banking facilities granted to one of its subsidiaries. The utilised amount of such facilities covered by the Company's guarantee which also represented the financial exposure of the Group as at 31 March 2006 amounted to approximately HK$5,300,000 (2005: HK$5,700,000). As at 31 March 2006, the borrowings outstanding against the facilities amounted to HK$4,000,000 (2005: HK$5,000,000).

Capital Commitment

	2006	**2005**
	HK$'000	*HK$'000*
Contracted but not provided for	26,500	—

This represents capital commitment for the capital contribution for 51 % equity interest in the enlarged paid-up capital of Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

Charges on assets

At 31 March 2006, cold storage warehouse and plant and equipment with an aggregate net book value of HK$24,075,000 (2005: HK$18,351,000) were pledged as security for bank loan facilities granted to the Group.

Business Review for the year ended 31 March 2007

For year ended 31 March 2007, the Group 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 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.

Share Options Scheme

The Share Option Scheme of the Company was adopted on 16 July 2004 and shall remain in force for 10 years from the adoption date unless otherwise terminated or amended. On 10 August 2004, the Listing Committee of SEHK granting approval for the listing of, and permission to deal in, any shares of the Company which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

For the year ended 31 March 2007, the number of shares in respect of which options were granted under the Share Option Scheme was 128,286,948 (the "Options"), representing 1.80% of the shares of the company in issue, of which 6,662,449 and 66,624,499 were granted to Mr. Fung Tsun Pong and Mr. Tsang Kam Ching, David respectively, both being executive directors of the Company and the remaining 55,000,000 options were granted to employees. All the Options were granted on 9 June 2006, exercisable within a period of 3 years till 8 June 2009, at the price of HK$0.078 per Share and none of the Options has been exercised, cancelled or lapsed during the year ended 31 March 2007.

The total number of ordinary shares available for issue under the Share Option Scheme since it was adopted and as at 31st March, 2007 was 478,882,257 shares including the Options granted but not yet exercised for the year ended 31 March 2007.

Capital Commitment

	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for	26,500	26,500

This represents capital commitment for the capital contribution for 51% equity interest in the enlarged paid-up capital of the Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Throughout the financial year ended 31 March 2007, 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, 2007 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.

5. WORKING CAPITAL

After due and careful enquiry, the Directors are of the opinion that, in the absence of unforeseeable circumstances, and taking into account the Enlarged Group's cashflows generated from the operating activities, present available banking facilities and the net proceeds from the Placing, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

6. INDEBTEDNESS

As at the close of business on 31 July 2007, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Enlarged Group had a total payable of approximately HK$50.25 million, comprising the following:

(i) secured interest bearing bank loan of approximately HK$6.25 million. The bank loan is secured by mortgages over the Group's investment properties with a carrying amount of approximately HK$29,640 million as at 31 March 2007; and

(ii) amount due to Mr. Peter Chan (son of Mr. Danny Chan, a director of Jaling) of approximately HK$44 million (including HK$30 million to be settled by issue of Consideration Shares and HK$14 million payable in cash for the acquisition of 51% equity interest in Jaling Forest Industries Inc. on 10 April 2006).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 July 2007, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 July 2007.

As at 31 July 2007, the unaudited consolidated net assets value of the Enlarged Group was approximately HK$549 million. The Directors confirmed that there have been no material changes in the indebtedness and/or contingent liabilities since 31 July 2007.

1. ACCOUNTANT'S REPORT ON GARNER

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from CCIF CPA Limited, Certified Public Accountants, Hong Kong, and the reporting accountants to the Company.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Garner Forest Industries Inc. ("Garner") including the income statement, statement of changes in equity and cash flow statement for the period from 9 March 2006 (date of incorporation) to 31 March 2007 (the "Relevant Period") and the balance sheet as at 31 March 2007 and the notes thereto (the "Financial Information") for inclusion in the circular of China Timber Resources Group Limited (the "Company") dated 28 September 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Garner by Vastrich Corporation Limited, a wholly-owned subsidiary of the Company.

Garner was incorporated as a limited liability company in Guyana, South America, on 9 March 2006. The sole asset of Garner is the possession of the exclusive forest concession rights for the purpose of carrying out logging and forest exploitation activities for a period of 25 years commencing on 11 June 2005 as further detailed in note 1(b) of section B of this report.

Garner has not commenced its commercial business activities other than holding the forest concession rights.

For the purpose of this report, the directors of Garner have prepared its financial statements from 9 March 2006 (date of incorporation) to 31 March 2007 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures on the HKFRS Financial Statements of Garner for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information has been prepared based on the HKFRS Financial Statements of Garner for the Relevant Period with no adjustment made thereon.

DIRECTORS' RESPONSIBILITIES

The directors of Garner are responsible for the preparation and the fair presentation of the financial statements of Garner for the Relevant Period in accordance with HKFRSs issued by the HKICPA. The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements and the preparation and the true and fair presentation of Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the HKFRS Financial Statements of Garner for the period from 9 March 2006 (date of incorporation) to 31 March 2007 used in preparing the Financial Information, and carried out such addition procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Garner as at 31 March 2007 and of its results and cash flows for the period from 9 March 2006 (date of incorporation) to 31 March 2007.

A. FINANCIAL INFORMATION

1. Income Statement

	Note	Period from 9 March 2006 (date of incorporation) to 31 March 2007
		HK$'000
Administrative expenses		(8)
Loss before taxation		(8)
Taxation	*5*	—
Loss for the period		(8)

2. Balance Sheet

	Note	As at 31 March 2007 HK$'000
ASSETS		
Non-current assets		
Forest concession rights	*7*	6,097
LIABILITIES		
Current liabilities		
Acreage fees payable	*8*	215
Amount due to a director	*9*	726
		941
Net current liabilities		(941)
Total assets less current liabilities		5,156
Non-current liabilities		
Acreage fees payable	*8*	5,160
NET LIABILITIES		(4)
CAPITAL AND RESERVES		
Share capital	*10*	4
Accumulated loss		(8)
DEFICIT ON EQUITY		(4)

3. Statement of Changes in Equity

	Share capital	Accumulated loss	Period from 9 March 2006 (date of incorporation) to 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*
Issue of shares upon incorporation	4	—	4
Loss for the period	—	(8)	(8)
At 31 March 2007	4	(8)	(4)

4. Cash Flow Statement

	Period from 9 March 2006 (date of incorporation) to 31 March 2007
	HK$'000
OPERATING ACTIVITIES	
Loss before taxation	(8)
Operating cash outflow before changes in working capital and used in operating activities	(8)
INVESTING ACTIVITIES	
Payment for acquiring forest concession rights	(722)
Net cash outflow from Investing activities	(722)
FINANCING ACTIVITIES	
Issuance of share capital	4
Increase in amount due to a shareholder	726
Net cash inflow from financing activities	730
Increase in cash and cash equivalents	—
Cash and cash equivalents at 31 March 2007	—

B. NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

(a) Garner was incorporated in Guyana as a limited liability company in Guyana, South America. The address of its registered office is 25 Delph Avenue, Campbellville, Georgetown, Guyana, South America.

The principal activity of Garner is the holding of the exclusive forest concessions rights in Guyana, South America, as detailed in note 1(b) below.

(b) On 18 August 2004, Garner was granted a State Forest Exploratory permit (3/2004) by the Commissioner of Forests, 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 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 ("Forest Concession Rights"). Under these exploratory permit and 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 Forest Concession Rights during the Relevant Period.

(c) These financial statements are presented in thousands of Hong Kong dollars (HK$'000) unless otherwise stated.

2. Principal accounting policies

(a) Going concern basis

The directors of Garner have considered with due care of the current financial position of Garner and prepared the financial statements of Garner on a going concern basis that Garner will be able to generate sufficient working capital to carry on its business in the foreseeable future, taking into account of the detailed assessment of cash flows forecasts of Garner in light of the commercial exploitation of the forest operations to be commenced.

(b) Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Garner is set out below.

(c) Basis of preparation

The Financial Information set out in this report has been prepared under the historic cost convention and in accordance with HKFRSs, which has been consistently applied throughout the Relevant Period.

The preparation of the 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 Garner's accounting policies.

The following new standards, amendments and interpretations to the existing standards have been published that are mandatory for annual periods on or after 1 May 2006 and have not been early adopted by Garner:

HKAS 1 (Amendment)	Capital Disclosures(i)
HKAS 23 (Revised)	Borrowing Cost(ii)
HKFRS 7	Financial Instruments: Disclosures(i)
HKFRS 8	Operating Segments(ii)
HK(IFRIC) — Int 8	Scope of HKFRS 2(iii)
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives(iv)
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment(v)
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions(vi)
HK(IFRIC) — Int 12	Service Concession Arrangements(vii)

(i) effective for annual periods beginning on or after 1 January 2007
(ii) effective for annual periods beginning on or after 1 January 2009
(iii) effective for annual periods beginning on or after 1 May 2006
(iv) effective for annual periods beginning on or after 1 June 2006
(v) effective for annual periods beginning on or after 1 November 2006
(vi) effective for annual periods beginning on or after 1 March 2007
(vii) effective for annual periods beginning on or after 1 January 2008

Garner has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

(d) Foreign currency translation

Items included in the financial statements of Garner are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in HK$, which is Garner's presentation currency.

(e) Intangible assets

(i) Forest concession rights

Forest concession licences acquired by Garner are stated at cost less accumulated amortisation (see below) and any accumulated impairment losses (see note 2 (f)). These licences give Garner rights to harvest trees in the allocated concession forests in designated areas in Guyana as detailed in note 1(b) above.

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

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use.

Forest concessions rights are amortised over the shorter of their useful lives estimated based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

(f) Impairment of assets

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

Forest concession rights

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

— Recognition of impairment losses

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

— Reversal of impairment losses

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

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

(g) ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

(h) ***Related parties***

For the purposes of the Financial Information, parties are considered to be related to Garner if Garner has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Garner and the party 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 Garner where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Garner or of any entity that is a related party of Garner .

3. Financial risk management

(a) ***Financial risk factors***

As Garner has not commenced operations, it was not exposed to significant financial risks during the Relevant Period.

(b) ***Fair value estimation***

The carrying amount of forest concession rights approximates its fair value.

4. Critical accounting estimates and judgements

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

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities of Garner.

5. Taxation

No provision for Hong Kong and overseas profit tax has been made as Garner has no assessable profit during the Relevant Period.

No provision for deferred taxation has been recognised in the Financial Information.

6. Directors' emoluments

None of the directors of Garner received any fees or emoluments in respect of their services rendered to Garner during the Relevant Period.

7. Forest concession rights

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

As Garner has not commenced any business activities, no amortisation has been required for the period from 9 March 2006 (date of incorporation) to 31 March 2007 in accordance with the accounting policy as described in note 2e(ii) above.

In the opinion of the directors of Garner, no impairment is required on the carrying value of the rights at the balance sheet date and at the date of this report.

8. Acreage fees payable

	As at 31 March 2007 *HK$'000*
Acreage fees payable	
Within one year	215
More than one year	5,160
	5,375

The acreage fees are payable to Guyana Forestry Commission for the forest concession rights for the granted area of 92,737 hectares as referred to note 1(b) above for a period of 25 years commencing on 11 June 2005.

9. Amount due to a director

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

10. Share capital

	As at 31 March 2007 *HK$'000*
Authorised, issued and fully paid:	
5,000 ordinary shares	
G$20 each	4

Garner was incorporated on 9 March 2006 with an authorised share capital of G$100,000 divided into 5,000 ordinary shares of G$20 each. Upon its incorporation, 5,000 ordinary shares of G$20 each were issued at par to provide initial working capital of Garner.

11. Contingent liabilities

Garner's operations are regulated by various laws and regulations in Guyana. Guyana laws and regulations protecting 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 Garner for violations of existing conditions attached to the licences whether or not caused or known by Garner. The financial position of Garner may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors of Garner and the Company are not aware of any environmental liabilities as at and up to the date of this report. The directors of Garner and the Company are also not aware of any violation to existing conditions attached to Garner timber concession right, or subject to any significant costs, expenses, penalties and liabilities.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Garner have been prepared in respect of any period subsequent to 31 March 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF GARNER

The following discussion and analysis of the performance of Garner's operation results should be read in conjunction with the combined financial information for the period from 9 March 2006 to 31 March 2007 set forth in the section headed "Financial information on Garner" in this appendix.

Garner was incorporated in Guyana as a private company with limited liability on 9 March 2006. Up to the year ended 31 March 2007, Garner had not carried out any business operations. The only asset of Garner was a timber concession right granted by GFC commencing from 11 June 2005 for a period of 25 years to cut and remove timber from a forest area of approximately 92,700 hectares (229,000 acres) upon payment of prescribed fees and royalties.

The audited loss of Garner for the year ended 31 March 2007 was approximately HK$8,000 which was mainly due to the office overheads and expenses.

The major expenditure accrued in the financial statements of Garner was the acreage fees payable to the Guyana government for the Garner Forest (which were collectively treated as the expenditure of the forest concession rights) according to the terms of the Garner TSA. For the year ended 31 March 2007, the audited expenditure accrued was approximately HK$215,000, while the expenditure accrued for the concession rights amounted to approximately HK$6,097,000. The expenditure for the concession rights will be amortized on a straight line basis over the shorter of the contractual period and its useful life estimated based on the total proven and probable reserves of the forestry exploitation volume.

As at 31 March 2007, a total of approximately HK$5,375,000 of acreage fee was payable to the Guyana Government over a 25 years period, such acreage fee is payable annually based on the rate of US$0.12 (approximately HK$0.93) per acre for the concession rights granted.

For the year ended 31 March 2007, the gearing ratio of Garner being the ratio of total liabilities to total assets was approximately 1.

During the period under review, the working capital of Garner was financed by director's loan. The amount of director's advance for the year ended 31 March 2007 was approximately HK$726,000. The advance from its director was unsecured, interest free and with no fixed payment terms.

The management of Garner considers that exposure to the fluctuations in exchange rates was insignificant because payment of acreage fees were denominated in US dollars. Garner did not have any employees nor any material acquisition or disposal of fixed assets and investments in subsidiaries and associated companies during the period under review.

As at 31 March 2007, Garner did not have any material contingent liability.

1. ACCOUNTANT'S REPORT ON JALING GROUP

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from CCIF CPA Limited, Certified Public Accountants, Hong Kong, and the reporting accountants to the Company.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

The Directors
China Timber Resources Group Limited

28 September 2007

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Jaling Forest Industries Inc. ("Jaling") and its subsidiary (hereinafter collectively referred to as the "Jaling Group") including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Jaling Group for each of the three years ended 31 March 2005, 2006 and 2007 (the "Relevant Periods") and the consolidated balance sheets of the Jaling Group and the balance sheet of Jaling as at 31 March 2005, 2006 and 2007 and the notes thereto (the "Financial Information") for inclusion in the circular of China Timber Resources Group Limited (the "Company") dated 28 September 2007 (the "Circular") in connection with the proposed acquisition 44% equity interest of Jaling by Wide Forest Limited, a wholly-owned subsidiary of the Company.

Jaling was incorporated in Guyana under the Companies Act of Guyana 1991 with limited liability on 24 January 2002. The principal activities of Jaling are felling and processing of timber for export and local market, which were commenced in April 2006. The statutory financial statements of Jaling have been prepared in accordance with the accounting principles generally accepted in Guyana. The statutory financial statements of Jaling for the three years ended 31 December 2004, 2005 and 2006 were audited by PKF, Barcellos, Narine & Co, Chartered Accountants.

At the date of this report, Jaling has direct interest in the following subsidiary:

Name	Place and date of incorporation	Issued capital	Interest held directly by Jaling	Principal activities
W & J Forest Resources Development Limited ("W & J")	Hong Kong, 1 December 2005	HK$10,000	50%	Processing, sales and distribution of timber

W & J has been accounted for as a subsidiary of Jaling as, in the opinion of the directors of Jaling, Jaling has dominant control over the majority of votes of the board of directors of W & J and its operational and financial decision making. W & J commenced its operations in April 2006.

The directors of W & J have prepared its statutory financial statements for the period from 1 December 2005 to 31 March 2007 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the financial statements of W & J for the period from 1 December 2005 to 31 March 2007 in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, the directors of Jaling have prepared the consolidated financial statements of Jaling Group, based on the financial statements of Jaling and W&J, for the Relevant Periods in accordance with HKFRSs issued by the HKICPA (the "HKFRS Financial Statements"). We have audited the consolidated HKFRS Financial Statements of Jaling Group for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information as set out in Sections A to C below has been prepared based on the consolidated HKFRS Financial Statements of Jaling Group for the Relevant Periods.

DIRECTORS' RESPONSIBILITIES

The directors of Jaling are responsible for the preparation and true and fair presentation of the HKFRS Financial Statements of Jaling and Jaling Group in accordance with HKFRSs issued by the HKICPA. The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementation and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements and the preparation and true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud and errors; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

For the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined that the HKFRS Financial Statements of Jaling and Jaling Group for the Relevant Periods used in preparing the Financial Information, and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Jaling and Jaling Group as at 31 March 2005, 2006 and 2007 and of the results and cash flows of Jaling Group for the Relevant Periods.

A. FINANCIAL INFORMATION

1. Consolidated Income Statements

		For the year ended 31 March		
		2005	**2006**	**2007**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*5*	—	—	11,244
Cost of sales		—	—	(7,424)
Gross profit		—	—	3,820
Other revenue	*5*	—	—	9
Administrative expenses		(566)	(514)	(3,896)
Loss before taxation	*6*	(566)	(514)	(67)
Taxation	*7*	—	—	—
Loss for the year		(566)	(514)	(67)
Attributable to:				
Equity holders of Jaling		(566)	(511)	(1,031)
Minority interests		—	(3)	964
		(566)	(514)	(67)

2. Consolidated Balance Sheets

		As at 31 March		
		2005	2006	2007
	Note	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*11*	—	—	158
Forest concession rights	*12*	9,000	9,000	8,332
		9,000	9,000	8,490
Current assets				
Inventories	*14*	—	—	3,470
Trade receivables	*15*	—	—	296
Cash and bank balances		—	4	487
		—	4	4,253
LIABILITIES				
Current liabilities				
Acreage fees payable	*16*	360	360	360
Other payables		—	—	784
Amount due to a fellow subsidiary	*17*	—	—	398
Amount due to ultimate holding company	*17*	—	—	1,911
Amount due to a director	*18*	1,950	1,487	2,629
		2,310	1,847	6,082
Net current liabilities		(2,310)	(1,843)	(1,829)
Total assets less current liabilities		6,690	7,157	6,661
Non-current liabilities				
Acreage fees payable	*16*	7,329	7,309	6,949
NET LIABILITIES		(639)	(152)	(288)
CAPITAL AND RESERVES				
Share capital	*19*	22	22	22
Reserves		(661)	(176)	(1,276)
Equity attributable to equity holders of Jaling		(639)	(154)	(1,254)
Minority interests		—	2	966
TOTAL EQUITY		(639)	(152)	(288)

3. Balance Sheets

	Note	2005 HK$'000	2006 HK$'000	2007 HK$'000
		As at 31 March		
ASSETS				
Non-current assets				
Property, plant and equipment	*11*	—	—	128
Forest concession rights	*12*	9,000	9,000	8,332
Investment in a subsidiary	*13*	—	5	5
		9,000	9,005	8,465
Current assets				
Inventories	*14*	—	—	2,126
Trade receivables	*15*	—	—	3,592
Cash and bank balances		—	—	272
		—	—	5,990
LIABILITIES				
Current liabilities				
Acreage fees payable	*16*	360	360	360
Trade payable		—	—	375
Amount due to a subsidiary	*17*	—	—	4,440
Amount due to ultimate holding company	*17*	—	—	1,917
Amount due to a director	*18*	1,950	1,487	2,629
		2,310	1,847	9,721
Net current liabilities		(2,310)	(1,847)	(3,731)
Total assets less current liabilities		6,690	7,158	4,734
Non-current liabilities				
Acreage fees payable	*16*	7,329	7,309	6,949
NET LIABILITIES		(639)	(151)	(2,215)
CAPITAL AND RESERVES				
Share capital	*19*	22	22	22
Reserves		(661)	(173)	(2,237)
TOTAL EQUITY		(639)	(151)	(2,215)

4. Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Jaling						
	Share Capital	Capital Reserves	Translation Reserves	Accumulated Losses	Total	Minority Interests	Total Equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	22	—	—	(10)	12	—	12
Loss for the year	—	—	—	(566)	(566)	—	(566)
Exchange difference	—	—	(85)	—	(85)	—	(85)
At 31 March 2005	22	—	(85)	(576)	(639)	—	(639)
Loss for the year	—	—	—	(511)	(511)	(3)	(514)
Exchange difference	—	—	88	—	88	—	88
Waiver of amount due to a director	—	908	—	—	908	—	908
Capital contribution by minority shareholders	—	—	—	—	—	5	5
At 31 March 2006	22	908	3	(1,087)	(154)	2	(152)
Loss for the year	—	—	—	(1,031)	(1,031)	964	(67)
Exchange difference	—	—	(69)	—	(69)	—	(69)
At 31 March 2007	22	908	(66)	(2,118)	(1,254)	966	(288)

5. Consolidated Cash Flow Statements

	For the year ended 31 March		
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss)/profit before taxation	(566)	(514)	241
Adjustments for			
Interest income	—	—	(1)
Depreciation	—	—	11
Amortisation of forest concession rights	—	—	668
Waiver of amount due to a director	—	908	—
Operating cash (outflow)/inflow before changes in working capital	(566)	394	919
Increase in inventories	—	—	(3,470)
Increase in trade receivables	—	—	(296)
Decrease in acregae fees payable	—	(20)	(668)
Increase in other payables	—	—	784
Increase in amount due to a fellow subsidiary	—	—	398
Increase in amount due to ultimate holding company	—	—	1,911
Net cash (used in)/generated from operations	(566)	374	(422)
Interest received	—	—	1
Net cash (used in)/generated from operating activities	(566)	374	(421)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	—	—	(169)
Net cash outflow from investing activities	—	—	(169)
FINANCING ACTIVITIES			
Increase/(decrease) in amount due to a director	651	(463)	1,142
Capital contribution by minority shareholders	—	5	—
Cash generated from/(used in) financing activities	651	(458)	1,142
Net increase/(decrease) in cash and cash equivalents	85	(84)	552
Cash and cash equivalents at beginning of the year	—	—	4
Exchange difference	(85)	88	(69)
Cash and cash equivalents at end of the year	—	4	487

B. NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

(a) Jaling was incorporated in Guyana with limited liability. The address of its registered office is 34 Dennis Street, Lamana Gardens, Georgetown, Guyana, South America.

Jaling and its subsidiary are principally engaged in timber logging and trading businesses.

(b) On 22 August 2003 Jaling was granted a State Forest Exploratory Permit (1/2003) by the Commissioner of Forests, 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 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 ("the Forest"), which include a block located on the left bank of Whana River, Guyana — Venezuela border, right bank of Whannamaparu River and left bank of Barima River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River ("Forest Concession Right"). Under these exploratory permit and concession right, 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, Guyana Forestry Commission, 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. Based on a letter from Guyana Forestry Commission dated 19 January 2006, the Guyana Forestry Commission has approved to grant two more additional areas at Baramita and Sebai reservations to Jaling, however, the relevant concession right has not yet been issued to Jaling as at 31 March 2007 and up to date of this report. Jaling has completed the necessary exploratory studies to obtain the Forest Concession Rights during the Relevant Periods.

(c) On 22 December 2004, Jaling entered into an agreement ("JV Agreement") with certain independent third parties ("PRC JV Partners") under which W & J Forest Resources Development Limited ("W & J") was established on 1 December 2005. Jaling owns 50% of the issued capital of W & J. The majority of the board of directors of W & J is under control by Jaling. In the opinion of the directors of Jaling, W & J is regarded as a subsidiary. Pursuant to the JV Agreement, W & J is responsible for processing, sales and distribution of the timber logged under the Forest Concession Rights through its processing and distribution network in the PRC. Under the JV Agreement, Jaling has granted W & J an exclusive right to harvest 200,000 cubic meters of timber per year for a period of 10 years and W & J shall pay Jaling US$20 (approximately HK$156) per cubic meter, totaling US$4 million (equivalent to approximately HK$31 million), as annual royalties. Under the JV Agreement, net profit generated from the sale of timber (after deduction of all harvesting costs payable to an independent third party contractor Wuchang State-owned Forestry Company ("Wuchang"), as detailed below, and other operating expenses) of W & J shall be distributed to Jaling and the PRC JV Partners according to their respective shareholding in W & J.

W & J, on behalf of Jaling, has engaged Wuchang, as an independent contractor, at a fixed logging fee of US$44 (equivalent to approximately HK$342) per cubic meter of timber logged. Under the JV Agreement, W & J shall also pay Jaling US$31 (equivalent to approximately HK$241) per cubic meter of timber logged for its provision of domestic transportation, loading and custom clearance services.

(d) The commercial exploitation of the Forest Concession Rights, logging business, timber harvesting activities, felling and processing of lumber have been subsequently commenced in April 2006.

(e) These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000) unless otherwise stated.

2. Principal Accounting Policies

(a) Going concern basis

The directors of Jaling have considered with due care of the current financial position of the Jaling Group and prepared the financial statements of the Jaling Group on a going concern basis that the Jaling Group will be able to generate sufficient working capital to carry on its business in the foreseeable future, taking into account of the detailed assessment of cash flows forecasts of the Jaling Group in light of the commercial exploitation of the forest operations already commenced in April 2006 and it has generated a profit HK$241,000 for the year ended 31 March 2007.

(b) Statement of compliance

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

(c) Basis of preparation

The Financial Information set out in this report has been prepared under the historic cost convention and in accordance with HKFRSs, which has been consistently applied throughout the Relevant Periods.

The preparation of the 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 Jaling Group's accounting policies.

The following new standards, amendments and interpretations to the existing standards have been published that are mandatory for annual periods on or after 1 May 2006 and have not been early adopted by the Jaling Group:

HKAS 1 (Amendment)	Capital Disclosures(i)
HKAS 23 (Revised)	Borrowing Costs(ii)
HKFRS 7	Financial Instruments: Disclosures(i)
HKFRS 8	Operating Segments(ii)
HK(IFRIC) — Int 8	Scope of HKFRS 2(iii)
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives(iv)
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment(v)
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions(vi)
HK(IFRIC) — Int 12	Service Concession Arrangements(vii)

(i) effective for annual periods beginning on or after 1 January 2007
(ii) effective for annual periods beginning on or after 1 January 2009
(iii) effective for annual periods beginning on or after 1 May 2006
(iv) effective for annual periods beginning on or after 1 June 2006
(v) effective for annual periods beginning on or after 1 November 2006
(vi) effective for annual periods beginning on or after 1 March 2007
(vii) effective for annual periods beginning on or after 1 January 2008

The Jaling Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

(d) Consolidation

The consolidated financial statements include the financial statements of Jaling and its subsidiary made up to the balance sheet date.

(i) Subsidiaries

Subsidiaries are all entities over which the Jaling Group had the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Jaling Group controls another entity.

Subsidiaries are fully consolidated from the date on which control was transferred to the Jaling Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Jaling Group during the year. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Jaling Group was recorded as goodwill. If the cost of acquisition was less than the fair value of the net assets of the subsidiary acquired, the difference was recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of Jaling, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by Jaling on the basis of dividends received or receivable.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Jaling 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.

(ii) 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 the income statement.

Change in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of the Group entities (one 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 profit and loss account are translated 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 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 historic cost less depreciation and impairment losses. Historic cost includes expenditure that is directly attributable to the acquisition of the item.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less their residue values over their estimated useful lives. The annual rates used for furniture machinery and equipment are 20% per annum.

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount.

(g) ***Intangible assets***

(i) *Forest Concession Right*

Forest concession licences acquired by the Group are stated at cost less accumulated amortisation (see below) and any accumulated impairment losses (see note 2 (h)). These licences give the Jaling Group rights to harvest trees in the allocated concession forests in designated areas in Guyana.

The costs of forest concession includes 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*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use.

Forest concession rights are amortised over the shorter of their useful lives estimated based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

(h) ***Impairment of assets***

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

(i) Property, plant and equipment;

(ii) Forest concession rights; and

(iii) Interests in a subsidiary.

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

— Recognition of impairment losses

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

— Reversal of impairment losses

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

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

(i) Investments

The Jaling Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as long-term receivables and account receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment with 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date-basis the date on which the Jaling Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investment are based on current bid prices. For unlisted securities are determined by using valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model refined to reflect the issuer's specific circumstances.

The Jaling Group reassesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case equity securities classified as available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(j) 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 costs formula and comprises all costs of purchase, costs of conversion and other cots 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 expenses in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Jaling Group will not be able to collect all amounts due according to the original teams of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalent include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

(m) Financial liabilities and equity

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 Jaling Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities 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.

(ii) Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iv) Equity instruments

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

(n) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Jaling Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(o) Deferred income tax

Deferred income tax was 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arose from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax was determined using tax rates that are enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset was realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit would be available against which the temporary differences could be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference would not reverse in the foreseeable future.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(q) Revenue recognition

(i) Revenue from sales of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

(r) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are expenses in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payments is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party 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.

3. Financial Risk Management

The Jaling Group's activities expose it to a variety of financial risks: market risks (including currency risk, fair value, interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Market risks

(i) Foreign exchange risk

The Jaling Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Credit risk

The Jaling Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods are made to customers with an appropriate credit history *(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 Jaling Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

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

(v) Natural risk

The Jaling 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 Jaling Group's logging operations or the growth of the trees in the plantations, which in turn may have a material adverse effect on the Jaling Group's ability to produce the products in sufficient quantities and in a timely manner.

Moreover, bad weather may adversely affect the condition of the Jaling Group's transportation infrastructure, which is critical for the Jaling Group to supply timber from the timber concessions to the Jaling Group's manufacturing plants and customers. The Jaling 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.

4. Critical Accounting Estimates and Judgements

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

The Jaling Group made 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Useful lives of property, plant and equipment

The Jaling Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Jaling 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 Jaling 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 Jaling Group's management tests annually whether assets (including forest concession rights) have suffered any impairment, in accordance with the accounting policy stated in note 2(h). 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 indications that the goodwill and forest concession right have or would have suffered any impairment at the balance sheet date.

5. Turnover and other revenue

The Jaing Group is principally engaged in the felling and processing, sales and distribution of timber.

	Jaling Group		
	For the year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK'000*	*HK'000*
Turnover			
Income from processing and sales of timber	—	—	11,244
Other revenue			
Interest income	—	—	9
	—	—	11,253

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Jaling Group		
	For the year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK'000*	*HK'000*
Amortisation of forest concession rights	—	—	668
Depreciation	—	—	11
Cost of inventories	—	—	7,424
Staff costs	—	126	1,053

7. Taxation

No provision for Hong Kong and overseas profit tax has been made as Jaling Group has no assessable profit during the Relevant Periods.

No provision for deferred taxation has been recognised in the Financial Information.

8. Directors' emoluments

None of the directors received any fees or emoluments in respect of their services rendered to Jaling during the Relevant Periods.

9. Individuals with high emoluments

During the Relevant Periods, details of the five highest paid individuals are as follows:

	Jaling Group		
	For the year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK'000*	*HK'000*
Salaries and other benefits	—	126	469

The emoluments of the employees are within the following band:

	Jaling Group		
	For the year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK'000*	*HK'000*
Nil-HK$1,000,000	—	5	5

No emoluments were paid by the Jaling Group to the five individuals as an inducement to join or upon joining the Jaling Group or as compensation for loss of office during the Relevant Periods.

10. Dividends

The directors of Jaling do not recommend the payment of a dividend for the Relevant Periods.

11. Property, plant and equipment

	Jaling Group	Jaling
	Furniture, machinery and equipment	**Furniture, machinery and equipment**
	HK'000	*HK'000*
Cost		
At 1 April 2004, 31 March 2005 and 31 March 2006	—	—
Additions	169	139
At 31 March 2007	169	139
Accumulated depreciation		
At 1 April 2004, 31 March 2005 and 31 March 2006	—	—
Charge for the year	11	11
At 31 March 2007	11	11
Net book value		
At 31 March 2007	158	128
At 31 March 2006	—	—
At 31 March 2005	—	—

12. Forest concession rights

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

As the commercial operation has been commenced only in April 2006, no amortisation has been required for the year ended 31 March 2005 and 2006 in accordance with the accounting policy as described in note 2(g) above.

In the opinion of the directors of Jaling, no impairment is required on the carrying value of the right at the balance sheet date.

Forest concession rights:	Jaling Group and Jaling
	HK'000
Cost	
At 1 April 2004	1,392
Addition	7,608
At 31 March 2005, 31 March 2006 and 31 March 2007	9,000
Accumulated amortisation	
At 1 April 2004, 31 March 2005 and 31 March 2006	—
Charge for the year	668
At 31 March 2007	668
Net book value	
At 31 March 2007	8,332
At 31 March 2006	9,000
At 31 March 2005	9,000

The recoverable amounts of forest concession rights are determined based on value in use calculation. The key assumptions for the value in use calculation are based upon the discount rates, and budgeted profit margin and turnover during the forecast period. The budgeted profit margin, turnover and growth rates are based on judgment of the management about their ability to harvest and to generate economic income stream through the sale of the logs to their customers. The projections (including profit margin, revenue and the growth rates) are based on the management's view of the most likely action to be taken by the Jaling Group in the operation of the business with reference to past performance and future expectations for future market development. The management expects the profit margin of timber logging business at 54.6% on budgeted revenue in the forecast period. The management has adopted the Weighted Average Cost of Capital ("WACC") Model in the estimation of the discount rate. In estimating the WACC in the management's valuation, the management has adopted a market-derived WACC of similar publicly traded companies in the Stock Exchange of Hong Kong, they can form a reliable representative industry of forestry business.

The Jaling Group prepares cash flow forecasts based on the management's view of the most likely action to be taken by the Jaling Group in the operation of the business. The rate used by the valuer to discount the cash flow forecasts of the timber logging business is 12.58% (pre-tax discount rate).

For the estimation of long term growth rate, the management has taken the growth of similar companies , the forest industry, the local and the global economy as a whole. The valuer has adopted a long term growth rate of 2 per cent in his computation.

The directors of the Company are of the opinion, the recoverable amount of the forest concession rights exceeds its carrying amount in the consolidated balance sheet at 31 March 2007, and therefore no impairment loss is recognised.

13. Investment in a subsidiary

	Jaling		
	As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
At cost	—	5	5

Particulars of the subsidiary are as follows:

Name	Place and date of incorporation	Issued capital	Proportion of issued capital held by Jaling	Principal activities
W & J Forest Resources Development Limited ("W & J")	Hong Kong, 1 December 2005	HK$10,000	50%	Processing, sales and distribution of timber

In the opinion of the directors of Jaling, W & J has been accounted for as a subsidiary as Jaling has control over the majority of voting power of its board of directors and control over its operational and financial decision making.

14. Inventories

	Jaling Group			Jaling		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Timber logs	—	—	3,470	—	—	2,126

The inventories were stated at cost.

15. Trade receivables

	Jaling Group			Jaling		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables						
— W & J	—	—	—	—	—	3,296
— Third party customers	—	—	296	—	—	296
	—	—	296	—	—	3,592

The trade receivables from W & J in the accounts of Jaling has been eliminated on consolidation.

The carrying amounts of trade receivables approximate their fair values.

16. Acreage fees payable

	Jaling Group and Jaling		
	As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Acreage fees payable			
Within one year	360	360	360
More than one year	7,329	7,309	6,949
	7,689	7,669	7,309

The acreage fees are payable to Guyana Forestry Commission for the Forest concession rights for the granted area of 136,900 hectares as referred to note 1(b) above for a period of 25 years, commencing on 25 January 2005.

17. Amounts due to a subsidiary/a fellow subsidiary/ultimate holding company

The amounts due to a subsidiary/a fellow subsidiary/ultimate holding company are unsecured, interest-free and repayable on demand.

18. Amount due to a director

The amount due to a director, Chan Chiu Hung, Danny (who was a shareholder of Jaling) is unsecured, interest-free and repayable on demand. The amount of HK$908,000 due was subsequently waived by the director of Jaling on 31 March 2006 which had been dealt with the movement of the equity.

19. Share capital

	As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Authorised, issued and fully paid:			
500,000 ordinary shares			
G$1 each	22	22	22

20. Related party transactions

	Jaling Group		
	For the year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Consultancy fee paid to director, Chan Chiu Hung, Danny *(Note 1)*	—	—	150

Notes:

1. Consultancy fee is payable for his services rendered for the period from 1 October 2006 to 31 March 2007.

21. Contingent liabilities

The Jaling Group's operations are regulated by various laws and regulations in Guyana. Guyana laws and regulations protecting 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 Jaling Group for violations of existing conditions attached to the licences whether or not caused or known by the Jaling Group. The financial position of the Jaling Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors of Jaling and the Company are not aware of any environmental liabilities as at and up to the date of this report. The directors are also not aware of any violation to existing conditions attached to the Jaling Group's timber concession right, or subject to any significant costs, expenses, penalties and liabilities.

22. Ultimate holding company

As at 31 March 2007, the directors of Jaling considered China Timber Resources Group Limited to be the ultimate holding company.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Jaling Group have been prepared in respect of any period subsequent to 31 March 2007.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF JALING

The following discussion and analysis of the performance of Jaling's operation results should be read in conjunction with the combined financial information for the three years ended 31 March 2007 set forth in the section headed "Financial information on Jaling Group" in this appendix.

Jaling was incorporated in Guyana as a private company with limited liability on 24 January 2002. Up to the year ended 31 March 2006, Jaling had remained at a precommencement preparation stage and had not carried out any business operations except procuring the grant of the 25 years exclusive concession rights in respect of the Jaling Forest; incorporating W&J with strategic partners, procuring the provision of logging and operation equipment; and conducting pre-commencement preparation.

On 16 June 2004, Jaling entered into a forest logging agreement with a strategic partner and independent contractor, for the provision of timber harvesting and processing services. On 22 December 2004, Jaling entered into a joint venture agreement, to set up W&J in relation to the operation and management of the Jaling Forest as well as distribution of timbers logged from the Jaling Forest.

On 11 January 2005, Environmental Protection Agency of Guyana granted an environmental permit to Jaling. Subsequently, GFC entered into a Timber Sales Agreement (TSA 02/2005) with Jaling on 25 January 2005 granting Jaling exclusive timber concession rights for a period of 25 years, commencing from the date of issue, to occupy and to harvest the Jaling Forest of approximately 136,900 hectares (338,000 acres) and issued an approval letter to Jaling on 19 January 2006 approving the grant of additional 27,900 hectares (69,000 acres) of forest area for the purpose of cutting, taking and obtaining timbers. The Jaling Forest is managed under a sustained yield management program as set out in its five-year management plan to ensure ecological and economic sustainability of the operation of the Jaling Forest and the compliance with the Forests Act, Forests Regulations and the Environmental Protection Act of Guyana.

In August 2005, shipments of logging and processing equipment supplied by the independent contractor arrived in Guyana gradually. By the end of February, 2006, logging technicians were staffed in Guyana, road construction was completed and supporting facilities were assembled. The whole pre-commencement preparation stage was completed in March 2006 and logging commenced in April 2006. For the year ended 31 March 2007, Jaling Group harvested a total of 17,000 cubic meters logs.

The audited consolidated loss of Jaling Group for three years ended 31 March 2007 were approximately HK$566,000, HK$514,000 and HK$67,000 respectively. Losses mainly arised from the office overheads and expenses incurred from obtaining the Jaling Forest concession rights.

The major expenditure accrued in the financial statements of Jaling Group were administrative expenses, the acreage fees payable to the Guyana government for the Jaling Forest (which were collectively treated as the expenditure of the forest concession rights) according to the terms of the Jaling TSA, logging, sale and distribution costs. For the three years ended 31 March 2007, the administrative expenses were approximately HK$566,000, HK$514,000 and HK$3,896,000 respectively, the acreage fee for each year was HK$360,000, and the cost of sales for the year ended 31 March 2007 was approximately HK$7.4 million.

The total expenditure accrued for the concession rights and carried in the financial statements will be amortized on a straight line basis over the shorter of the contractual period and its useful life estimated based on the total proven and probable reserves of the forestry exploitation volume. As at 31 March 2007, a total of approximately HK$7.31 million of acreage fee was payable to the Guyana Government, for the remaining period of the timber concession right, such acreage fee will be payable annually based on the rate of US$0.12 (approximately HK$0.93) per acre for the concession rights granted.

For the three years ended 31 March of 2005, 2006 and 2007, the gearing ratio of Jaling Group, being the ratio of total liabilities to total assets were approximately 1.07, 1.01 and 1.02 respectively.

During the period under review, the working capital of Jaling Group was financed by director's and shareholder's loan. The amounts of such borrowings for the three years ended 31 March of 2005, 2006 and 2007 were approximately HK$1,950,000, HK$1,487,000 and HK$2,629,000 respectively. The advances from its director were unsecured, interest free and with no fixed payment terms. As at 31 March 2007, Jaling Group recorded an audited net current liability of approximately HK$1.83 million.

As the harvesting services (including logging, packing and processing) have been sub-contracted to an independent contractor by Jaling Group during the period under review, Jaling Group did not have material investment in any fixed assets during that period.

The management of Jaling Group also considers that exposure to the fluctuations in exchange rates was insignificant because the receipts from sales of the timbers, payment of acreage fees to the Guyana government and payment of logging fees were denominated in US dollars. Jaling Group did not have any material acquisition or disposal of fixed assets and investments in subsidiaries and associated companies other than the incorporation of W&J.

As at 31 March 2007 Jaling Group did not have any material contingent liability.

(1) UNAUDITED PRO FORMA STATMENT OF THE GARNER ENLARGED GROUP (ASSUMING THE GARNER ACQUISITION HAS BEEN COMPLETED)

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the 100% Acquisition of Garner (collectively referred to as the "Garner Enlarge Group"). The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) Introduction

The accompanying Unaudited Pro Forma Financial Information of the Garner Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Garner Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Acquisition.

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Garner Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular and the audited income statement and audited cash flow statement of Garner for the period ended 31 March 2007 as set out in Appendix II to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Garner Enlarged Group is prepared based on the audited consolidated balance sheet of the Company as at 31 March 2007 as set out in Appendix I to this Circular and the audited balance sheet of Garner as at 31 March 2007 as set out in Appendix II to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes to demonstrate the effect of the Acquisition on the unaudited pro forma consolidated balance sheet as if the Acquisition had been completed on 31 March 2007, pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement as if the Acquisition had been completed on 1 April 2006. A narrative description of the pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Garner Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Garner Enlarged Group presented below does not purport to present what the consolidated income statement, consolidated balance sheet and consolidated cash flow statement would actually have been if the Acquisition had been taken place on 1 April 2006, 31

March 2007 and 9 March 2006 respectively or to project the financial information for any future period and are included for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group, the financial information of Garner and other information included elsewhere in this circular.

The unaudited pro forma financial information below has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Garner Enlarged Group as at 31 March 2007 and at any future date.

(i) Unaudited pro forma consolidated income statement of the Garner Enlarged Group, prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2007 and Garner for the period from 9 March 2006 (date of incorporation) to 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.4 = HK$1) as if the Acquisition was completed on the 9 March 2006.

	The Group	**Garner**	**Pro forma adjustments**	**Pro forma the Garner Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	10,380	—	—	10,380
Cost of sales	(4,065)	—	—	(4,065)
Gross profits	6,315	—	—	6,315
Other revenue	463	—	—	463
Other income	4,203	—	—	4,203
Gain on fair value change of investment property	1,845	—	—	1,845
Selling and administrative expenses	(26,801)	(8)	—	(26,809)
Loss from operation	(13,975)	(8)	—	(13,983)
Finance cost	(426)	—	—	(426)
Loss before taxation	(14,401)	(8)	—	(14,409)
Taxation	(434)	—	—	(434)
Loss for the year	(14,835)	(8)	—	(14,843)
Attributable to :				
Equity holders of the company	(14,245)	(8)	—	(14,253)
Minority interest	(590)	—	—	(590)
	(14,835)	(8)	—	(14,843)

(ii) Unaudited pro forma consolidated balance sheet of the Garner Enlarged Group as at 31 March 2007, prepared based on the audited consolidated financial statements of the Group as at 31 March 2007 and Garner as at 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.3 = HK$1), as if the Acquisition was completed on 31 March 2007.

	The Group	**Garner**	**Pro forma adjustments**		**Pro forma the Garner Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Non-current assets					
Investment property	29,640	—	—		29,640
Property, plant and equipment	8,441	—	—		8,441
Prepaid lease payments	3,473	—	—		3,473
Goodwill	160,596	—	109,996	*(a)*	270,592
Forest concession rights	8,332	6,097	—		14,429
	210,482	6,097	109,996		326,575
Current assets					
Financial assets at fair value through profit or loss	3,516	—	—		3,516
Derivative financial instruments	1,040	—	—		1,040
Inventories	3,470	—	—		3,470
Trade and other receivables	2,629	—	—		2,629
Prepaid lease payments	81	—	—		81
Cash and bank balances	9,116	—	239,600	*(d)*	248,716
	19,852	—	239,600		259,452

	The Group	Garner	Pro forma adjustments		Pro forma the Garner Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Current liabilities					
Acreage fees payable	—	215	—		215
Trade and other payable	99,821	—	—		99,821
Amount due to derecognised former subsidiaries under liquidation	490	—	—		490
Amount due to a director of a subsidiary	1,205	—	—		1,205
Amount due to a director	—	726	(8)	*(a)*	718
Taxation payable	434	—	—		434
	101,950	941	(8)		102,883
Net current (liabilities)/ assets	(82,098)	(941)	239,608		156,569
Total assets less current liabilities	128,384	5,156	349,604		483,144
Non-current liabilities					
Acreage fees payable	—	5,160	—		5,160
Bank loan — due after one year (secured)	6,250	—	—		6,250
Deferred tax liabilities	450	—	—		450
	6,700	5,160	—		11,860
Net assets/(liabilities)	121,684	(4)	349,604		471,284
Capital and reserves					
Share capital	71,261	4	12,500	*(c)*	83,761
			(4)	*(e)*	
Reserves	49,240	(8)	337,100	*(c)*	386,340
			8	*(e)*	
Total equity attributable to equity holders of the Company	120,501	(4)	349,604		470,101
Minority interest	1,183	—	—		1,183
Total equity	121,684	(4)	349,604		471,284

Notes:

(a) Acquisition of 100% equity interest in Garner at a consideration of HK$110,000,000 by the Group as if the proposed acquisition was effected on 31 March 2007:

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Forest concession rights	6,097
Acreage fees payable	(5,375)
Amount due to a director	(726)
	(4)
Add: Net indebtedness (calculated as amount due by Garner to a director) as at 31 March 2007 waived by that director	8
	4
Adjusted net assets attributable to 100% equity interest in Garner to be acquired	4
Consideration payable by the Group	110,000
Goodwill	109,996

Goodwill, attributable to the benefits of expected revenue growth and future market development of Garner in the timber logging and process business, represents the difference between percentage share of net assets as if acquired on 31 March 2007 and consideration paid and payable by the Company, which is calculated in accordance with HKFRS 3 "Business Combinations" and will be carried at cost less any impairment losses which are subject to annual impairment assessment by the directors of the Company, in accordance with the Company's accounting policy as set out in Appendix I on page 40.

(b) The consideration of HK$110,000,000 for the acquisition of 100% equity interest of Garner is to be settled by cash.

(c) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

(d) Net effect on cash and bank balances after the payment for the consideration for 100% equity interest in Garner (note (a) above) and net proceeds raised from the share placement as referred to note (c) above.

	HK$'000
Cash outflow for 100% equity interest of Garner	(110,000)
Net proceeds raised from the share placement	349,600
Balance for working capital of the Garner Enlarged Group	239,600

(e) Elimination of the issued share capital and pre-acquisition reserves of Garner on consolidation.

Unaudited pro forma consolidated cash flow statement of the Enlarged Group prepared based on the audited consolidated cash flow statements of the Group for the year ended 31 March 2007 and Garner for the period from 9 March 2006 (date of incorporation) to 31 March 2007 (translated into Hong Kong dollars at the rate of G$24.4 = HK$1) as if the Acquisition was completed on 9 March 2006.

	The Group	**Garner**	**Pro forma adjustments**		**Pro forma the Garner Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Operating activities					
Loss before taxation	(14,401)	(8)	—		(14,409)
Adjustments for:					
Interest expenses	426	—	—		426
Interest income	(463)	—	—		(463)
Depreciation	567	—	—		567
Share-based compensation	4,041	—	—		4,041
Gain on fair value change of Investment property	(1,845)	—	—		(1,845)
Amortization of prepaid lease payments	81	—	—		81
Amortization of Forest Concession right	488	—	—		488
Operating cash outflow before changes in working capital	(11,106)	(8)	—		(11,114)
Increase in assets at fair value through profit or loss	(1,833)	—	—		(1,833)
Increase in derivative financial instruments	(1,040)	—	—		(1,040)
Increase in inventories	(3,470)	—	—		(3,470)
Decrease in trade and other receivables	503	—	—		503
Increase in amount due to a director of a subsidiary	1,205	—	—		1,205
Increase in trade and other payables	541	—	—		541
Increase in amount due to a director	—	726	—		726
Net cash (used in)/generated from operations	(15,200)	718	—		(14,482)
Interest received	463	—	—		463
Interest paid	(426)	—	—		(426)
Net cash (used in)/generated from operating activities	(15,163)	718	—		(14,445)

	The Group HK$'000	Garner HK$'000	Pro forma adjustments HK$'000	Note	Pro forma the Garner Enlarged Group HK$'000
Investing activities					
Payment for acquiring forest concession rights	—	(722)	—		(722)
Issuance of share capital	—	4	—		4
Purchase of investment property, plant and equipment	(3,901)	—	—		(3,901)
Acquisition of a subsidiary	(9,988)	—	(110,000)	*(a)*	(119,988)
Net cash outflow from investing activities	(13,889)	(718)	(110,000)		(124,607)
Net cash outflow before financing activities	(29,052)	—	(110,000)		(139,052)
Financing activities					
Repayment of bank loan	(4,083)	—	—		(4,083)
New bank loan obtained	6,250	—	—		6,250
Proceeds from issue of share warrents	4,000	—	—		4,000
Proceeds from issue of new ordinary shares	2,999	—	—		2,999
Proceeds from issue of ordinary shares under placement	—	—	349,600	*(b)*	349,600
Net cash inflow from financing	9,166	—	349,600		358,766
(Decrease)/increase in cash and cash equivalents	(19,886)	—	239,600		219,714
Effect of foreign exchange rate changes	(2,793)	—	—		(2,793)
Cash and cash equivalents at beginning	31,795	—	—		31,795
Cash and cash equivalents at end of year	9,116	—	239,600		248,716
Analysis of the balance of cash and cash equivalents					
Cash and bank balances	9,116	—	239,600		248,716
	9,116	—	239,600		248,716

Notes:

(a) Analysis of net cash outflow from acquisition of the Garner:

Fair value of net assets acquired as at 31 March 2007:

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Forest concession rights	6,097
Acreage fees payable	(5,375)
Amount due to a director	(726)
	(4)
Add: Net indebtedness (calculated as amount due by Garner to a director) as at 31 March 2007 waived by that director	(8)
Adjusted net assets attributable to 100% equity interest in Garner to be acquired	4
Goodwill	109,996
Consideration payable by the Group	110,000
Satisfied by:	
Cash consideration	110,000

(b) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

The following is the text of a report, received from CCIF, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information of the Group as set out in this appendix:

(2) ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Garner Enlarged Group as set out in Appendix IV to the circular of China Timber Resources Group Limited (the "Company') dated 28 September 2007 (the "Circular") in connection with the proposed acquisition of 100% equity interest in Garner Forest Industries Inc. by Vastrich Corporation Limited, a wholly-owned subsidiary of the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 141 to 142 of this circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANT

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 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 issues.

BASIS OF OPINION

We conducted our work 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 the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the Garner Enlarged Group as at 31 March 2007 or any future date.

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 4.29(1) of the Listing Rules.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

(1) UNAUDITED PRO FORMA STATEMENT OF THE JALING ENLARGED GROUP (ASSUMING THE JALING ACQUISITION HAS BEEN COMPLETED)

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the 51% Acquisition of the Jaling Group (collectively referred to as the "Jaling Enlarged Group"). The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) Introduction

The accompanying Unaudited Pro Forma Financial Information of the Jaling Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Jaling Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Acquisition.

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Jaling Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular and the audited consolidated income statement and audited consolidated cash flow statement of Jaling Group for the year ended 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Jaling Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2007 as set out in Appendix I to this Circular and the unaudited consolidated balance sheet of Jaling Group as at 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes to demonstrate the effect of the Acquisition on the unaudited pro forma consolidated income statement, unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated cash flow statement as if the Acquisition had taken place on 1 April 2006, 31 March 2007 and 1 April 2006, respectively. A narrative description of the pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Jaling Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Jaling Enlarged Group presented below does not purport to present what the consolidated income statement, consolidated balance sheet and consolidated cash flow statement would actually have been if the Acquisition had been taken place on 1 April 2006, 31 March 2007 and 1 April 2006 respectively or to project the financial information for any future period and are included for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group, the financial information of the Jaling Group and other information included elsewhere in this circular.

The unaudited pro forma financial information below has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Jaling Enlarged Group as at 31 March 2007 and at any future date.

(i) Unaudited pro forma consolidated income statement of the Jaling Enlarged Group, prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2007 and the Jaling Group for the year ended 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.4 = HK$1) as if the Acquisition was completed on 1 April 2006.

	The Group	**Pro forma adjustments**		**Pro forma the Jaling Enlarged Group**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Turnover	10,380	—		10,380
Cost of sales	(4,065)	—		(4,065)
Gross profits	6,315	—		6,315
Other revenue	463	—		463
Other income	4,203	—		4,203
Gain on fair value change of investment property	1,845	—		1,845
Selling and administrative expenses	(26,801)	—		(26,801)
Loss from operations	(13,975)	—		(13,975)
Finance cost	(426)	—		(426)
Loss before taxation	(14,401)	—		(14,401)
Taxation	(434)	—		(434)
Loss for the year	(14,835)	—		(14,835)
Attributable to:				
Equity holders of the company	(14,245)	(30)	*(a)*	(14,275)
Minority interest	(590)	30	*(a)*	(560)
	(14,835)	—		(14,835)

Notes:

(a) This represents the share of the results for the year ended 31 March 2007 of the Jaling Group by its 5% minority shareholders, which is calculated as following:

	HK$'000
Loss of the Jaling Group for year ended 31 March 2007	(67)
Loss shared by minority interest (49% already included in the Group)	(33)
Loss shared by minority interest (5% thereof)	(3)
	(30)

(ii) Unaudited pro forma consolidated balance sheet of the Jaling Enlarged Group as at 31 March 2007, prepared based on the audited consolidated financial statements of the Group as at 31 March 2007 and the Jaling Group as at 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.3 = HK$1), as if the Acquisition was completed on 31 March 2007.

	The Group	**Pro forma adjustments**		**Pro forma the Jaling Enlarged Group**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Non-current assets				
Investment property	29,640	—		29,640
Property, plant and equipment	8,441	—		8,441
Prepaid lease payments	3,473	—		3,473
Goodwill	160,596	130,127	*(a)*	290,723
Forest concession rights	8,332	—		8,332
	210,482	130,127		340,609
Current assets				
Financial assets at fair value through profit or loss	3,516	—		3,516
Derivative financial instruments	1,040	—		1,040
Inventories	3,470	—		3,470
Trade and other receivables	2,629	—		2,629
Prepaid lease payments	81	—		81
Cash and bank balances	9,116	349,600	*(c)*	358,716
	19,852	349,600		369,452

	The Group	Pro forma adjustments		Pro forma the Jaling Enlarged Group
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Current liabilities				
Trade and other payables	99,821	—		99,821
Amount due to derecognised former subsidiaries under liquidation	490	—		490
Amount due to a director of a subsidiary	1,205	—		1,205
Taxation payable	434	—		434
	101,950	—		101,950
Net current (liabilities)/assets	(82,098)	349,600		267,502
Total assets less current liabilities	128,384	479,727		608,111
Non-current liabilities				
Bank loan — due after one year (secured)	6,250	—		6,250
Deferred tax liabilities	450	—		450
	6,700	—		6,700
Net assets	121,684	479,727		601,411
Capital and reserves				
Share capital	71,261	5,138	*(b)*	88,899
		12,500	*(c)*	
Reserves	49,240	124,862	*(b)*	511,202
		337,100	*(c)*	
Total equity attributable to equity holders of the Company	120,501	479,600		600,101
Minority interest	1,183	127	*(a)*	1,310
Total equity	121,684	479,727		601,411

Notes:

(a) Additional 44% equity interest of the Jaling Group at a consideration of HK$130,000,000 by the Group as if the proposed acquisition was effected on 31 March 2007:

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Property, plant and equipment	158
Forest concession rights	8,332
Inventories	3,470
Trade receivables	296
Cash and bank balance	487
Acreage fees payable	(7,309)
Other payables	(784)
Amount due to a fellow subsidiary	(398)
Amount due to ultimate holding company	(1,911)
Amount due to a director	(2,629)
	(288)
Minority interests (HK$288 x 56%)	161
Adjusted net liabilities attributable to 44% equity interest in the Jaling Group to be acquired	(127)
Consideration payable by the Group	130,000
Goodwill	130,127

Goodwill, attributable to the benefits of expected revenue growth and future market development of the Jaling Group in the timber logging and process business, represents the difference between percentage share of net assets as if acquired on 31 March 2007 and consideration paid and payable by the Company, which is calculated in accordance with HKFRS 3 "Business Combinations" and will be carried at cost less any impairment losses which are subject to annual impairment assessment by the directors of the Company, in accordance with the Company's accounting policy as set out in Appendix I on page 40.

(b) The consideration of HK$130,000,000 will be satisfied by the issue of 513,833,992 consideration shares of the Company at issuing price of not less than HK$0.253 per consideration share.

(c) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

(iii) Unaudited pro forma consolidated cash flow statement of the Jaling Enlarged Group prepared based on the audited consolidated cash flow statements of the Group for the year ended 31 March 2007 and the Jaling Group for the year ended 31 March 2007 (translated into Hong Kong dollars at the rate of G$24.4 = HK$1) as if the Acquisition was completed on 1 April 2006.

	The Group	**Pro forma adjustments**		**Pro forma the Jaling Enlarged Group**
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Operating activities				
Loss before taxation	(14,401)	—		(14,401)
Adjustments for:				
Interest expenses	426	—		426
Interest income	(463)	—		(463)
Depreciation	567	—		567
Share-based conpensation	4,041	—		4,041
Gain on fair value change of investment property	(1,845)	—		(1,845)
Amortization of prepaid lease payments	81	—		81
Amortization of Forest Concession right	488	—		488
Operating cash outflow before changes in working capital	(11,106)	—		(11,106)
Increase in assets at fair value through profit or loss	(1,833)	—		(1,833)
Increase in derivative financial instruments	(1,040)	—		(1,040)
Increase in inventories	(3,470)	—		(3,470)
Decrease in trade and other receivables	503	—		503
Increase in amount due to a director of a subsidiary	1,205	—		1,205
Increase in trade and other payables	541	—		541
Net cash used in operations	(15,200)	—		(15,200)
				—
Interest received	463	—		463
Interest paid	(426)	—		(426)

	The Group	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*Note*	*HK$'000*
Net cash used in operating activities	(15,163)	—		(15,163)
Investing activities				
Purchase of investment property, plant and equipment	(3,901)	—		(3,901)
Acquisition of a subsidiary	(9,988)	—		(9,988)
Net cash outflow from investing activities	(13,889)	—		(13,889)
Net cash outflow before financing activities	(29,052)	—		(29,052)
Financing activities				
Repayment of bank loan	(4,083)	—		(4,083)
New bank loan obtained	6,250	—		6,250
Proceeds from issue of share warrents	4,000	—		4,000
Proceeds from issue of new ordinary shares	2,999	—		2,999
Proceeds from issue of ordinary shares under placement	—	349,600	*(a)*	349,600
Net cash inflow from financing	9,166	349,600		358,766
(Decrease)/Increase in cash and cash equivalents	(19,886)	349,600		329,714
Effect of foreign exchange rate changes	(2,793)	—		(2,793)
Cash and cash equivalents at beginning	31,795	—		31,795
Cash and cash equivalents at end of year	9,116	349,600		358,716
Analysis of the balance of cash and cash equivalents				
Cash and bank balances	9,116	349,600		358,716
	9,116	349,600		358,716

Notes:

(a) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

The following is the text of a report, received from CCIF, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information of the Group as set out in this appendix:

(2) ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Jaling Enlarged Group set out in Appendix V to the circular of China Timber Resources Group Limited (the "Company") dated 28 September 2007 (the "Circular") which in connection with the proposed acquisition of 44% equity interest in Jaling Forest Industries Inc. by Vastrich Corporation Limited, a wholly-owned subsidiary of the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 152 to 153 of this circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANT

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 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 issues.

BASIS OF OPINION

We conducted our work 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 the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the Jaling Enlarged Group as at 31 March 2007 or any future date.

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 4.29(1) of the Listing Rules.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

(1) UNAUDITED PRO FORMA STATEMENT OF THE ENLARGED GROUP (ASSUMING THE GARNER ACQUISITION AND THE JALING ACQUISITION HAVE BEEN COMPLETED)

For illustrative purposes only, set out below is the Unaudited Pro Forma Financial Information of the Group after completion of the 51% Acquisition of Jaling Group and 100% Acquisition of Garner (collectively referred to as the "Enlarged Group"). The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29(1) and paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Company's financial information.

(A) Introduction

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, comprising the unaudited pro forma combined income statement, unaudited pro forma combined cash flow statement and unaudited pro forma combined balance sheet of the Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the Acquisition.

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Group have been prepared based on the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular and the audited income statement and audited cash flow statement of Garner for the period ended 31 March 2007 as set out in Appendix II and the audited consolidated income statement and audited consolidated cash flow statement of the Jaling Group for the year ended 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2007 as set out in Appendix I to this Circular and the audited balance sheet of Garner as at 31 March 2007 as set out in Appendix II and the audited consolidated balance sheet of the Jaling Group as at 31 March 2007 as set out in Appendix III to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes to demonstrate the effect of the Acquisition on the unaudited pro forma consolidated income statement, unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated cash flow statement as if the Acquisition of Garner and the Jaling Group had taken place on 9 March 2006, 31 March 2007 and 1 April 2006 respectively. A narrative description of the pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of Garner and the Jaling Group presented below does not purport to present what the consolidated income statement, consolidated balance sheet and consolidated cash flow statement would actually have been if the Acquisition had been taken place on 9 March 2006, 31 March 2007 and 1 April 2006 respectively, or to project the financial information for any future period and are included for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group, the financial information of Garner and the Jaling Group and other information included elsewhere in this circular.

The unaudited pro forma financial information below has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2007 and at any future date.

(i) Unaudited pro forma consolidated income statement of the Enlarged Group, prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2007 and Garner for the period ended 31 March 2007 and the Jaling Group for the year ended 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.4 = HK$1) as if the Acquisition of Garner and the Jaling Group was completed on 9 March 2006.

	The Group	**Garner**	**Pro forma the Garner Enlarged Group adjustments**	**Pro forma the Jaling Enlarged Group adjustments**		**Pro forma the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Turnover	10,380	—	—	—		10,380
Cost of sales	(4,065)	—	—	—		(4,065)
Gross profits	6,315	—	—	—		6,315
Other revenue	463	—	—	—		463
Other income	4,203	—	—	—		4,203
Gain on fair value change of investment property	1,845	—	—	—		1,845
Selling and administrative expenses	(26,801)	(8)	—	—		(26,809)
Loss from operations	(13,975)	(8)	—	—		(13,983)
Finance cost	(426)	—	—	—		(426)
Loss before taxation	(14,401)	(8)	—	—		(14,409)
Taxation	(434)	—	—	—		(434)
Loss for the year	(14,835)	(8)	—	—		(14,843)
Attributable to:						
Equity holders of the company	(14,245)	(8)	—	(30)	*(a)*	(14,283)
Minority interest	(590)	—	—	30	*(a)*	(560)
	(14,835)	(8)	—	—		(14,843)

Notes:

(a) This represents the share of the results for the year ended 31 March 2007 of the Jaling Group by its 5% minority shareholders, which is calculated as following:

	HK$'000
Loss of the Jaling Group for year ended 31 March 2007	(67)
Loss shared by minority interest (49% already included in the Group)	(33)
Loss shared by minority interest (5% thereof)	(3)
	(30)

(ii) Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2007, prepared based on the audited consolidated financial statements of the Group as at 31 March 2007 and Garner and the Jaling Group as at 31 March 2007 (translated into Hong Kong dollars at the exchange rate of G$24.3 = HK$1), as if the Acquisition was completed on 31 March 2007.

	The Group	**Garner**	**Pro forma the Garner Enlarged Group adjustments**		**Pro forma the Jaling Enlarged Group adjustments**		**Pro forma the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*	*Note*	*HK$'000*
Non-current assets							
Investment property	29,640	—	—		—		29,640
Property, plant and equipment	8,441	—	—		—		8,441
Prepaid lease payments	3,473	—	—		—		3,473
Goodwill	160,596	—	109,996	*(a)*	130,127	*(f)*	400,719
Forest concession rights	8,332	6,097	—		—		14,429
	210,482	6,097	109,996		130,127		456,702
Current assets							
Financial assets at fair value through profit or loss	3,516	—	—		—		3,516
Derivative financial instruments	1,040	—	—		—		1,040
Inventories	3,470	—	—		—		3,470
Trade and other receivables	2,629	—	—		—		2,629
Prepaid lease payments	81	—	—		—		81
Cash and bank balances	9,116	—	239,600	*(d)*	—		248,716
	19,852	—	239,600		—		259,452

	The Group HK$'000	Garner HK$'000	Pro forma the Garner Enlarged Group adjustments HK$'000	Note	Pro forma the Jaling Enlarged Group adjustments HK$'000	Note	Pro forma the Enlarged Group HK$'000
Current liabilities							
Acreage fees payable	—	215	—		—		215
Trade and other payable	99,821	—	—		—		99,821
Amount due to derecognised former subsidiaries under liquidation	490	—	—		—		490
Amount due to a director of subsidiaries	1,205	—	—		—		1,205
Amount due to a director	—	726	(8)	*(a)*	—		718
Taxation payable	434	—	—		—		434
	101,950	941	(8)		—		102,883
Net current (liabilities)/assets	(82,098)	(941)	239,608		—		156,569
Total assets less current liabilities	128,384	5,156	349,604		130,127		613,271
Non-current liabilities							
Acreage fees payable	—	5,160	—		—		5,160
Bank loan — due after one year (secured)	6,250	—	—		—		6,250
Deferred tax liabilities	450	—	—		—		450
	6,700	5,160	—		—		11,860
Net assets/(liabilities)	121,684	(4)	349,604		130,127		601,411
Capital and reserves							
Share capital	71,261	4	12,500	*(c)*	5,138	*(g)*	88,899
			(4)	*(e)*			
Reserves	49,240	(8)	337,100	*(c)*	124,862	*(g)*	511,202
			8	*(e)*			
Total equity attributable to equity holders of the Company	120,501	(4)	349,604		130,000		600,101
Minority interest	1,183	—	—		127	*(f)*	1,310
Total equity	121,684	(4)	349,604		130,127		601,411

Notes:

(a) Acquisition of 100% equity interest in Garner at a consideration of HK$110,000,000 by the Group as if the proposed acquisition was effected on 31 March 2007.

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Forest concession rights	6,097
Acreage fees payable	(5,375)
Amount due to a director	(726)
	(4)
Add: Net indebtedness (calculated as amount due by Garner to a director) as at 31 March 2007 waived by that director	8
	4
Adjusted net assets attributable to 100% equity interest in Garner to be acquired	4
Consideration payable by the Group	110,000
Goodwill	109,996

Goodwill, attributable to the benefits of expected revenue growth and future market development of Garner in the timber logging and process business, represents the difference between share of net assets as if acquired on 31 March 2007 and consideration paid and payable by the Company, which is calculated in accordance with HKFRS 3 "Business Combinations" and will be carried at cost less any impairment losses which are subject to annual impairment assessment by the directors of the Company, in accordance with the Company's accounting policy as set out in Appendix I on page 40.

(b) The consideration of HK$110,000,000 for the acquisition of 100% equity interest of Garner will be satisfied by cash.

(c) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

(d) Net effect on cash and bank balances after the payment for the consideration for 100% equity interest in Garner (note (a) above) and net proceeds raised from the share placement as referred to note (c) above.

	HK$'000
Cash outflow for 100% equity interest of Garner	(110,000)
Net proceeds raised from the share placement	349,600
Balance for working capital of the Garner Enlarged Group	239,600

(e) Elimination of the issued share capital and pre-acquisition reserves of Garner on consolidation.

(f) Additional 44% equity interest of the Jaling Group at a consideration of HK$130,000,000 by the Group as if the proposed acquisition was effected on 31 March 2007:

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Property, plant and equipment	158
Forest concession rights	8,332
Inventories	3,470
Trade receivables	296
Cash and bank balance	487
Acreage fees payable	(7,309)
Other payables	(784)
Amount due to a fellow subsidiary	(398)
Amount due to ultimate holding company	(1,911)
Amount due to a director	(2,629)
	(288)
Minority interests (HK$288 x 56%)	(161)
Adjusted net liabilities attributable to 44% equity interest in the Jaling Group to be acquired	(127)
Consideration payable by the Group	130,000
Goodwill	(130,127)

Goodwill, attributable to the benefits of expected revenue growth and future market development of the Jaling Group in the timber logging and process business, represents the difference between percentage share of net assets as if acquired on 31 March 2007 and consideration paid and payable by the Company, which is calculated in accordance with HKFRS 3 "Business Combinations" and will be carried at cost less any impairment losses which are subject to annual impairment assessment by the directors of the Company, in accordance with the Company's accounting policy as set out in Appendix I on page 40.

(g) The consideration of HK$130,000,000 will be satisfied by the issue of 513,833,992 consideration shares of the Company at issuing price of not less than HK$0.253 per consideration share.

(iii) Unaudited pro forma consolidated cash flow statement of the Enlarged Group prepared based on the audited consolidated cash flow statements of the Group for the year ended 31 March 2007 and Garner for the period ended 31 March 2007 and the Jaling Group for the year ended 31 March 2007 (translated into Hong Kong dollars at the rate of G$24.4 = HK$1) as if the transaction of Garner and the Jaling Group was completed on 9 March 2006.

	The Group	Garner	Pro forma the Garner Enlarged Group adjustments	Note	Pro forma the Jaling Enlarged Group adjustments	Note	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*	*Note*	*HK$'000*
Operating activities							
Loss before taxation	(14,401)	(8)	—		—		(14,409)
Adjustments for:	—	—	—		—		—
Interest expenses	426	—	—		—		426
Interest income	(463)	—	—		—		(463)
Depreciation	567	—	—		—		567
Share-based conpensation	4,041	—	—		—		4,041
Gain on fair value change of investment property	(1,845)	—	—		—		(1,845)
Amortization of prepaid lease payments	81	—	—		—		81
Amortization of Forest Concession right	488	—	—		—		488
Operating cash outflow before changes in working capital	(11,106)	(8)	—		—		(11,114)
Increase in assets at fair value through profit or loss	(1,833)	—	—		—		(1,833)
Increase in derivative financial instruments	(1,040)	—	—		—		(1,040)
Increase in inventories	(3,470)	—	—		—		(3,470)
Decrease in trade and other receivables	503	—	—		—		503
Increase in amount due to a director of a subsidiary	1,205	—	—		—		1,205
Increase in trade and other payables	541	—	—		—		541
Increase in amount due to a director	—	726	—		—		726
Net cash (used in)/ generated from operations	(15,200)	718	—		—		(14,482)
Interest received	463	—	—		—		463
Interest paid	(426)	—	—		—		(426)

	The Group	Garner	Pro forma the Garner Enlarged Group adjustments	Note	Pro forma the Jaling Enlarged Group adjustments	Note	Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*	*Note*	*HK$'000*
Net cash used in operating activities	(15,163)	718	—				(14,445)
Investing activities					—		
Payment for acquiring forest concession rights	—	(722)	—		—		(722)
Issuance of share capital		4	—		—		4
Purchase of investment property, plant and equipment	(3,901)	—	—		—		(3,901)
Acquisition of a subsidiary	(9,988)	—	(110,000)	*(a)*	—		(119,988)
Net cash outflow from investing activities	(13,889)	(718)	(110,000)		—		(124,607)
Net cash outflow before financing activities	(29,052)	—	(110,000)		—		(139,052)
Financing							
Repayment of bank loan	(4,083)	—	—		—		(4,083)
New bank loan obtained	6,250	—	—		—		6,250
Proceeds from issue of share warrents	4,000	—	—		—		4,000
Proceeds from issue of new ordinary shares	2,999	—	—		—		2,999
Proceeds from issue of ordinary shares under placement	—	—	349,600	*(b)*	—		349,600
Net cash inflow from financing	9,166	—	349,600		—		358,766
Decrease in cash and cash equivalents	(19,886)	—	239,600		—		219,714
Effect of foreign exchange rate changes	(2,793)	—	—		—		(2,793)
Cash and cash equivalents at beginning	31,795	—	—		—		31,795
Cash and cash equivalents at end of year	9,116	—	239,600		—		248,716
Analysis of the balance of cash and cash equivalents							
Cash and bank balances	9,116	—	239,600		—		248,716
	9,116	—	239,600		—		248,716

Notes:

(a) Analysis of net cash outflow from acquisition of Garner:

Fair value of net assets acquired as at 31 March 2007:

	HK$'000
Net assets/(liabilities) acquired at fair value:	
Forest concession rights	6,097
Acreage fees payable	(5,375)
Amount due to a director	(726)
Add: Net indebtedness (calculated as amount due by the Garner to a director) as at 31 March 2007 waived by that director	(8)
Adjusted net assets attributable to 100% equity interest in Garner to be acquired	4
Goodwill	109,996
Consideration payable by the Group	110,000
Satisfied by:	
Cash consideration	110,000

(b) On 13 June 2007, a placing agreement was entered into between the Company and the placing agent to subscribe 1,250,000,000 Placing Shares at a price of HK$0.29 per Placing Share. Net proceeds of approximately HK$349,600,000 was raised.

The following is the text of a report received from CCIF, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information of the Group as set out in this appendix:

(2) ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group as set out in Appendix VI to the circular of China Timber Resources Group Limited (the "Company") dated 28 September 2007 (the "Circular") in connection with the proposed acquisition of 100% equity interest in Garner Forest Industries Inc. by Vastrich Corporation Limited, a wholly-owned subsidiary of the Company and 44% equity interest in Jaling Forest Industries Inc. by Wide Forest Limited, a wholly-owned subsidiary of the Company (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to the "Group") The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 162-163 of this Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANT

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 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 issues.

BASIS OF OPINION

We conducted our work 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 the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the Enlarged Group as at 31 March 2007 or any future date.

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 4.29(1) of the Listing Rules.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

The following is the text of a summary valuation report, prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyor Limited, an independent valuer, in connection with its valuation of the Garner Forest as at 31 August 2007.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
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. It entitles 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.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited
Room 1606, Office Tower
Convention Plaza
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, we have investigated and conducted an agreed-upon procedures appraisal (the word *appraisal* has the same meaning as *valuation* in this report) on the market value of a designated agricultural property asset (hereinafter referred to as the "Subject Asset" and see Note) presented to us as owned by Garner Forest Industries Inc. (hereinafter referred to as "Garner") in Guyana of South America as part of its going concern business as at 31 August 2007 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference purpose. Our findings and conclusion in this valuation are documented in an appraisal report and submitted to the Company at today's date.

Note: According to International Valuation Guidance Note No. 10 published by the International Valuation Standards Committee in the International Valuation Standards, Eighth Edition, 2007, agricultural property asset can be classified as land, structural improvement, plant and machinery (attached or not attached to the land) and biological asset (attached or not attached to the land). Biological asset is defined as a living animal or plant.

At the request of the management of the Company, we prepared this summary report to summarise our findings and conclusion as documented in the appraisal report for the purpose of inclusion in a public document at today's date. Terms herein used without definitions shall have the same meanings as in the appraisal report, and the assumptions and caveats adopted in the appraisal report also apply to this report.

INTRODUCTION

On 5 July 2007, the Company via one of its wholly-owned subsidiaries entered into a conditional agreement with a connected party in relation to the acquisition of the remaining 49 per cent. equity interest of Garner. The Subject Asset is the only asset of Garner as at the Date of Valuation. Based on the instruction, we have carried out limited scope of inspection, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value.

According to the information given to us, the Subject Asset comprises the inventory of a standing forest, classified as State Forests by the government of Guyana, located in Region 7, Mazaruni-Potaro District, at Central Guyana.

The term "Market Value" as used herein is defined as the price, expressed in terms of cash equivalents at which an asset would change hands between a (hypothetical willing and able) buyer and a (hypothetical willing and able) seller, acting at arm's length (in an open and unrestricted market), when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Subject Asset at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

ECONOMIC OUTLOOK OF GUYANA *(see Note)*

Guyana (officially known as Co-operative Republic of Guyana) is situated at the Northern part of South America, bordering the North Atlantic Ocean, between Suriname and Venezuela, between the coordinates of Latitude 5º00' North and Longitude 59º00' West. Guyana originally was a Dutch colony and in 1815 became a United Kingdom ("U.K.") possession, and in 1966 Guyana achieved independence from the U.K. and within the Commonwealth hitherto. With a population of about 760,200, the country enjoys the natural resources of bauxite, gold, diamonds, hardwood timber, shrimp and fish.

The Guyanese economy exhibited moderate economic growth in 2001-02, based on the expansion in the agricultural and mining sectors, a more favorable atmosphere for business initiatives, a more realistic exchange rate, a fairly low inflation, and the continued support of international organizations. Chronic problems include a shortage of skilled labor and a deficient

Note: Sources of information from website of cia.gov, imf.org, state.gov, indexmundi.com, goinvest.gov.gy, worldbank.org and heritage.org.

infrastructure. The government is juggling a sizable external debt against the urgent need for expanded public investment. The Inter-American Development Bank (the "Bank") in November 2006 canceled Guyana's nearly $400 million debt with the Bank. The bauxite mining sector should benefit in the near term from restructuring and partial privatisation. Export earnings from agriculture and mining have fallen sharply, while the import bill has risen, driven by higher energy prices. Guyana's entrance into the CARICOM Single Market and Economy in January 2006 broadened the country's export market, primarily in the raw materials sector. From 1995 to 2004, Guyana's weighted average annual rate of inflation was 5.02 per cent (or "%" as appeared in our reports). Inflation dropped from 8.2% recorded in 2005 to 6% in 2006 with increases in prices of fuel, housing, education and food, continuing to be affected by rising import prices despite continued stability in the currency value.

The Executive Board of the International Monetary Fund ("IMF") in 2006 commented the exchange rate of Guyana remained stable, the external current account position was better than anticipated, and the structural reform agenda moved ahead. The Guyana dollar has remained broadly stable since mid-2004 at about G$200 per U.S. dollar, reflecting a balanced foreign exchange market. The real effective appreciation of the Guyana dollar in 2005 has been partially reversed by the recent depreciation of the U.S. dollar relative to the Euro and by the widening inflation differentials with some trading partners.

The recovery of private sector credit that began in 2005, has picked up along with the continued strengthening of financial sector indicators. The credit expansion reflects partly rapid growth in mortgage lending as a result of increased government land sales and leases and preparation for the Cricket World Cup in April 2007. The GDP (Gross Domestic Product) growth of Guyana in 2000, 2003 and 2005 was negative and in 2004 recorded a growth of 1.6%. The annual GDP growth rate of 2006 was 4.7%. The Executive Board of the IMF estimated that the GDP growth in 2007 is 4.8%.

FORESTRY INDUSTRY IN GUYANA *(see Note)*

Tropical timber is one of the most important resources in the world. This provides raw materials for construction, furniture, including derived products such as veneers, plywood and parquets. With the limited supply and sources of timber in the world market, there is an increased demand and pricing for round logs and its derived products in the market.

Tropical forests are considered one of the most productive ecosystems in the world. It is extinguished from other major forests having greatest volume of plants and species diversity per unit area. Today, tropical forests are threatened by human activities, thus needing more protection and Guyana has an extensive forest area making up 75% or 65,000 square miles out of its entire 83,000 square miles of its entire area. The exploitable permanent State-owned Forests are about 10,000 square miles found in the lowland areas and are composed of the following main forest types which include Mixed, Liana, Morabukea, Swamp and Baromalli forest types.

Note: Sources of information from agriculture.gov.gy, goinvest.gov.gy and forestry.gov.gy

Guyana has vast forest resources that contain over 1,000 different tree varieties. Currently, 120 species are being logged in various forms, with between 12 and 15 of these logged on a commercial scale through a system of concessions. The most sought after species include Greenheart (Colubrina arborescens or Chlorocardium rodiei), Mora (Mora excelsa and Mora gonggrijpii), Baromalli (Catostemma altsonii), Purpleheart (Peltogyne spp), Crabwood (Carapa guianensis), Kabakalli (Goupia glabra), and Wamara (Bocoa prouacensis). In 2006, Guyana exported about US$58.7 million in forest products, ranging from raw and sawn timber, to plywood, molding and furniture products. Plywood accounted for about 15% of all forestry exports, with higher-value products, such as furniture, representing a small, yet rapidly growing share (5 per cent.). Guyanese wood experts estimate that Guyana is capable of filling most of CARICOM's demand of 300 million board feet of tropical wood.

While Guyana is traditionally known for its export of timber in raw or semi-processed forms, the government and segments of the forest product industry have placed an emphasis on promoting value-added forest product production for export to the Caribbean, the United States of America ("U.S.") and Europe.

There are a number of governmental and private organisations involved in the forest products sector. The Guyana Forestry Commission ("GFC") is the government agency responsible for the administration and management of the 13.68 million hectares of land, account for 75% of national land, classified as State Forests (including the Subject Asset). The Forest Products Association ("FPA") represents private forest producers and has substantial practical knowledge of timber production and forest uses. The FPA collaborates with the GFC in selected training and research initiatives. This includes the Forest Training Centre Incorporated, which was established in collaboration with the Tropical Forest Foundation (from the U.S.) and Department for International Development (from the U.K.) to implement a Reduced Impact Logging program focusing on hands-on demonstration and training in an actual timber harvesting operation.

The Forestry Products Marketing Council of Guyana (the "Council") was established "to ensure the sustainability of Guyana's forest products industry by increasing value and improving its competitiveness through enhanced market access and increased trade opportunities". Functions include market intelligence, trade missions, developing industry and product information, and providing advice on export-related services such as product packaging and handling etc. The Council reports to the Ministry of Fisheries, Crops and Livestock of Guyana.

GFC expected that the high log exports to Asia/Pacific, especially China and India, to continue, to fuel expansion in secondary wood products, China and India capitalizing on economies of scale, cheaper labour/processing costs, and greater and more diversified recovery from logs. China forecasts need for 5 million cu. m. more of tropical timber by 2010 up from 11.4 million cu. m. in 2005 of which, 7.4 million cu. m. alone were in log form. In the near term, capacity constraints, forest fires and efforts to curb illegal timber in Malaysia and Indonesia, and increased regulations and restrictions in West Africa, will ensure prices remain strong.

Additionally, Guyana's lesser used species, such as Darina (Angelim Pedra) and Tonka Bean (Cumaru), continue to gain ground; they are increasingly recognized as being the same as some popularly traded species of different names.

As at 31 December 2006, approximately 8,181,565 hectares (in which 6,695,871 hectares for production area and 1,485,694 hectares for permanent research and reserve area) or 60 per cent. of State Forests have been allocated to timber harvesting concessions. We are given to understand that, the industry uses world-class harvesting techniques to ensure the sustainability of Guyana's forest resources. Three types of concessions are awarded, based on area size and duration:

Timber Sales Agreement (TSA)	—	granted up to twenty-five years for areas in excess of 24,000 hectares;
Wood-cutting Lease (WCL)	—	granted for up to ten years for 8,000 — 24,000 hectares; and
State Forest Permission (SFP)	—	granted for a two-year period on no more than 8,000 hectares.

State Forest lands are also allocated for pre-production exploration, in the form of State Forest Exploratory Permits (SFEP), and for other non-production purposes covering conservation and research and reserve areas referred to as Permanent Research and Reserve Areas. A Code of Practice sets minimum operational standards requirements, and the GFC monitors harvesting practices, through a structured program of field visits.

In recent years, Guyana's wood products sector has experienced a renaissance, with significant investments towards the manufacturing and marketing of value-added and high-value niche products, as well as strides towards certification under the Forest Stewardship Council.

The forests of Guyana have very high species diversity. About 30 — 60 tree species may be found within one (1) hectare of forest, while a square kilometer can contain 100 — 200 different species or more. However, one or few species often dominate resulting in clearly identifiable forest types. These forest types are named by their dominant species.

Species diversity and composition of the forest mainly depend on the soil type and soil water status. Areas dominated by single specie can therefore be extensive, as in Baromalli, and Mora forests. The followings are the major forest types in Guyana:

1. **Mixed Forests** — The term "mixed forest" covers a variety of subtypes, and is mainly found on well drain soils without stagnating water even in the rainy season. The soils can be brown sands, laterite or loam. Among others the following subtypes can be identified within the mixed forest.

- Baromalli Forest can be found on brown sand, as well as on laterite, often on flat and ridges. The canopy, reaches a height of 20-35 m (meters).

- Morabukea Forest grows on laterite. Less frequently it is encountered on sandy loam or on brown sand. It occurs on undulating terrain with gentle slopes. Baromalli dominates the canopy layer that reaches a height of 20-35 m. Often Crabwood, Aromata, and Black Kakaralli are found in the Morabukea forest.

- Liana Forest contains only scattered trees with commercial value. Woody climbers' bush-ropes and bamboos are abundant.

2. **Swamp Forest** — In the common forest type on wet sites, a mixture of Crabwood, Turu Palms, Manni and White Cedar is the dominant combination on these wet sites.

3. **Mora Forest** — Occurs on silt clay or loam along rivers and flats throughout the low land regions. The sites are inundated during rainy season. Mora is the dominant specie among other species, such as: Crabwood, Baromalli, Aromata, and Kakaralli.

DESCRIPTION OF GARNER

Based on an announcement dated 12 July 2007 made by the Company and information made available to us, we understand that Garner was a privately owned company incorporated in Guyana, South America with limited liability on 9 March 2006. Garner has an authorised share capital of G$100,000 (see Note) divided into 5,000 shares of G$20 each, all of which have been issued and are fully paid. Initial investment of Garner amounted to approximately HK$65 million. The registered address of Garner is 25 Delph Avenue, Campbellville, Georgetown, Guyana.

Garner is principally engaged in logging and forest exploitation, operation and management. The only economic asset of Garner is its possession of the exclusive concession right to occupy the Subject Asset for the purpose of carry out logging and forest exploitation activities for a period of 25 years, commencing on 11 June 2005 via the Timber Sales Agreement (TSA 03/2005) dated 11 June 2005 granted by the Commissioner of Forests, GFC and a letter dated 12 July 2007 issued by the Commissioner of Forests, GFC. According to the agreement, the Subject Asset has an area of approximately 92,737 hectares. According to the Legal Opinion as defined in later part of this report made available to us, granting of the exclusive concession right is subject to a payment of prescribed fees and royalties of US$0.12 per acre per annum.

We were given to understand that Garner had not commenced any logging business, timber harvesting activities, and falling and processing of lumber; and had not commenced any business activities nor made any profit since its incorporation.

As at 30 June 2007, the unaudited net asset worth of the Garner was G$100,000.

Note: 1 US$ equals to 204 Guyanese dollars

DESCRIPTION OF THE SUBJECT ASSET

According to a Survey and Valuation Report dated 1 September 2005 prepared by BJ Management & Associates (the "Survey and Valuation Report"), regarding a forest covered under the SFEP 03/04 has a site area of approximately 90,469 hectares of mixed forest located in Region 7, Mazaruni-Potaro District, at Central Guyana, South America. The concession is located on the forestry belt of Central Guyana within the Cuyuni-Mazaruni Triangle at UTM 692000N and 218000W. As confirmed by the management of the Company, the forest covered in the Survey and Valuation Report forms part of the Subject Asset.

The concession is based on natural surrounding and is bounded on the South by the Mazaruni River and the Northeast Escarpment of the Sororieng Mountains.

There was no previous harvesting operation along the Kartabu-Puruni Road in the SFEP and at few areas where medium and small gold mining are found mostly within the Dalupirl and Oranapal compartments along the Puruni-Kartabu Road.

The general configuration of the area is mainly flat, undulating and hilly, some parts are gentle slopes in most compartments. High hills and steep slopes are found in the south boundary of the Subject Asset. At the points reaching greater than 410 meters and lower than 50 meters altitude Mean Sea Level are the highest and lowest elevation, respectively.

Two main rivers are the Mazaruni and Puruni along the South/North boundary and the Camlguin and Oranapal Rivers on the North and West and Rumong-Rumong River located in the middle part of the concession draining to Mazaruni River that form the major drainage system of the concession. A number of minor rivers and creeks are seasonal, and are slow to fast flowing with meandering channels forming scroll complexes, oxbow lakes, swamps, back swamps and ponds. However, smaller creeks form an intricate drainage pattern that complete the well drained nature of the area. No lakes or large permanently flooded occur.

Since we are not the authorised person to conduct forestry survey in Guyana and the enormous resources required in conducting a detailed inspection and survey, we were instructed to prepare our valuation based on the quantities given in the Survey and Valuation Report.

The data used for this report is the result of the Exploratory (Inventory) Operations cited in the Survey and Valuation Report. Based on the Survey and Valuation Report and according to the best of our understanding, exploratory (inventory) operations were carried out on an area of 500 hectares. The Strip or Cruise Line Method was used in designing the samples to be taken. Only the harvestable trees were counted in the inventory that includes 35 centimeter and above diameter classes. Trees are measured based on their diameter and the merchantable height, representing the utilisable portion of the trunk. These are tallied based on species and diameter classes. Area of strips inventoried was approximately 284.40 hectares and the total volume of inventory was 5,793.92 cu. m. with an average harvestable volume per hectare of 20.37 cu. m.

Based on the Survey and Valuation Report, the average volume of harvestable round logs in the concession is 20 cu. m. per hectare depending on location and species. This volume remains valid and serves as basis of harvest for five years period.

Among the sampled inventory, Mora, Baromalli, Red Darina account for the greatest volume.

Mora, the dominant forest and species type, yields the highest in terms of volume with 22% or 1,295.32 cu. m. out of the total 5,793.92 cu. m. of sampled inventory.

Baromalli, another dominant species, ranks second with 21.8% or 1,265.6 cu. m. of the total sampled inventory.

Darina, ranks third with 17% or 996.20 cu. m. of the total volume of the inventoried trees.

Lesser-known species comprise approximately 39% or 2,236.8 cu. m. of the total volume of the inventoried trees.

Based on discussions with relevant personnel, we understand that suitable trees will be cut for use as hardwood and plywood. Having discussed with the relevant personnel on site, we were given to understand that no harvesting activities have been conducted in the subject concession area. The management of the Company confirmed that there are no substantial changes to the volume of inventory as contained in the Survey and Valuation Report between September 2005 and the Date of Valuation.

VALUATION PROCEDURES ADOPTED

In performing the valuation of the Subject Asset, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- to read and based on the content of the supplied materials such as the Survey and Valuation Report to arrive at our opinion. In the course of the valuation, we will assume the supplied data and information are correct and we will not ascertain the correctness of the information that contained in the supplied materials;

- to prepare and submit list(s) of required document and information regarding the Subject Asset during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company;

- to conduct an aerial visual inspection to the Subject Asset by light aeroplane;

- to hold discussions with relevant personnel and to review various documents such as the Survey and Valuation Report in order to have a better understanding on the Subject Asset and the use of the Subject Asset in the operation of Garner as part of its going-concern business;

- to conduct appropriate research/consultation in order to obtain sufficient industry information to support our valuation. The scope of research/consultation is at the valuers own discretion;

- to perform valuation of the Subject Asset using the appropriate standards of value in accordance with the available standards; and

- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The Subject Asset is valued on the basis of market value in continued use and as part of a going-concern business of Garner. The continued use premises assumes that the Subject Asset will be used for the purpose for which the Subject Asset was conceived or is currently used. Implicit in this definition is the fact that one would not pay more than one would have to pay for an equally desirable alternative.

Market value in continued use is not intended to represent the amount that might be realised from piecemeal or break-up disposition in the open market or for other alternate use.

Our valuation has been made on the assumption that, as at the Date of Valuation,

1. the legally interested party in the Subject Asset sells the Subject Asset in its highest and best form in the market 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 Subject Asset;

2. the legally interested party in the Subject Asset has free and uninterrupted rights to assign the interests for the whole of the unexpired terms as granted and any premiums payable have already been fully paid;

3. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed for any use on which the value estimates contained in our report are based;

4. unless otherwise stated, the Subject Asset as part of a going-concern business of Garner can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government;

5. the prospective earnings would provide a reasonable return to the Subject Asset valued plus the value of other assets not included in this valuation and adequate working capital; and

6. the legally interested party in the Subject Asset has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, insects and soil erosion) to the operation of the business and the proper usage of the Subject Asset.

Should this not be the case, it will have adverse impact to the reported value.

FACTORS CONSIDERED IN THE VALUATION

Unless otherwise stated, the valuation of the Subject Asset has taken account of all pertinent factors affecting the Subject Asset and their ability to generate value as part of a going-concern business of Garner. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the Subject Asset;
- the present use of the Subject Asset as part of a going-concern business of Garner;
- the forestry industry in Guyana and the world as a whole;
- the capability of Garner or its associates or contractors to harvest the inventory of the Subject Asset in accordance with its schedule; and
- the risks facing the Subject Asset.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the Subject Asset i.e. Garner has free and uninterrupted rights to assign the Subject Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the Subject Asset.

We have been provided with copies of the title documents and legal opinions dated 19 September 2007 issued by Cameron & Shepherd, lawyers qualified to practice in Guyana (the "Legal Opinion") regarding the Subject Asset. According to the Legal Opinion, Garner has obtained full legal and beneficial title free from all encumbrances in respect of the Subject Asset granted under the Timber Sales Agreement (TSA 03/2005) dated 11 June 2005 entered between GFC and Garner. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Subject Asset. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regard to the existing legally interested party in the Subject Asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

INSPECTIONS AND INVESTIGATIONS OF THE SUBJECT ASSET

A site visit was conducted in early September 2007, however, due to flooding and muddy road condition in the rainy season, we were unable to conduct due diligence on the current occupation status of the Subject Asset on foot or by car. Instead, we have conducted an aerial visual inspection of the Subject Asset which we consider the most appropriate method of inspection given the circumstances. However, we confirm that we have been provided with information requested for the purpose of our valuations. No verification on the information provided from our part is assumed. Due to the agreed-upon procedures basis, we were unable to inspect those parts which were covered, unexposed or inaccessible or not being arranged for inspection. We cannot express an opinion about or advice upon the condition of the Subject Asset and this report should not be taken as making any implied representation or statement about the conditions of the Subject Asset. No structural survey, investigation, test or examination has been made to the Subject Asset, but in the course of our visual inspection we did not note any serious defects in the asset inspected. We are not, however, able to report that the Subject Asset is free from rot, insect, infestations or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension, illegal usage or addition has been made in the Subject Asset, and that the use of our report do not purport to be a conditional survey of the Subject Asset. If the management of the Company is proposing to purchase the Subject Asset and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

The purpose of our visual inspection was not to create an error free assets schedule or to have a full scope investigation on the quantity and the quality of the Subject Asset; rather, it was designed to give us a better understanding of the Subject Asset on a sampling basis. No responsibility or liability is assumed.

We have not carried out on-site measurements to verify the correctness of the dimensions, specifications and areas of the Subject Asset, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements, specifications and areas approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries and the exact locations of the Subject Asset. Therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the Subject Asset that appeared on the documents handed to us and advised by the Company's appointed personnel. The management of the Company or interested party in the Subject Asset should conduct its own legal boundaries due diligence work. Having said that, we were given to understand that the management of the Company obtained the Survey and Valuation Report to satisfy their need.

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 Subject Asset 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 Subject Asset. We have not carried out any investigation into past or present uses, either of the said assets or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Subject Asset 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 Subject Asset or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

APPROACH TO VALUE

In the process of valuing the Subject Asset, we have considered the three generally accepted asset appraisal approach to value, namely the Market Approach, the Income Approach and the Cost Approach.

The Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

The Income Approach is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets.

The Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence.

Based on the IVS and with reference to the accounting standard, the market-based comparable method i.e. the Market Approach has been adopted. This method uses the present market value in terms of price per unit volume of the final product and the total merchantable volume of timber in the concession as basis for coming up with the estimated value. The underlying theory of this approach is existing market price is dependable parameter since it reflects how much the buyer is willing to pay and how much the seller is willing to give up his goods and services.

The approach does not discount the major costs incurred in estimating the value. It is the gross value of the product.

With these figures, the formula used to come up with the estimated market value of logs is:

$$MV = P * TV$$

Where:

MV	Market value
P	Price per cu. m. of round logs *(see Note)*
TV	Total volume of logs

The total volume of logs was determined using the following formula:

$$TV = VH * TA$$

Where:

VH	Volume per hectare
TA	Total operable area in hectares

$$TA = AC - NOAs$$

Where:

AC	Area of concession in hectares
NOAs	Non-operable Areas

The valuation method is limited to the following basic assumptions:

- That the end product or the market being assessed are for round logs;

Note: A bole or a large branch after felling. Under the International Tropical Timber Organisation definition it is referred to as Industrial Roundwood. Roundwood is wood in its natural state as felled or otherwise harvested, with or without bark, round, split, roughly squared or in other forms. Roundwood includes spars, posts, poles and piles.

- The TV considered in our valuation is about 1.56 million cu. m.;
- The NOAs considered in our valuation is about 12,710 hectares (or approximately 0.25 million cu. m.);
- The NOAs include 10% of area with water ways, swamps, non-productive area and in-accessible area, and 4.5% of area of concession set aside for biodiversity reserves;
- The prices of logs for various species are homogenous and the average price for all species was used as basis; and
- The price of logs is of FOB (Free On Board) values in US dollars.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

As advised by the management of the Company, the area stated under the Timber Sales Agreement (TSA 03/2005) included the area stated under the SFEP 03/04. In our valuation, we have based on the area stated in the Timber Sales Agreement (TSA 03/2005). If the area of the Subject Asset was proven to be incorrect as at the Date of Valuation, we reserve the right to amend the value reported herein.

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Subject Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Subject Asset. Unless otherwise stated, it is assumed that the Subject Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

To the best of our understanding and after inquired the relevant personnel on site and the management of the Company, and having conducted a search through the public domains' search engines, we are unable to identify any adverse news against the Subject Asset which may affect the reported value in our report as at the Latest Practical Date of this circular. Thus, we are not in the position to report and comment on its impact (if any) to the Subject Asset. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

There are a number of factors that influence the average price of the round logs in the tropical rainforests of Guyana. These factors may affect the volume and quality of product, the future market prices of the product and other external factors, they are:

Species prices

Having different wood characteristics such as wood density and moisture content for various species determine the suitable use for a particular species. This means the prices may vary among different species. For instance, premium species such as Baromalli will have a higher value compared to lesser-known species.

End product

The flow of timber from the forest to forest products passes through different stages of processing. Forest products such as logs (and firewood) are considered raw materials as they are removed from the forests with limited processing. Other products such as roundwood, splitwood and chainsaw lumber require a degree of conversion from the raw material. In Guyana, there are three product types that are produced after further processing. These are plywood, sawmill lumber and shingles. It is important to define the end use for different type of products.

Presence of natural defects in the wood

Presence of internal and external defects on the wood also affects the quality and volume of the materials. The estimated volume per tree will decrease depending on the extent of the defects. These factors may be brought by natural (pests and diseases) and physical causes (damage). Defects of the trunk comes in many forms, these are:

- **Physical defects**, which is brought about by hauling and handling of logs;
- **Rots**, whether internal or external rot also reduces the merchantable volume of the trees. External rots could be quantified, however, internal rots are difficult to estimate; and
- **Direction of grain**, also affects the quality and workability of the wood resulting to reduced recovery and reduced quality of the end product.

Growth and Death Rates

Growth rates are also factors to be considered in the valuation. There should be a plus or minus estimate of the incremental volume of the tree at the time of harvest so that this could be compared to the actual volume during the inventory.

Calamities

The presence of typhoons, are factors that reduces the volume in forest stands. Strong winds brought by it increase the risk of damage and mortality of the standing timber.

Time

The price per unit of the product is estimated using its current prices, which is only suitable for the present. The market prices would be different based on trends, costs, interest rates and time value of money.

Buyers' preference

Most buyers prefer logs with larger diameter measurements. Except for veneers, this means that the larger the diameter of a round log there would be high recovery rate if ever the buyer would process the logs in cut to sizes lumber.

The scope of valuation has been determined with reference to the documents provided and instructions given by the management of the Company.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. Having said that, we understood that the management of the Company obtained the Legal Opinion to satisfy their requirements.

In the course of valuation, we have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, locations, quantities, easements, tenure, occupation, specifications, site areas and all other relevant matters.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the Subject Asset (if any). Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Our engagement did not include an independent forestry survey to verify the information provided. We need to state that we are not in the forestry survey profession, therefore, we are not in the position to verify or ascertain the correctness with regard to the information provided. In the course of our work, we were instructed to prepare our valuation based on the surveyed result in the Survey and Valuation Report.

We are not contracted to conduct a review on the existing forestry industry and related resources granting out policies in Guyana. In the course of appraisal, we have solely depended on the advices given by the management of the Company and the Guyana legal advisor as named in this report. We are unable to accept any responsibility for the reliability of the advice.

When we adopted the work products from BJ Management & Associates, the Forestry Consultant, in preparing the Survey and Valuation Report and Cameron & Shepherd, the legal advisor, in preparing the Legal Opinion, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applies in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

Unless otherwise stated, the base currency of our report is US dollars.

LIMITING CONDITIONS OF THIS SUMMARY REPORT

This report is provided strictly for the sole use of and valid to the Company. Neither the whole nor any part of this 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 a circular to the Company's shareholders' reference.

We understand that the management of the Company will use our work product as part of its business diligence and we have not been engaged to make specific purchase or sale recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision. Our work is designed solely to provide information that will allow the management of the Company to make an informed decision.

Our opinion of value in this report is valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

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 report except to the extent that any such loses, 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.

OPINION OF VALUE

Based on the investigation, analysis, stated assumptions, limitations, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the Date of Valuation the market value of the Subject Asset (before taking into consideration any transaction costs), as part of a going-concern business of Garner, is reasonably stated by the amounts of US DOLLARS ONE HUNDRED AND NINETY ONE MILLION ONLY (US$ 191,000,000.00).

STATEMENTS

The concluded value in our report is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Also, we have followed the requirements as contained in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our 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 our 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. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no present nor prospective interest in the Subject Asset, the Company, Garner or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited
Ho Chin Choi, Joseph
BSc PgD RPS(GP)
Managing Director

Contributing Valuers:

Rolando Arcaya *BSME ASA*
Elsa Ng Hung Mui *BSc MSc RPS(GP)*
John U. Orqueza *BSc Licensed Forester*

Qualification Statements of the Valuers:

1. Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland, Finland, Germany, Guyana, Canada and the United States of America 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. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, minerals, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Singapore, Canada and the United States of America. 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 (Hong Kong Institute of Surveyors).

2. Mr. Rolando R. Arcaya is an Accredited Senior Member (ASA) of the American Society of Appraisers in the discipline of machinery and equipment valuation. He specializes in the valuation of machinery and equipment in power projects, light and heavy industrial manufacturing plants, consumer products manufacturing, forest products manufacturing and special assets like stock and inventories. Mr. Rolando has over 20 years of valuation experience of which over 18 years were spent in Hong Kong. Over the length of his valuation experience, he has valued and managed the valuation of inventory of natural and man-made forests and a number of forest product related industries like veneer and plywood plants, paper manufacturing plants, and logging concessions located in the Philippines. He has also valued a number of paper and wood processing plants in China for various purposes including accounting and financing purposes.

3. Ms. Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 8 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 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. Over the length of her valuation experience, she has valued and managed the valuation of a forestry in Guyana and numbers of agricultural property assets in China for merger and acquisition purposes.

4. Mr. John U. Orqueza is a Licensed Forester in the Philippines. He obtained his Bachelor of Science in Forestry from the State Polytechnic College of Palawan and Master of Science in Rural Development from the Western Philippines University. He has more than 5 years experience in forest industry study and have worked in various companies as a forestry specialist in the preparation of forest management plans, survey, blocking and inventory of annual cutting area, and Environmental Impact Assessment (EIA) studies for timber harvesting in selected Community Forestry projects in the Philippines. He has expertise in forest based enterprise development, forest resources inventory, environmental management and forest land-use planning, biodiversity conservation, environmental impact assessment for timber and non-timber products, agroforestry, and biological monitoring. Trained in the use of GPS and GIS for forest surveys, formulation of community management frameworks for local cooperatives, forest survey and mensuration and setting up of biological and threat monitoring systems.

The following is the text of a summary valuation report, prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyor Limited, an independent valuer, in connection with its valuation of the Jaling Forest as at 31 August 2007.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
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. It entitles 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.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

28 September 2007

The Directors
China Timber Resources Group Limited
Room 1606, Office Tower
Convention Plaza
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, we have investigated and conducted an agreed-upon procedures appraisal (the word *appraisal* has the same meaning as *valuation* in this report) on the market value of a designated agricultural property asset (hereinafter referred to as the "Subject Asset" and see Note) presented to us as owned by Jaling Forest Industries Inc. (hereinafter referred to as "Jaling") in various locations of Guyana in South America as part of its going concern business as at 31 August 2007 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference

Note: According to International Valuation Guidance Note No.10 published by the International Valuation Standards Committee in the International Valuation Standards, Eighth Edition, 2007, agricultural property asset can be classified as land, structural improvement, plant and machinery (attached or not attached to the land) and biological asset (attached or not attached to the land). Biological asset is defined as a living animal or plant.

purpose. Our findings and conclusion in this valuation are documented in an appraisal report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report to summarise our findings and conclusion as documented in the appraisal report for the purpose of inclusion in a public document at today's date. Terms herein used without definitions shall have the same meanings as in the appraisal report, and the assumptions and caveats adopted in the appraisal report also apply to this report.

INTRODUCTION

On 21 September 2006, the Company acquired 51% (or per cent. in this report) of the issued share capital of Jaling for a cash and share consideration of HK$154 million. On 16 August 2007, the Company via one of its wholly-owned subsidiaries entered into a conditional agreement with a connected party in relation to the acquisition of 44 per cent. equity interest of Jaling. The Subject Asset forms part of the assets owned by Jaling as at the Date of Valuation. Based on the instruction, we have carried out limited scope of inspections, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value.

According to the information given to us, the Subject Asset comprises the inventory of two standing forests, classified as State Forests by the government of Guyana, situated on two parcels of land known as Block A and Block B at Barima/Whana Area and Sebai Area, Port Kaituma, Barima-Waini of Guyana.

The term "Market Value" as used herein is defined as the price, expressed in terms of cash equivalents, at which an asset would change hands between a (hypothetical willing and able) buyer and a (hypothetical willing and able) seller, acting at arm's length (in an open and unrestricted market), when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Subject Asset at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

ECONOMIC OUTLOOK OF GUYANA *(see Note)*

Guyana (officially known as Co-operative Republic of Guyana) is situated at the Northern part of South America, bordering the North Atlantic Ocean, between Suriname and Venezuela, between the coordinates of Latitude 5º00' North and Longitude 59º00' West. Guyana originally was a Dutch colony and in 1815 became a United Kingdom ("U.K.") possession, and in 1966 Guyana achieved independence from the U.K. and within the Commonwealth hitherto. With a population of about 760,200, the country enjoys the natural resources of bauxite, gold, diamonds, hardwood timber, shrimp and fish.

The Guyanese economy exhibited moderate economic growth in 2001-02, based on the expansion in the agricultural and mining sectors, a more favorable atmosphere for business initiatives, a more realistic exchange rate, a fairly low inflation, and the continued support of international organizations. Chronic problems include a shortage of skilled labor and a deficient infrastructure. The government is juggling a sizable external debt against the urgent need for expanded public investment. The Inter-American Development Bank (the "Bank") in November 2006 canceled Guyana's nearly $400 million debt with the Bank. The bauxite mining sector should benefit in the near term from restructuring and partial privatisation. Export earnings from agriculture and mining have fallen sharply, while the import bill has risen, driven by higher energy prices. Guyana's entrance into the CARICOM Single Market and Economy in January 2006 broadened the country's export market, primarily in the raw materials sector. From 1995 to 2004, Guyana's weighted average annual rate of inflation was 5.02 per cent (or "%" as appeared in our reports). Inflation dropped from 8.2% recorded in 2005 to 6% in 2006 with increases in prices of fuel, housing, education and food, continuing to be affected by rising import prices despite continued stability in the currency value.

The Executive Board of the International Monetary Fund ("IMF") in 2006 commented the exchange rate of Guyana remained stable, the external current account position was better than anticipated, and the structural reform agenda moved ahead. The Guyana dollar has remained broadly stable since mid-2004 at about G$200 per U.S. dollar, reflecting a balanced foreign exchange market. The real effective appreciation of the Guyana dollar in 2005 has been partially reversed by the recent depreciation of the U.S. dollar relative to the Euro and by the widening inflation differentials with some trading partners.

The recovery of private sector credit that began in 2005, has picked up along with the continued strengthening of financial sector indicators. The credit expansion reflects partly rapid growth in mortgage lending as a result of increased government land sales and leases and preparation for the Cricket World Cup in April 2007. The GDP (Gross Domestic Product) growth of Guyana in 2000, 2003 and 2005 was negative and in 2004 recorded a growth of 1.6%. The annual GDP growth rate of 2006 was 4.7%. The Executive Board of the IMF estimated that the GDP growth in 2007 is 4.8%.

Note: Sources of information from website of cia.gov, imf.org, state.gov, indexmundi.com, goinvest.gov.gy, worldbank.org and heritage.org.

FORESTRY INDUSTRY IN GUYANA *(see Note)*

Tropical timber is one of the most important resources in the world. This provides raw materials for construction, furniture, including derived products such as veneers, plywood and parquets. With the limited supply and sources of timber in the world market, there is an increased demand and pricing for round logs and its derived products in the market.

Tropical forests are considered one of the most productive ecosystems in the world. It is extinguished from other major forests having greatest volume of plants and species diversity per unit area. Today, tropical forests are threatened by human activities, thus needing more protection and Guyana has an extensive forest area making up 75% or 65,000 square miles out of its entire 83,000 square miles of its entire area. The exploitable permanent State-owned Forests are about 10,000 square miles found in the lowland areas and are composed of the following main forest types which include Mixed, Liana, Morabukea, Swamp and Baromalli forest types.

Guyana has vast forest resources that contain over 1,000 different tree varieties. Currently, 120 species are being logged in various forms, with between 12 and 15 of these logged on a commercial scale through a system of concessions. The most sought after species include Greenheart (Colubrina arborescens or Chlorocardium rodiei), Mora (Mora excelsa and Mora gonggrijpii), Baromalli (Catostemma altsonii), Purpleheart (Peltogyne spp), Crabwood (Carapa guianensis), Kabakalli (Goupia glabra), and Wamara (Bocoa prouacensis). In 2006, Guyana exported about US$58.7 million in forest products, ranging from raw and sawn timber, to plywood, molding and furniture products. Plywood accounted for about 15% of all forestry exports, with higher-value products, such as furniture, representing a small, yet rapidly growing share (5 per cent.). Guyanese wood experts estimate that Guyana is capable of filling most of CARICOM's demand of 300 million board feet of tropical wood.

While Guyana is traditionally known for its export of timber in raw or semi-processed forms, the government and segments of the forest product industry have placed an emphasis on promoting value-added forest product production for export to the Caribbean, the United States of America ("U.S.") and Europe.

There are a number of governmental and private organisations involved in the forest products sector. The Guyana Forestry Commission ("GFC") is the government agency responsible for the administration and management of the 13.68 million hectares of land, account for 75% of national land, classified as State Forests (including the Subject Asset). The Forest Products Association ("FPA") represents private forest producers and has substantial practical knowledge of timber production and forest uses. The FPA collaborates with the GFC in selected training and research initiatives. This includes the Forest Training Centre Incorporated, which was established in collaboration with the Tropical Forest Foundation (from the U.S.) and Department

Note: Sources of information from goinvest.gov.gy, agriculture.gov.gy and forestry.gov.gy for International Development (from the U.K.) to implement a Reduced Impact Logging program focusing on hands-on demonstration and training in an actual timber harvesting operation.

The Forestry Products Marketing Council of Guyana (the "Council") was established "to ensure the sustainability of Guyana's forest products industry by increasing value and improving its competitiveness through enhanced market access and increased trade opportunities". Functions include market intelligence, trade missions, developing industry and product information, and providing advice on export-related services such as product packaging and handling etc. The Council reports to the Ministry of Fisheries, Crops and Livestock of Guyana.

GFC expected that the high log exports to Asia/Pacific, especially China and India, to continue, to fuel expansion in secondary wood products, China and India capitalizing on economies of scale, cheaper labour/processing costs, and greater and more diversified recovery from logs. China forecasts need for 5 million cu. m. more of tropical timber by 2010 up from 11.4 million cu. m. in 2005 of which, 7.4 million cu. m. alone were in log form. In the near term, capacity constraints, forest fires and efforts to curb illegal timber in Malaysia and Indonesia, and increased regulations and restrictions in West Africa, will ensure prices remain strong. Additionally, Guyana's lesser used species, such as Darina (Angelim Pedra) and Tonka Bean (Cumaru), continue to gain ground; they are increasingly recognized as being the same as some popularly traded species of different names.

As at 31 December 2006, approximately 8,181,565 hectares (in which 6,695,871 hectares for production area and 1,485,694 hectares for permanent research and reserve area) or 60 per cent. of State Forests have been allocated to timber harvesting concessions. We are given to understand that, the industry uses world-class harvesting techniques to ensure the sustainability of Guyana's forest resources. Three types of concessions are awarded, based on area size and duration:

Timber Sales Agreement (TSA)	—	granted up to twenty-five years for areas in excess of 24,000 hectares;
Wood-cutting Lease (WCL)	—	granted for up to ten years for 8,000 — 24,000 hectares; and
State Forest Permission (SFP)	—	granted for a two-year period on no more than 8,000 hectares.

State Forest lands are also allocated for pre-production exploration, in the form of State Forest Exploratory Permits (SFEP), and for other non-production purposes covering conservation and research and reserve areas referred to as Permanent Research and Reserve Areas. A Code of Practice sets minimum operational standards requirements, and the GFC monitors harvesting practices, through a structured program of field visits.

In recent years, Guyana's wood products sector has experienced a renaissance, with significant investments towards the manufacturing and marketing of value-added and high-value niche products, as well as strides towards certification under the Forest Stewardship Council.

The forests of Guyana have very high species diversity. About 30 — 60 tree species may be found within one (1) hectare of forest, while a square kilometer can contain 100 — 200 different species or more. However, one or few species often dominate resulting in clearly identifiable forest types. These forest types are named by their dominant species.

Species diversity and composition of the forest mainly depend on the soil type and soil water status. Areas dominated by single specie can therefore be extensive, as in Baromalli, and Mora forests. The followings are the major forest types in Guyana:

1. **Mixed Forests** — The term "mixed forest" covers a variety of subtypes, and is mainly found on well drain soils without stagnating water even in the rainy season. The soils can be brown sands, laterite or loam. Among others the following subtypes can be identified within the mixed forest.

    - Baromalli Forest can be found on brown sand, as well as on laterite, often on flat and ridges. The canopy, reaches a height of 20-35 m (meters).

    - Morabukea Forest grows on laterite. Less frequently it is encountered on sandy loam or on brown sand. It occurs on undulating terrain with gentle slopes. Baromalli dominates the canopy layer that reaches a height of 20-35 m. Often Crabwood, Aromata, and Black Kakaralli are found in the Morabukea forest.

    - Liana Forest contains only scattered trees with commercial value. Woody climbers' bush-ropes and bamboos are abundant.

2. **Swamp Forest** — In the common forest type on wet sites, a mixture of Crabwood, Turu Palms, Manni and White Cedar is the dominant combination on these wet sites.

3. **Mora Forest** — Occurs on silt clay or loam along rivers and flats throughout the low land regions. The sites are inundated during rainy season. Mora is the dominant specie among other species, such as: Crabwood, Baromalli, Aromata, and Kakaralli.

DESCRIPTION OF JALING

Based on the announcements dated 20 April 2006 and 22 August 2007 made by the Company and information made available to us, we understand that Jaling was a privately owned company incorporated in Guyana, South America with limited liability in January 2002. The company has an authorised share capital of G$500,000 (see Note) divided into 500,000 shares of G$1.00 each, all of which have been issued and are fully paid. The registered address of Jaling is 34 Dennis Street, Lamaha Gardens, Georgetown, Guyana.

Jaling is principally engaged in logging and forest exploitation, operation and management. The primarily economic asset of the company is its holding of an exclusive timber concession right for a period of 25 years, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) via the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 granted by the Commissioner of Forests, GFC. According to the agreement and information made available to us, a minimum royalty of US$28,596.74 or at a rate of US$0.12 per acre per annum, whichever is higher, is charged on all forested areas as amended by regulations made under the Forest Act of Guyana.

On 22 December 2004, Jaling entered into a joint venture agreement with certain individuals to set up a limited liability company in Hong Kong known as W & J Forest Resources Development Limited (hereinafter referred to as the "JV") of which Jaling owned 50 per cent. interest of the JV. The JV is responsible to the processing, sales and distribution of timber logged from the Subject Asset through its processing and distribution network in the People's Republic of China (or China). Jaling also agreed to grant the JV an exclusive rights to harvest 200,000 cubic meters ("cu. m.") of timber per year for a period of 10 years and the JV shall pay Jaling US$20 per cu. m. as royalties.

The JV, as advised, on behalf of Jaling, is liable to pay a total lump sum of US$44 per cu. m. of timber logged by a contractor for its service to log; and US$31 per cu. m. to Jaling for its services to pack, process, transport and export service fees.

With reference to the 2007 annual report of the Company prepared based on Hong Kong Financial Reporting Standards, Jaling has commenced its business activities and had a turnover of HK$4.4 million and a profit of HK$0.92 million for the financial year ended 31 March 2007. Moreover, Jaling had an audited net asset worth of HK$1.8 million as at 31 March 2007.

Note: 1 US$ equals to 204 Guyanese dollars

DESCRIPTION OF THE SUBJECT ASSET

Based on the provided information, the Subject Asset is described as below:

1. A mixed State Forest situated on a parcel of land known as Block A, Barima/Whana Area, Port Kaituma, Barima-Waini, at the North-West District, Guyana. The concession based on natural surrounding and is bounded on the North by the Amakura River, on the South by the Baramita Amerindian Reserves and Whana River, on the East by the Whannamaparu and Whana River, and on the West by the common border of Guyana and Venezuela. It lies within the Northwest border of Guyana, South America. The area of this State Forest is approximately 117,545 hectares.

   There is no village or community inside the concession. The Baramita Amerindian Reserves lies below the South boundary of the concession and the Matthews Ridge is the neighboring village within the BCL concession area.

   This parcel of land has a number of medium and small gold mining operators. These miners are equipped with water pumps and excavators mostly along the Whana and Barima River banks. There are few makeshift camps abandoned and presently used that being found along Barima and Whana Rivers owned by miners. The BCL concession is the concentration of mostly Brazilian medium scale miners equipped with water pumps and excavators operating along and near the Main Roads (M-5 and M-6) of BCL Concession near the Barama River.

   The general configuration of the area is mainly flat, undulating and hilly, some parts are gentle slopes in all compartments. At the points reaching greater than 215 meters and lower than 30 meters altitude are the highest and lowest elevation, respectively.

   Four main rivers are the Amakura in the North along the Guyana-Venezuela Border and the Whana and Whannamaparu in the East and South and Barima River located in the middle part of the concession form the major drainage system of the concession. The Whana and the Whannamaparu Rivers drain into the Barima River and the Amakura drains into a river inside the Venezuela border. A number of minor rivers and creeks are seasonal, and are slow to fast flowing with meandering channels forming scroll complexes, oxbow lakes, swamps, back swamps and ponds. However, smaller creeks form and intricate drainage pattern that complete the well-drained nature of the area. No lakes or large permanently flooded swamps occur.

   At the time of our inspection, we were advised that due to rainy season, access to Block A is difficult, if not impossible. Having discussed with the relevant personnel, we were advised that no harvesting activities have been made in Block A since commencement of the concession. Thus, no inspection has been made to Block A.

2. A mixed State Forest situated on a parcel of land known as Block B, Sebai Area, Port Kaituma, Barima-Waini, at the North-West District, Guyana. Bounded on the North by WCL 6/93, on the South by the Kaituma River, (TSA 04/91-BCL) and Sebai River, on the East by the Aruka River and Sebai Amerindian Reserves and on the West by Sand Creek and Waiamu River, being the concession boundary of BCL-TSA 04/91. The area of this State Forest is approximately 19,392 hectares.

   The Sebai Area is located at north of Port Kaituma. There is no gold mining operation within and outside the concession. The Sebai/Aruka Amerindian Villages is located East and Southeast outside the concession. Port Kaituma Community lies on the south and the most populous village among Arakaka and Matthews Ridge (MATARKAI) and considered the trading center of these three (3) primary villages because of its famous Port Kaituma Canal that was built by the Manganese Mining of Matthews Ridge in the early 1970's.

   The Aruka, Waiamu and Kaituma are the three main rivers surrounding the concession. Two main tributary of Kaituma River is the Sand creek and Sebai River. Approximately 60% of the area is low lying, from flat to undulating terrain and the remaining 40% that represent the western part of the concession is undulating to hilly terrain.

   At the time of our inspection, logging season just began and operation activities were seen on the campsite at the southern part of Block B. A staff of GFC also seen on site.

The data used for this report is the result of the Exploratory Operations (Forest Resources Inventory) conducted on September — November 2003 as cited in the Five Year Management Plan (2005-2009) of Jaling (the "Management Plan"), dated 2005, prepared by the management of Jaling in which a detailed forestry survey section was included. Also, we have made reference to the Survey and Valuation Report dated 1 July 2004 prepared by BJ Management & Associates (the "Survey and Valuation Report").

Since we are not the authorised person to conduct forestry survey in Guyana and the enormous resources required in conducting a detailed inspection and survey, we were instructed to prepare our valuation based on the quantities given in the Management Plan and the Survey and Valuation Report.

To the best of our understanding, the Strip or Cruise Line Method was used in designing the samples to be taken in Blocks A and B. A one(1) per cent. sampling intensity was acquired out of the inventory. Only the harvestable trees were counted in the inventory that includes 40 centimeter and above diameter classes. Trees are measured based on their diameter and the merchantable height, representing the utilisable portion of the trunk. These are tallied based on species and diameter classes.

Based on the combined results of the inventory of Blocks A and B, the average volume of harvestable round logs in the concession is 23 cu. m. per hectare or equivalent to 9,752 board feet. The average number of trees per hectare is 9. This volume remains valid and serves as basis of harvest up to five years.

Baromalli, the dominant forest and species type, yields the highest in terms of volume with 53.66% or 14,102.65 cu. m. out of the total 26,281.47 cu. m. of wood in Block A and 22.29% or 2,150.27 cu. m. out of the total 9,644.52 cu. m. in Block B. This comprises about 45.24% or 16,252.92 cu. m. out of the 35,925.99 cu. m. of total sampled species in both blocks.

Crabwood, another dominant species, ranks second with 7.18% or 2,579.49 cu. m. in the total accumulated volume for both blocks.

Lesser-known species comprise 13.94% of the total volume of the inventoried trees.

Based on discussions with relevant personnel, we understand that suitable trees will be cut for use as hardwood and plywood. As advised by the management of the Company, the total harvested volume of tree was approximately 17,000 cu. m. since its operation to the Date of Valuation.

VALUATION PROCEDURES ADOPTED

In performing the valuation of the Subject Asset, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- to read and based on the content of the supplied materials such as Survey and Valuation Report, the Management Plan and harvested quantities of the Subject Asset to arrive at our opinion. In the course of the valuation, we will assume the supplied data and information are correct and we will not ascertain the correctness of the information that contained in the supplied materials;

- to prepare and submit list(s) of required document and information regarding the Subject Asset during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company;

- to conduct a limited scope inspection to Block B of the Subject Asset;

- to hold discussions with relevant personnel and to review various documents such as the Survey and Valuation Report, Management Plan in order to have a better understanding on the Subject Asset and the use of the Subject Asset in the operation of Jaling as part of its going-concern business;

- to conduct appropriate research/consultation in order to obtain sufficient industry information to support our valuation. The scope of research/consultation is at the valuers own discretion;

- to perform valuation of the Subject Asset using the appropriate standards of value in accordance with the available standards; and

- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The Subject Asset is valued on the basis of market value in continued use and as part of a going-concern business of Jaling. The continued use premises assumes that the Subject Asset will be used for the purpose for which the Subject Asset was conceived or is currently used. Implicit in this definition is the fact that one would not pay more than one would have to pay for an equally desirable alternative.

Market value in continued use is not intended to represent the amount that might be realised from piecemeal or break-up disposition in the open market or for other alternate use.

Our valuation has been made on the assumption that, as at the Date of Valuation,

1. the legally interested party in the Subject Asset sells the Subject Asset in its highest and best form in the market 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 Subject Asset;

2. the legally interested party in the Subject Asset has free and uninterrupted rights to assign the interests for the whole of the unexpired terms as granted and any premiums payable have already been fully paid;

3. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed for any use on which the value estimates contained in our report are based;

4. unless otherwise stated, the Subject Asset as part of a going-concern business of Jaling can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government;

5. the prospective earnings would provide a reasonable return to the Subject Asset valued plus the value of other assets not included in this valuation and adequate working capital; and

6. the legally interested party in the Subject Asset has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, insects and soil erosion) to the operation of the business and the proper usage of the Subject Asset.

Should this not be the case, it will have adverse impact to the reported value.

FACTORS CONSIDERED IN THE VALUATION

Unless otherwise stated, the valuation of the Subject Asset has taken account of all pertinent factors affecting the Subject Asset and their ability to generate value as part of a going-concern business of Jaling. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the Subject Asset;
- the present use of the Subject Asset as part of a going-concern business of Jaling;
- the forestry industry in Guyana and the world as a whole;
- the capability of Jaling or its associates or contractors to harvest the inventory of the Subject Asset in accordance with its schedule; and
- the risks facing the Subject Asset.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the Subject Asset i.e. Jaling has free and uninterrupted rights to assign the Subject Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the Subject Asset.

We have been provided with copies of the title documents and legal opinions dated 19 September 2007 issued by Cameron & Shepherd, lawyers qualified to practice in Guyana (the "Legal Opinion") regarding the Subject Asset. According to the Legal Opinion, Jaling has obtained full legal and beneficial title free from all encumbrances in respect of the Subject Asset granted under the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 entered between GFC and Jaling. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Subject Asset. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regard to the existing legally interested party in the Subject Asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

INSPECTIONS AND INVESTIGATIONS OF THE SUBJECT ASSET

A site visit was conducted in early September 2007, however, due to flooding and muddy road condition in the rainy season, we were unable to conduct any inspection on the whole of Block A and the middle and northern portion of Block B. Instead, we have conducted a limited scope inspection on foot and by car of the southern portion of Block B of the Subject Asset which we consider the most possible inspection given the circumstances. However, we confirm that we have been provided with information requested for the purpose of our valuations. No verification on the information provided from our part is assumed. Due to the agreed-upon procedures basis, we were unable to inspect those parts which were covered, unexposed or inaccessible or not being arranged for inspection. We cannot express an opinion about or advice upon the condition of the Subject Asset and this report should not be taken as making any implied representation or statement about the conditions of the Subject Asset. No structural survey, investigation, test or examination has been made to each of the Subject Asset, but in the course of our limited inspections we did not note any serious defects in the assets inspected. We are not, however, able to report that the Subject Asset is free from rot, insect, infestations or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension, illegal usage or addition has been made in the Subject Asset, and that the use of our report do not purport to be a conditional survey of the Subject Asset. If the management of the Company is proposing to purchase the Subject Asset and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

The purpose of our inspection was not to create an error free assets schedule or to have a full scope investigation on the quantity and the quality of the Subject Asset; rather, it was designed to give us a better understanding of the Subject Asset on a sampling basis. No responsibility or liability is assumed.

We have not carried out on-site measurements to verify the correctness of the dimensions, specifications and areas of the Subject Asset, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements, specifications and areas approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries and the exact locations of the Subject Asset. Therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the Subject Asset that appeared on the documents handed to us and advised by the Company's appointed personnel. The management of the Company or interested party in the Subject Asset should conduct its own legal boundaries due diligence work. Having said that, we were given to understand that the management of the Company obtained the Survey and Valuation Report to satisfy their need.

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 Subject Asset 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 Subject Asset. We have not carried out any investigation into past or present uses, either of the said assets or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Subject Asset 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 Subject Asset or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

APPROACH TO VALUE

In the process of valuing the Subject Asset, we have considered the three generally accepted asset appraisal approach to value, namely the Market Approach, the Income Approach and the Cost Approach.

The Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

The Income Approach is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets.

The Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence.

Based on the IVS and with reference to the accounting standard, the market-based comparable method i.e. the Market Approach has been adopted. This method uses the present market value in terms of price per unit volume of the final product and the total merchantable volume of timber in the concession as basis for coming up with the estimated value. The underlying theory of this approach is existing market price is dependable parameter since it reflects how much the buyer is willing to pay and how much the seller is willing to give up his goods and services.

The approach does not discount the major costs incurred in estimating the value. It is the gross value of the product.

With these figures, the formula used to come up with the estimated market value of logs is:

$$MV = P * TV$$

Where:

MV Market value
P Price per cu. m. of round logs *(see Note)*
TV Total volume of logs

The total volume of logs was determined using the following formula:

$$TV = VH * TA$$

Where:

VH Volume per hectare
TA Total operable area in hectares

$$TA = AC - NOAs$$

Where:

AC Area of concession in hectares
NOAs Non-operable Areas

The valuation method is limited to the following basic assumptions:

- That the end product or the market being assessed are for round logs;

- The TV considered in our valuation is about 2.34 million cu. m.;

- The prices of logs for various species are homogenous and the average price for all species was used as basis;

Note: A bole or a large branch after felling. Under the International Tropical Timber Organisation definition it is referred to as Industrial Roundwood. Roundwood is wood in its natural state as felled or otherwise harvested, with or without bark, round, split, roughly squared or in other forms. Roundwood includes spars, posts, poles and piles.

- The NOAs include 10% of area with water ways, swamps, non-productive area and in-accessible area, and 4.5% of area of concession set aside for biodiversity reserves;

- The price of logs are of FOB (Free On Board) values in US dollars; and

- The TV considered in section headed "Matters that Might Affect the Value Reported" mentioned in later part of this report is 2.82 million cu.m.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Subject Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Subject Asset. Unless otherwise stated, it is assumed that the Subject Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

To the best of our understanding and after inquired the relevant personnel on site and the management of the Company, and having conducted a search through the public domains' search engines, we are unable to identify any adverse news against the Subject Asset which may affect the reported value in our report as at the Latest Practical Date of this circular. Thus, we are not in the position to report and comment on its impact (if any) to the Subject Asset. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

There are a number of factors that influence the average price of the round logs in the tropical rainforests of Guyana. These factors may affect the volume and quality of product, the future market prices of the product and other external factors, they are:

Species prices

Having different wood characteristics such as wood density and moisture content for various species determine the suitable use for a particular species. This means the prices may vary among different species. For instance, premium species such as Baromalli will have a higher value compared to lesser-known species.

End product

The flow of timber from the forest to forest products passes through different stages of processing. Forest products such as logs (and firewood) are considered raw materials as they are removed from the forests with limited processing. Other products such as roundwood, splitwood and chainsaw lumber require a degree of conversion from the raw material. In Guyana, there are three product types that are produced after further processing. These are plywood, sawmill lumber and shingles. It is important to define the end use for different type of products.

Presence of natural defects in the wood

Presence of internal and external defects on the wood also affects the quality and volume of the materials. The estimated volume per tree will decrease depending on the extent of the defects. These factors may be brought by natural (pests and diseases) and physical causes (damage). Defects of the trunk comes in many forms, these are:

- **Physical defects,** which is brought about by hauling and handling of logs;
- **Rots,** whether internal or external rot also reduces the merchantable volume of the trees. External rots could be quantified, however, internal rots are difficult to estimate; and
- **Direction of grain,** also affects the quality and workability of the wood resulting to reduced recovery and reduced quality of the end product.

Growth and Death Rates

Growth rates are also factors to be considered in the valuation. There should be a plus or minus estimate of the incremental volume of the tree at the time of harvest so that this could be compared to the actual volume during the inventory.

Calamities

The presence of typhoons, are factors that reduces the volume in forest stands. Strong winds brought by it increase the risk of damage and mortality of the standing timber.

Time

The price per unit of the product is estimated using its current prices, which is only suitable for the present. The market prices would be different based on trends, costs, interest rates and time value of money.

Buyers' preference

Most buyers prefer logs with larger diameter measurements. Except for veneers, this means that the larger the diameter of a round log there would be high recovery rate if ever the buyer would process the logs in cut to sizes lumber.

The scope of valuation has been determined with reference to the documents provided and instruction given by the management of the Company. Except for the Subject Asset disclosed in the sections above, we are given to understand that there are inventory of two other standing forests, namely Guyana International Timbers and Silva Timbers having a total area of approximately 27,930 hectares adjoining to the southern end and northern end of Block B of the Subject Asset (the "additional inventory" and see Note), respectively, belong to Jaling. In this regard, we have relied on the Legal Opinion addressing on the equity interest of Jaling to these two standing forests. Given that there did not have sufficient information such as tree species and volume of harvestable round logs estimations of these two additional forests made available to us, we are unable to reach an informed view of the value of the additional inventory. However, based on the advice given by the management of the Company, should the additional inventory forms part of the Subject Asset as at the Date of Valuation and with the same characteristics (species and volume) as to Subject Asset, we estimated that the market value of the Subject Asset together with the additional inventory was approximately US$336,000,000.00. Save except the above, the management of the Company has confirmed to us that it has no asset other than those specified on the documents supplied to us for this particular valuation.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. Having said that, we understood that the management of the Company obtained the Legal Opinion to satisfy their requirements.

In the course of valuation, we have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, locations, quantities, easements, tenure, occupation, specifications, site areas and all other relevant matters.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the Subject Asset (if any). Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Note: According to the Legal Opinion, GFC has approved the grant of the additional inventory to Jaling pending execution of a Timber Sales Agreement. Upon the due execution of a Timber Sales Agreement between GFC and Jaling, Jaling will acquire full legal and beneficial title free from all encumbrances in respect of the additional inventory.

Our engagement did not include an independent forestry survey to verify the information provided. We need to state that we are not in the forestry survey profession, therefore, we are not in the position to verify or ascertain the correctness with regard to the information provided. In the course of our work, we were instructed to prepare our valuation based on the surveyed result in the Survey and Valuation Report.

We are not contracted to conduct a review on the existing forestry industry and related resources granting out policies in Guyana. In the course of appraisal, we have solely depended on the advices given by the management of the Company and the Guyana legal advisor as named in this report. We are unable to accept any responsibility for the reliability of the advice.

When we adopted the work products from BJ Management & Associates, the Forestry Consultant, in preparing the Survey and Valuation Report and Cameron & Shepherd, the legal advisor, in preparing the Legal Opinion, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applies in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

Unless otherwise stated, the base currency of our report is US dollars.

LIMITING CONDITIONS OF THIS SUMMARY REPORT

This report is provided strictly for the sole use of and valid to the Company. Neither the whole nor any part of this 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 a circular to the Company's shareholders' reference.

We understand that the management of the Company will use our work product as part of its business diligence and we have not been engaged to make specific purchase or sale recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision. Our work is designed solely to provide information that will allow the management of the Company to make an informed decision.

Our opinion of value in this report is valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

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 report except to the extent that any such loses, 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.

OPINION OF VALUE

Based on the investigation, analysis, stated assumptions, limitations, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the Date of Valuation the market value of the Subject Asset (before taking into consideration any transaction costs), as part of a going-concern business of Jaling, is reasonably stated by the amounts of US DOLLARS TWO HUNDRED AND SEVENTY NINE MILLION ONLY (US$ 279,000,000.00).

For information purpose, as stated in section headed "**Matters that Might Affect the Value Reported**" mentioned in previous part of this report, on the assumption that the additional inventory was included as part of the Subject Asset and with the same characteristics (species and volume) as the Subject Asset, our opinion of value of the Subject Asset together with the additional inventory having a total area of approximately 164,867 hectares (before taking into consideration any transaction costs), as part of a going-concern business of Jaling, is reasonably stated by the amounts of US DOLLARS THREE HUNDRED AND THIRTY SIX MILLION ONLY (US$ 336,000,000.00).

STATEMENTS

The concluded value in our report is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Also, we have followed the requirements as contained in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our 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 our 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. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no present nor prospective interest in the Subject Asset, the Company, Jaling or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited
Ho Chin Choi, Joseph
BSc PgD RPS(GP)
Managing Director

Contributing Valuers:

Rolando Arcaya *BSME ASA*
Elsa Ng Hung Mui *BSc MSc RPS(GP)*
John U. Orqueza *BSc Licensed Forester*

Qualification Statements of the Valuers:

1. Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland Finland, Germany, Guyana, Canada and the United States of America 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. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, minerals, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong Taiwan, Singapore, Canada and the United States of America. 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 (Hong Kong Institute of Surveyors).

2. Mr. Rolando R. Arcaya is an Accredited Senior Member (ASA) of the American Society of Appraisers in the discipline of machinery and equipment valuation. He specializes in the valuation of machinery and equipment in power projects, light and heavy industrial manufacturing plants, consumer products manufacturing, forest products manufacturing and special assets like stock and inventories. Mr. Rolando has over 20 years of valuation experience of which over 18 years were spent in Hong Kong. Over the length of his valuation experience, he has valued and managed the valuation of inventory of natural and man-made forests and a number of forest product related industries like veneer and plywood plants, paper manufacturing plants, and logging concessions located in the Philippines. He has also valued a number of paper and wood processing plants in China for various purposes including accounting and financing purposes.

3. Ms. Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 8 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 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. Over the length of her valuation experience, she has valued and managed the valuation of a forestry in Guyana and numbers of agricultural property assets in China for merger and acquisition purposes.

4. Mr. John U. Orqueza is a Licensed Forester in the Philippines. He obtained his Bachelor of Science in Forestry from the State Polytechnic College of Palawan and Master of Science in Rural Development from the Western Philippines University. He has more than 5 years experience in forest industry study and have worked in various companies as a forestry specialist in the preparation of forest management plans, survey, blocking and inventory of annual cutting area, and Environmental Impact Assessment (EIA) studies for timber harvesting in selected Community Forestry projects in the Philippines. He has expertise in forest based enterprise development, forest resources inventory, environmental management and forest land-use planning, biodiversity conservation, environmental impact assessment for timber and non-timber products, agroforestry, and biological monitoring. Trained in the use of GPS and GIS for forest surveys, formulation of community management frameworks for local cooperatives, forest survey and mensuration and setting up of biological and threat monitoring systems.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors collectively and individually, and jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued capitals of the Company were as follows:

Authorised:		*HK$*
20,000,000,000	Shares	200,000,000
Issued and to be issued, fully paid or credited as fully paid		
8,587,969,734	Shares	85,879,697

As at the Latest Practicable Date, none of the 960,000,000 unlisted warrants issued by the Company for an aggregate cash consideration of HK$4 million on 1 August 2006 has been exercised or converted. Each warrant shall entitle the holder to subscribe for one new share of the Company at the price of HK$0.09 per share within 3 years commencing from the date of issue.

As at the Latest Practicable Date, the number of shares in respect of which options had been granted and not exercised under the Share Option Scheme adopted on 16 July 2004 was 10,000,000, representing 0.12% of the shares of the Company in issue, all of which were granted on 9 June 2006 exercisable within a period of 3 years at a price of HK$0.078 per share.

Save as disclosed, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for or convert into Shares.

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, are as follows:

Long position in shares of the Company

	Capacity and nature of interest	**Number of shares held**	**Percentage of issued share capital**
Mr. Fung Tsun Pong *(Note a)*	Personal interest and interest of controlled corporation	1,511,162,449	17.6%
Lau Sing Hung, Stephen	Personal interest	10,000,000	0.12%
Tsang Kam Ching	Personal interest	66,624,499	0.78%

Notes:

(a) Mr. Fung Tsun Pong is personally interested in 455,662,449 shares (5.31%) and the remaining 1,055,500,000 shares, representing approximately 12.29% in the issued shares of the Company, are held by Ocean Gain Limited ("OGL") which was wholly-owned by him. OGL is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (s) (within the meaning of Part XV of the SFO) which are required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware (other than certain Directors or chief executive of the Company or any other member of the Enlarged Group), the interests or short positions of the persons or corporations in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent (10%) or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group, were as follows:

Long position in shares of the Company

Name of shareholders	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Ocean Gain Limited *(Note a)*	Beneficial owner	1,055,500,000	12.29%
Richest Billion Limited *(Note b)*	Beneficial owner	1,045,000,000	12.17%
Allkeen Investments Limited *(Note c)*	Beneficial owner	1,000,000,000	11.64%
Peter Chan *(Note d)*	Beneficial owner	484,170,369	5.64%
Liu Feng Lei *(Note e)*	Beneficial owner	513,833,992	5.98%

Notes:

(a) Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive director of the Company.

(b) Richest Billion Limited is wholly-owned by Miss Li Shi Miao, an independent third party who holds no position or roles in the Company.

(c) Allkeen Investments Limited is wholly-owned by Miss Wong Yat Ping, an independent third party who holds no position or roles in the Company.

(d) Mr. Peter Chan Kok Chiu, son of Danny Chan, a director of a non-wholly owned subsidiary of the Company. Mr. Peter Chan holds no position or roles in the Company.

(e) Mr. Liu Feng Lei is deemed to be interested in the shares upon entering into the Jaling Acquisition Agreement.

Long position in shares of other members of the Enlarged Group

Name of subsidiary	Name of shareholder	Capacity	Percentage of the issued share capital of the subsidiary
Jaling	Liu Feng Lei	Personal interest	44%
Garner *(note a)*	Danny Chiu Hung Chan	Personal interest	100%

Note:

(a) Garner is beneficially held as to 100% by Mr. Danny Chiu Hung Chan ("Mr. Chan"), but legally held as to 99.8% by Mr. Chan and 0.2% by Mr. Hilbertus Cort in trust for Mr. Chan.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, no person (other than certain Directors or chief executive of the Company or any other member of the Enlarged Group), has any interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO (including interests and short position which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in ten per cent (10%) or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any members of the Enlarged Group.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors, had any direct or indirect interest in any asset which were acquired or disposed of by or leased to any member of the Enlarged Group, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group, since 31 March 2007, the date to which the latest published audited financial statements of the Enlarged Group were made up.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business apart from the business of the Enlarged Group which competes or is likely to compete, either directly or indirectly with any business of the Enlarged Group.

7. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors is materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

8. 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.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Company) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) The Jaling Acquisition Agreement.

(b) The Garner Acquisition Agreement.

(c) The Garner Forest Option Agreement.

(d) A Placing Agreement dated 13 June 2007 entered into between the Company and CITIC Securities Corporate Finance (HK) Limited for placing 1,250,000,000 new shares at HK$0.29 each, i.e. a total consideration of HK$362.5 million and the Company has raised net proceeds of approximately HK$349.6 million.

(e) A subscription agreement dated on 14 July 2006 entered into between the Company as issuer and Lau Yat Wah, Tong Kwok Leung, Asiantop Overseas Limited and Merit Star Global Limited as subscribers, pursuant to which the subscribers subscribed for, and the Company issued a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million. Each warrant shall entitle the holder thereof to subscribe for one new share of the Company at the price of HK$0.09 per share (subject to adjustment) within three years after the date of issue.

(f) A subscription agreement dated 16 May 2006 entered into between the Company, as issuer and Total Gain Investment Limited as subscriber, pursuant to which, the Company issued and allotted 60,156,250 new Shares, at a subscription price of HK$0.128 per Share, i.e. a total consideration of HK$7,700,000, which fully settled a consultancy fee owing by the Company to the subscriber under an agency agreement dated 19 December 2005.

(g) An acquisition agreement dated 10 April 2006, entered into between the Company, Wide Forest, Mr. Peter Chan, Mr. Danny Chan, Jaling and the Company in respect of the acquisition of a 51% equity interest in Jaling by Wide Forest at a total consideration of HK$154 million, of which HK$39 million was settled by cash and the balance was satisfied by issued of new shares.

(h) The service contract entered into between Mr. Danny Chan, Jaling and the Company on 10 April 2006, pursuant to which Jaling engaged Mr. Danny Chan as its managing director for an initial term of not less than two years but not more than five years at a monthly salary of US$12,000 per month.

(i) five Subscription Agreements dated 9 March 2006 entered into between the Company and each of Messrs. Lee Ting Lap, Liu Guo hua, Liu Li Qiang, Pang Tung Choi, and Yu Hoi Ching, pursuant to which the Company issued and allotted 20,000,000, 50,000,000, 46,875,000, 68,437,500 and 10,000,000 new Shares (a total of 195,312,500) to them respectively at HK$0.128 per share (an aggregate consideration of HK$25,000,000).

(j) A conditional capital injection agreement dated 7 January 2006 entered into between the Company and 河南阜源石油化工有限公司 (Henan Fu Yuan Petroleum and Chemical Engineering Company Limited*) ("Henan Fuyuan"), a private company incorporated in the PRC, in respect of the subscription of 51% of the enlarged equity interest in Henan Fuyuan by the Company at a consideration of approximately HK$26.5 million.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2007 being the date to which the latest published audited consolidated financial statements of the Group were made up.

11. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

12. EXPERTS AND CONSENTS

The following is the qualification of the expert whose opinion or advice which is contained in this circular:

Name	Qualification
CCIF CPA Limited ("CCIF")	Certified Public Accountant
Hantec Capital Limited ("Hantec")	a licensed corporation authorised to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
LCH (Asia-Pacific) Surveyors Limited ("LCH")	Chartered Surveyors

As at the Latest Practicable Date, CCIF, Hantec and LCH:

(a) have given and have not withdrawn their written consents to the issue of this circular with the inclusion of its letters and/or references to its name in the form and context in which they appear;

(b) did not have any direct or indirect interest in any asset which were acquired or dispose of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group, since 31 March 2007, the date to which the latest published audited consolidated financial statements of the Group were made up; and

(c) were not beneficially interested in the share capital of any member of the Enlarged Group and did not have 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.

13. GENERAL

(a) The registered office of the Company is situated at The Office of Caledonian Bank & Trust Limited, Caledonian House, George Town, Grand Cayman, Cayman Islands.

(b) 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.

(c) The branch share registrar of the Company in Hong Kong is Progressive Registration Limited, 26th Floor, Tesbury Centre, 18 Queen's Road East, Central, Hong Kong.

(d) The company secretary of the Company is Miss Ngan Wai Kam, Sharon, a Practising Solicitor in Hong Kong.

(e) The qualified accountant of the Company 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 HKICPA.

(f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business, Room 1606, 16/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday except Saturdays and public holidays, on 28 September 2007 up to and including 18 October 2007:

(a) the memorandum and articles of association of the Company;

(b) the written material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the written consents referred to in the section headed "Experts and Consents" in this appendix;

(d) the annual report of the Company for each of the two years ended 31 March 2006 and 2007;

(e) the valuation report on Garner Forest from dated 28 September 2007 as set out in Appendix VII of this circular;

(f) the valuation report on Jaling Forest from LCH dated 28 September 2007 as set out in Appendix VIII of this circular;

(g) the accountants' reports from CCIF on each of Garner and Jaling Group, as set out in Appendices II and III of this circular; and

(h) the report from CCIF CPA Limited in respect of the unaudited pro forma financial information of the Garner Enlarged Group, Jaling Enlarged Group and the Enlarged Group upon completion of the Proposed Acquisitions as set out in Appendices IV, V and VI of this circular respectively.

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 IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of China Timber Resources Group Limited (the "**Company**") will be held at 7/F, Xin Rui Ke Da Lou, Bao Shui Qu, Fu Tian Shi, Shenzhen, China (中國深圳福田市保稅區鑫瑞科大樓7層), on Thursday, 18 October 2007 at 11:30 a.m. for the purpose of considering the following resolutions:

1. To consider as special business and, if thought fit, passing with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT**

(a) the conditional acquisition agreement dated 5 July 2007 (the "**Garner Agreement**", a copy of which has been produced to the Meeting and marked "**A**" and initialled by the Chairman of the Meeting for the purpose of identification) made between the Company, Vastrich Corporation Limited, a wholly-owned subsidiary of the Company ("**Vastrich**") as purchaser, Mr. Danny Chiu Hung Chan as Vendor ("**Mr. Chan**") and Garner Forest Industries Inc. ("**Garner**"), pursuant to which Vastrich has conditionally agreed to purchase and Mr. Chan has conditionally agreed to sell 49% equity interest of Garner for a total consideration of HK$50 million and to exercise an option granted to the Company for the purchase of a 51% equity interest in Garner for a consideration of HK$60 million, the transactions contemplated thereunder or incidental to the Garner Agreement, and all actions taken or to be taken by the Company pursuant to the Garner Agreement as described in the circular to the shareholders of the Company dated 28 September 2007 (the "**Circular**", 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) be and are hereby generally and unconditionally approved, ratified and confirmed;

(b) the conditional option agreement dated 16 May 2006 (the "**Option Agreement**", a copy of which has been produced to the Meeting and marked "**C**" and initialled by the Chairman of the Meeting for the purpose of identification) made between the Company and Mr. Chan, pursuant to which the Company has been granted the

* *For identification purpose only*

right, exercisable at any time during a period of five years, to require Mr. Chan to sell 2,550 ordinary shares in the capital of Garner, representing a 51% equity interest in Garner, to the Company or its nominee, at a total price of HK$60 million (the "**Option**"), the notice of exercise of the Option dated 5 July 2007 (the "**Option Notice**"), the transactions contemplated thereunder or incidental the Option Agreement, the Option Notice and any supplemental agreement as the Directors may consider necessary to be entered into between the parties, and all actions taken or to be taken by the Company pursuant to the Option Agreement and the Option Notice as described in the Circular be and are hereby generally and unconditionally approved, ratified and confirmed;

(c) any one Executive 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 Garner Agreement, the Option Agreement and/or the Option Notice, including but not limited to a tax deed to be executed by Mr. Chan in favour of the Company, Vastrich and Garner; 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 Garner Agreement, the Option Agreement and/or the Option Notice or any of the transactions contemplated thereunder or incidental to any of them and all other matters incidental thereto, including (without limitation) exercising or enforcing any right thereunder, and to agree to any amendment to any of the terms of the Garner Agreement, the Option Agreement and/or the Option Notice which in the opinion of any Director of the Company is not of a material nature and is in the interests of the Company."

2. To consider as special business and, if thought fit, passing with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT**

(a) the conditional acquisition agreement dated 16 August 2007 (the "**Jaling Agreement**", a copy of which has been produced to the Meeting and marked "**D**" and initialled by the Chairman of the Meeting for the purpose of identification) made between the Company, Wide Forest Limited (廣林有限公司), a wholly-owned subsidiary of the Company ("**Wide Forest**") as purchaser and Mr. Liu Feng Lei as Vendor ("**Mr. Liu**"), pursuant to which Wide Forest has conditionally agreed to purchase and Mr. Liu has conditionally agreed to sell 44% equity interest of Jaling Forest Industries Inc (加林森林工業有限公司*) ("**Jaling**") for a total consideration of HK$130 million, which shall be settled by way of issue of consideration shares at HK$0.253 per share, the transactions contemplated thereunder or incidental to the Jaling Agreement, and all actions taken or to be taken by the Company pursuant to the Jaling Agreement as described in the Circular be and are hereby generally and unconditionally approved, ratified and confirmed;

(b) 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 (as defined below), the directors of the Company (the "**Directors**") be and are hereby generally and specifically authorized to allot and issue up to 513,833,992 new shares (the "**Consideration Shares**") of HK$0.01 each in the capital of the Company credited as fully paid at an issue price of HK$0.253 per Consideration Share (the "**Special Mandate**") to Mr. Liu for settlement of the consideration, HK$130 million in accordance with the terms and conditions of the Jaling Agreement, and that the Consideration 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 23 August 2007 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

(c) any one executive 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 supplemental to the Jaling Agreement, 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 Jaling Agreement or any of the transactions contemplated thereunder or incidental to the Jaling Agreement and all other matters incidental thereto, including (without limitation) exercising or enforcing any right thereunder, and to agree to any amendment to any of the terms of the Jaling Agreement which in the opinion of any Director of the Company is not of a material nature and is in the interests of the Company."

By Order of the Board
Fung Tsun Pong
Chairman

Hong Kong, 28 September 2007

Principal place of business:
Unit 1606, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

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, Progressive Registration Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Central, 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 duration of the EGM is expected not to exceed half an hour, and all members and proxies shall be responsible for their own travelling 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.