

## Sales will begin in 3Q08

**BUY (from  
STRONG BUY)**

**1H FY12/08F results.** China Asean Resources reported its net profit for 1H FY12/08F at HK\$36.1m, against a loss of HK\$2.1m reported for the corresponding period last year. However, the group reported a loss of HK\$9.2m at operating level. Its turnover for the period increased 7.3% YoY to HK\$17.8m, most of which was derived from the group's legacy medical equipment business. As of the end of June 2008, the group was in the net cash position of HK\$85.2m, compared with HK\$99.4m net cash in hand as of the end of December 2007. Following the completion of acquisition of second forest concession, the group's number of shares increased from 1,705.0m to 1,905.0m.

**Gain on sub concession of 10.0% in the first forest.** Almost all of the group's net earnings were derived from the disposal gain of HK\$52.1m. The group subleased 10.0% area in its first forest situated in Kratie Province, Cambodia with total site area of 10,082.0 hectares for a consideration of US\$10.0m at the end of June 2008. The gain of HK\$52.1m was the difference of the consideration and the adjusted carrying amount of 10.0% of the first forest concession amounted to HK\$25.9m. The valuation of the disposal implied the value of the group's first forest concession amounted to at least US\$100.0m. The company had received HK\$46.9m out of the total consideration. The balance of the consideration will be received in two equal installments by the end of September and December of this year, respectively.

**Acquired second forest.** The group acquired the second forest concession from the sole shareholder of Agri-Industrial Crop, an independent third party in July 2008. The second concession forest is adjacent to its first forest with total site area of 9,555.0 hectares and potential timber resources of 2.3m<sup>3</sup>. Aggregate consideration of the acquisition was HK\$270.0m, which was satisfied as to HK\$80.0m in cash, HK\$120.0m by issuance of 200.0m new shares at HK\$0.6 each and HK\$70.0m by the issuance of two-year bond with annual interest rate at 2.0%. According to the valuation report prepared by BMI Appraisals and technical report prepared by Research Institute of Tropical Forestry of China Academy of Forestry, the valuation of the second forest concession amounted to HK\$1.8b.

**Sales begin in third quarter.** Construction of access roads and bridges in the group's first Forest are nearly completed, and forest clearing and manufacturing of sawn timber have commenced. According to the management, the group has nearly acquired all licenses and approvals from Cambodian government bodies for domestic and export sales. The group plans to commence domestic sales in September and start export of timber products in 4Q08. It is worth to note that the progress of the group's development is slower than what we have projected, due to the complicated administrative procedures required by the

### Asia Resources

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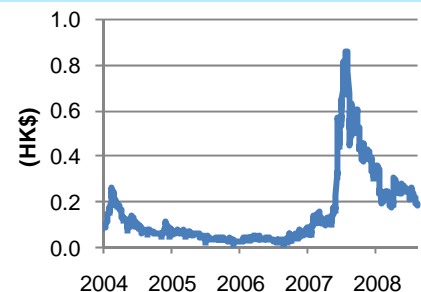
### Stock data

Price	HK\$0.196
Target price	HK\$0.51 (+160.2%)
12 mth range	HK\$0.15-0.68
Market cap.	US\$41.5m
Daily t/o, 3 mth	US\$0.07m
Free float %	53.8%
Ticker	8186.HK/8186 HK

### Financial summary

Year to Dec	05A	06A	07A
Turnover (HK\$m)	36.1	35.0	38.4
Net profit (HK\$m)	(2.2)	(29.4)	(21.9)
EPS (HK\$m)	(0.003)	(0.035)	(0.021)
EPS Δ %	na	na	na
P/E (x)	na	na	na
P/B (x)	na	na	na
EV/EBITDA (x)	193.0	na	na
Yield (%)	na	na	na
ROE (%)	(1.8)	(27.3)	(5.5)
ROCE (%)	(0.0)	(0.3)	(5.5)
N. Gear. (%)	cash	cash	cash

### Price Chart



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Cambodian government bodies. In Cambodia, forest operator must obtain approvals from 20 different governmental ministries prior to commencing sales and exports of forestry products. As the group has already obtained almost all the required approvals from the government bodies, its rights in Cambodia would be fully protected.

**More sub concessions are expected to come.** Since the site area of the group's two concession forests is extensive, it requires large capital and human resources commitment to develop the two forests. Further, the group has identified two forests as acquisition targets in the near future. Therefore, the group's capital requirement for near future is high. However, since the market sentiment has been poor recently and the group's share price is substantially lower than its intrinsic value, the management does not intend to raise fund via equity financing. Management has indicated that they intend to sublease some of the area in the group's two forests to speed up the development of the concession forests and to raise capital by selling the sub concession right to third party to finance capital expenditures and acquisitions. In addition, management indicated that they may dispose the legacy medical equipment business by the end of this year.

**Valuation remains attractive.** The group's progress in the development of the concession forests is behind our expectation. Further, uncertainties on the execution of the group's business plan remain high. Therefore, we are revising the earnings forecasts on the group. However, the valuation of the group remains attractive. According to the technical report and valuation report, valuation of the group's total timber resources amounted to HK\$4.6b. Further, the group subleased 10.0% area in its first forest at US\$10.0m, implying the base case value of the first forest amounted to US\$100.0m. Currently, the group's market capitalization is approximately HK\$362.0m only. Take into account the uncertainties on its business plan, slower-than-expected development progression and attractive valuation; we lower the group's investment rating from STRONG BUY to BUY. Our new target price of HK\$0.51 is based on the sum of 90.0% of the base case value of the first forest (HK\$702.0) and the consideration paid by the group for the acquisition of the second forest (HK\$270.0m).

**Appointment of new chairman.** The board of the group appointed Mr Leung Sze Yuan, Alan, as the chairman to replace Dr. Li Nga Kuk, James in June 2008. Mr Leung joined the group in October 2007 as the chief financial officer of (Cambodia) Tong Min, a subsidiary of the group, responsible for the financial management and investor relationship of the group. Mr. Leung is a member of the Institute of Chartered Accountant in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company, Mr. Leung was an Associate Director of AIG Investment Corporation responsible for private equity investments in Asia.

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Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Sole Bookrunner and Joint Placing Agent for China Asean Resources (233m Top-up shares and 167m new shares at HK\$0.60) on Jul, 2007..

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