China Environmental Resources Group Limited
中 國 環 境 資 源 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01130)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 30 JUNE 2010

The board of directors (the "Directors") of China Environmental Resources Group Limited (the "Company") is pleased to announce the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2010 together with comparative figures for the year ended 30 June 2009.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Continuing operations			
Turnover	3	**279,703**	50,488
Cost of sales		**(187,366)**	(38,185)
Gross profit		**92,337**	12,303
Gain on changes in fair value of biological assets less estimated point-of-sale costs		**151,607**	81,188
Other income and gains, net	5	**391**	1,083
Excess of fair value of net assets acquired over considerations		**—**	72,745
Equity-settled share-based payment expense		**(42,144)**	—
Selling and distribution expenses		**(996)**	(5)
Administrative and other operating expenses		**(68,883)**	(14,861)
Finance costs	6	**(10,926)**	(15,905)
Profit before tax		**121,386**	136,548
Income tax expense	7	**(49,362)**	(23,640)
Profit for the year from continuing operations		**72,024**	112,908
Discontinued operations			
Loss for the year from discontinued operations	8	**(4,126)**	(16,900)
Profit for the year	9	**67,898**	96,008
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**—**	92
Total comprehensive income for the year		**67,898**	96,100
Profit (loss) for the year attributable to:			
Owners of the Company		**68,102**	96,008
Non-controlling interests		**(204)**	—
		67,898	96,008

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**68,102**	96,100
Non-controlling interests		**(204)**	—
		67,898	96,100
Earnings per share from continuing and discontinued operations			
– Basic (cents per share)	10	**0.94**	2.26
– Diluted (cents per share)	10	**0.87**	1.88
Earnings per share from continuing operations			
– Basic (cents per share)	10	**1.00**	2.66
– Diluted (cents per share)	10	**0.92**	2.18

Consolidated Statement of Financial Position

At 30 June 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**1,455**	332
Construction in progress		**28,173**	1,322
Biological assets		**785,556**	676,123
Goodwill		**36,281**	—
Intangible assets		**296,558**	144,894
		1,148,023	822,671
Current assets			
Inventories		**11,549**	8,845
Trade and other receivables	12	**100,822**	45,699
Amount due from a director		**9**	—
Tax recoverable		**—**	151
Cash and cash equivalents		**18,375**	9,518
		130,755	64,213
Assets classified as held for sale	13	**19,239**	—
		149,994	64,213
Current liabilities			
Trade and other payables	14	**59,836**	67,837
Amounts due to directors		**—**	2,013
Amount due to a related party		**738**	3,895
Provisions		**—**	6,568
Tax payable		**28,839**	5,603
		89,413	85,916
Liabilities classified as held for sale	13	**50,196**	—
		139,609	85,916
Net current assets (liabilities)		**10,385**	(21,703)
Total assets less current liabilities		**1,158,408**	800,968

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Convertible notes		**75,379**	124,910
Deferred tax liabilities		**271,770**	205,254
		347,149	330,164
NET ASSETS		**811,259**	470,804
Capital and reserves			
Share capital		**87,464**	62,404
Non-controlling interests		**489**	—
Reserves		**723,306**	408,400
TOTAL EQUITY		**811,259**	470,804

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	Equity attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Employee share-based compensation reserve	Convertible notes equity reserve	Statutory surplus reserve fund	Foreign exchange revaluation reserve	Revaluation reserve	Accumulated losses	Total	Non-controlling 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*
		(Note a)		*(Note b)*		*(Note c)*	*(Note d)*	*(Note e)*				
At 1 July 2008	19,550	173,660	—	2,401	—	3,090	11,322	22,783	(146,931)	85,875	—	85,875
Profit for the year	—	—	—	—	—	—	—	—	96,008	96,008	—	96,008
Other comprehensive income for the year	—	—	—	—	—	—	92	—	—	92	—	92
Total comprehensive income for the year	—	—	—	—	—	—	92	—	96,008	96,100	—	96,100
Recognition of equity component of convertible notes	—	—	—	—	41,456	—	—	—	—	41,456	—	41,456
Disposal of investment properties (previously classified as property, plant and equipment)	—	—	—	—	—	—	—	(22,783)	22,783	—	—	—
Conversion of convertible notes	42,188	227,813	—	—	(27,983)	—	—	—	—	242,018	—	242,018
Recognition of equity-settled share-based payments	666	7,090	—	(2,401)	—	—	—	—	—	5,355	—	5,355
Transfer between reserves	—	—	—	—	—	2,312	—	—	(2,312)	—	—	—
At 30 June 2009	62,404	408,563	—	—	13,473	5,402	11,414	—	(30,452)	470,804	—	470,804

	Equity attributable to owners of the Company											
	Share capital	**Share premium**	**Capital reserve**	**Employee share-based compensation reserve**	**Convertible notes equity reserve**	**Statutory surplus reserve fund**	**Foreign exchange revaluation reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000* *(Note a)*	*HK$'000*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000* *(Note c)*	*HK$'000* *(Note d)*	*HK$'000* *(Note e)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2009	62,404	408,563	–	–	13,473	5,402	11,414	–	(30,452)	470,804	–	470,804
Profit for the year	–	–	–	–	–	–	–	–	68,102	68,102	(204)	67,898
Other comprehensive income for the year	–	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	–	–	68,102	68,102	(204)	67,898
Issue new shares for acquisition of patent	14,250	142,500	–	–	–	–	–	–	–	156,750	–	156,750
Capital contribution from shareholders	–	–	30	–	–	–	–	–	–	30	13	43
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	680	680
Conversion of convertible notes	9,375	57,301	–	–	(6,219)	–	–	–	–	60,457	–	60,457
Recognition of equity-settled share-based payments	–	–	–	42,144	–	–	–	–	–	42,144	–	42,144
Exercise of share options	1,435	15,397	–	(4,349)	–	–	–	–	–	12,483	–	12,483
At 30 June 2010	**87,464**	**623,761**	**30**	**37,795**	**7,254**	**5,402**	**11,414**	**–**	**37,650**	**810,770**	**489**	**811,259**

Notes:

(a) The share premium is an amount subscribed for share capital in excess of nominal value. Under the Bye-Laws of the Company, the amount is distributable subject to certain restrictions.

(b) Employee share-based compensation reserve represent cumulative expenses recognised on the granting and in writing off the fair value of share options granted to the employees over the vesting period.

(c) According to the relevant enterprises regulations in the PRC, certain subsidiaries in the PRC are required to transfer not less than 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC, to the statutory surplus reserve fund until the balance reaches 50% of their registered capital. While the rest of the PRC subsidiaries can make appropriation of their profit after taxation to the statutory surplus reserve fund on a discretionery basis. The statutory surplus reserve fund can be used to make up for previous year's losses, expand the existing operations or convert into additions capital of those PRC subsidiaries.

(d) The foreign exchange revaluation reserve has been set up and dealt with in accordance with the translation of the financial statements of foreign subsidiaries.

(e) Revaluation reserve comprised increase in fair value, net of income tax, of property, plant and equipment that were previously carried at revalued amount before transfer to investment properties as a result of change in use.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and biological assets, which are measured at fair values and revalued amount as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to Standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[1]
HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 3 (Revised 2008)	Business Combinations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfer of Assets from Customers

1 Amendments that are effective for annual periods beginning on or after 1 July 2009.

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transaction and provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative
HKFRS 7	Disclosures for First-time Adopters[5]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments[6]
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 January 2010.
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvement to HKFRSs (2009)*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS17, Leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. TURNOVER

Turnover represents the sales value of goods supplied to customers, after allowances for goods returned and trade discounts, income from leasing of property earned and the value of services rendered during the year by the Group. The amounts of each significant category of revenue during the year are as follows:

	Continuing operations		**Discontinued operations**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		
Technical service income	**9,029**	—	**—**	—	**9,029**	—
Sales of organic fertilisers	**180,012**	43,121	**—**	—	**180,012**	43,121
Sales of environmental machines	**38,639**	—	**—**	—	**38,639**	—
Sales of plantation products (Note)	**52,023**	7,367	**—**	—	**52,023**	7,367
Apparel manufacturing	**—**	—	**—**	328	**—**	328
Property development	**—**	—	**3,931**	70,963	**3,931**	70,963
Property rental income	**—**	—	**—**	6,833	**—**	6,833
	279,703	50,488	**3,931**	78,124	**283,634**	128,612

Note:

During the year ended 30 June 2009, one of the subsidiaries of the Company signed a sales contract with an independent third party at a consideration of HK$57,823,000 ("Sales Contract"). According to the Sales Contract, this third party is allowed to harvest standing timber in a specific area within the next twelve months from the date of the Sales Contract.

The Group has recognised approximately HK$52,023,000 (2009: HK$5,800,000) of the Sales Contract as turnover during the year ended 30 June 2010.

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from the financial year beginning 1 July 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker, being the chief executive officer, for making strategic decisions. The segments are managed separately as each business offers different products which vary in materials used, design and technology and services which require different production/ service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments under HKFRS 8:

(i) Technical service income

(ii) Sales of organic fertilisers

(iii) Sales of environmental machines

(iv) Sales of plantation products

For the divisions of apparel manufacturing, property development and property rental, these segments were discontinued during the year ended 30 June 2010. Further details of discontinued operations are set out in Note 8.

The accounting policies of the reporting segment are identical to the Group's accounting policies. Segment results represent the profit (loss) attributable to each segment without allocation of central administration costs, interest income, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Information regarding the above segment is reported below.

(a) Segment revenues and results

The following is an analysis of the Group's turnover and results by reportable segments:

For the year ended 30 June 2010

	Continuing operations					Discontinued operations				
	Technical service income	Sales of organic fertilisers	Sales of environmental machines	Sales of plantation products	Sub-total	Apparel manufacturing	Property development	Property rental	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
– External sales	9,029	180,012	38,639	52,023	279,703	–	3,931	–	3,931	283,634
Segment results before change in fair value of biological assets	4,994	47,249	(6,011)	(546)	45,686	(2,229)	(1,207)	(604)	(4,040)	41,646
Gain on change in fair value of biological assets less estimated point-of-sale costs	–	–	–	151,607	151,607	–	–	–	–	151,607
Segment results	4,994	47,249	(6,011)	151,061	197,293	(2,229)	(1,207)	(604)	(4,040)	193,253
Unallocated results										(65,082)
Interest income										15
Finance costs										(10,926)
Profit before tax										117,260
Income tax expense										(49,362)
Profit for the year										67,898

(a) Segment revenues and results *(Continued)*

For the year ended 30 June 2009 (Restated)

	Continuing operations					Discontinued operations				
	Technical service income *HK$'000*	Sales of organic fertilisers *HK$'000*	Sales of environmental machines *HK$'000*	Sales of plantation products *HK$'000*	Sub-total *HK$'000*	Apparel manufacturing *HK$'000*	Property development *HK$'000*	Property rental *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Segment revenue:										
– External sales	–	43,121	–	7,367	50,488	328	70,963	6,833	78,124	128,612
Segment results before change in fair value of biological assets	–	8,101	–	(3,510)	4,591	(18,439)	10,046	6,565	(1,828)	2,763
Gain on change in fair value of biological assets less estimated point-of-sale costs	–	–	–	81,188	81,188	–	–	–	–	81,188
Segment results	–	8,101	–	77,678	85,779	(18,439)	10,046	6,565	(1,828)	83,951
Unallocated results										50,610
Interest income										30
Finance costs										(16,073)
Profit before tax										118,518
Income tax expense										(22,510)
Profit for the year										96,008

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

At 30 June 2010

	Continuing operations					Discontinued operations				
	Technical service income *HK$'000*	Sales of organic fertilisers *HK$'000*	Sales of environmental machines *HK$'000*	Sales of plantation products *HK$'000*	Sub-total *HK$'000*	Apparel manufacturing *HK$'000*	Property development *HK$'000*	Property rental *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Segment assets	**5,614**	**174,517**	**61,598**	**992,761**	**1,234,490**	**2,283**	**16,885**	**—**	**19,168**	**1,253,658**
Unallocated corporate assets										**44,359**
Total assets										**1,298,017**
Segment liabilities	**1,664**	**38,217**	**684**	**18,956**	**59,521**	**43,980**	**1,299**	**4,842**	**50,121**	**109,642**
Unallocated corporate liabilities										**377,116**
Total liabilities										**486,758**

At 30 June 2009 (Restated)

	Continuing operations					Discontinued operations				
	Technical service income *HK$'000*	Sales of organic fertilisers *HK$'000*	Sales of environmental machines *HK$'000*	Sales of plantation products *HK$'000*	Sub-total *HK$'000*	Apparel manufacturing *HK$'000*	Property development *HK$'000*	Property rental *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Segment assets	–	29,308	–	826,816	856,124	2,321	22,132	57	24,510	880,634
Unallocated corporate assets										6,250
Total assets										886,884
Segment liabilities	–	28,304	–	205,733	234,037	41,376	6,551	2,500	50,427	284,464
Unallocated corporate liabilities										131,616
Total liabilities										416,080

For the purpose of monitoring segment performances and allocating resources between segments:

— all assets other than unallocated assets (mainly comprising goodwill, other receivables and cash and cash equivalents) are allocated to reportable segments; and

— all liabilities other than unallocated liabilities (mainly comprising other payables and accruals, convertible notes and deferred tax liabilities) are allocated to reportable segments.

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 30 June 2010

	Continuing operations					Discontinued operations				
	Technical service income *HK$'000*	Sales of organic fertilisers *HK$'000*	Sales of environmental machines *HK$'000*	Sales of plantation products *HK$'000*	Sub-total *HK$'000*	Apparel manufacturing *HK$'000*	Property development *HK$'000*	Property rental *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Other segment information:										
Depreciation of property, plant and equipment	—	73	—	—	73	12	—	—	12	85
Amortisation of intangible assets	—	4,963	—	4,932	9,895	—	—	—	—	9,895
Capital expenditure incurred during the year	5	1,035	342	26,665	28,047	399	—	—	399	28,446

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 30 June 2009 (Restated)

	Continuing operations					Discontinued operations				
	Technical service income *HK$'000*	Sales of organic fertilisers *HK$'000*	Sales of environmental machines *HK$'000*	Sales of plantation products *HK$'000*	Sub-total *HK$'000*	Apparel manufacturing *HK$'000*	Property development *HK$'000*	Property rental *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Other segment information:										
Depreciation of property, plant and equipment	—	78	—	—	78	523	21	—	544	622
Amortisation of intangible assets	—	—	—	3,064	3,064	—	—	—	—	3,064
Impairment loss on trade and other receivables recognised	—	—	—	—	—	2,939	1,186	—	4,125	4,125
Loss on disposal of property, plant and equipment, construction in progress and investment properties	—	—	—	—	—	—	—	15,643	15,643	15,643
Capital expenditure incurred during the year	—	1,584	—	—	1,584	553	—	—	553	2,137

Geographical information

The Group (including continuing and discontinued operations) comprises the following main geographic segments:

	Mainland China		Hong Kong		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**112,200**	128,612	**171,434**	—	**283,634**	128,612
Segment assets	**128,597**	881,635	**1,169,420**	5,249	**1,298,017**	886,884
Capital expenditure						
– property, plant and equipment	**1,578**	809	**17**	6	**1,595**	815
– construction in progress	**26,851**	1,322	**—**	—	**26,851**	1,322
	28,429	2,131	**17**	6	**28,446**	2,137

5. OTHER INCOME AND GAINS (LOSS), NET

	Continuing operations		Discontinued operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		
Sales of organic fruits	**350**	—	**—**	—	**350**	—
Interest income	**7**	10	**8**	20	**15**	30
Technical service income	**—**	1,020	**—**	—	**—**	1,020
Loss on disposal of property, plant and equipment and investment properties	**—**	—	**—**	(15,643)	**—**	(15,643)
Gain on disposal of a subsidiary	**—**	—	**—**	57	**—**	57
Fair value loss on investment properties	**—**	—	**—**	(1,216)	**—**	(1,216)
Others	**34**	53	**—**	740	**34**	793
	391	1,083	**8**	(16,042)	**399**	(14,959)

6. FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		
Effective interests expense on convertible notes	**10,926**	8,383	**—**	—	**10,926**	8,383
Effective interests expense on promissory notes	**—**	7,522	**—**	—	**—**	7,522
Other finance charges	**—**	—	**—**	168	**—**	168
	10,926	15,905	**—**	168	**10,926**	16,073

7. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		
Current tax						
– Hong Kong	**—**	—	**—**	—	**—**	—
– PRC Enterprise Income Tax ("EIT")	**23,236**	5,602	**—**	4,181	**23,236**	9,783
Deferred tax						
– current year	**26,126**	18,038	**—**	(5,311)	**26,126**	12,727
Income tax expense	**49,362**	23,640	**—**	(1,130)	**49,362**	22,510

No provision for profits tax for group entities in the Cayman Islands or the British Virgin Islands has been made as these entities had no income assessable for the profits tax in these jurisdictions for current and prior years.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries are 25% from 1 January 2008 onwards.

Xinjiang Gold Vantage Forestry Limited ("XJGV"), a wholly-owned subsidiary of the Company, operates in forestry business in PRC. It is subjected to corporate income tax rate of 15% as it has applied for exemption of relevant preferential tax treatment.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income, based on the income tax rate of most of the Group's profit under assessments as follows:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Profit (loss) before tax		
– from continuing operations	**121,386**	136,548
– from discontinued operations	**(4,126)**	(18,030)
	117,260	118,518
Tax calculated at applicable PRC tax rate of 25% (2009: 25%)	**29,315**	29,629
Tax effect of expenses not deductible for tax purpose	**25,068**	15,630
Tax effect of income not taxable for tax purpose	**—**	(19,275)
Tax effect of tax loss not recognised	**—**	740
Utilisation of tax losses previously not recognised	**(6)**	(5,154)
Effect of different tax rates of group companies operating in jurisdictions other than PRC	**(5,015)**	940
Income tax expense	**49,362**	22,510

8. DISCONTINUED OPERATIONS

On 14 October 2010, the Company entered into the non-legally binding letter of intent with Hangfull Limited, an independent third party, in relation to the possible disposal of entire issued share capital of Benefun (BVI) Limited and its subsidiaries regarding apparel manufacturing business and property development and renting business for an aggregate non-refundable deposit of HK$1,000,000. The assets and liabilities attributable to those businesses, which is expected to be sold within twelve months, have been classified as discontinued operations in the consolidated statement of comprehensive income accordingly.

The sales, results and cash flow of the discontinued operations were as follows. The comparative statement of comprehensive income and related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Turnover (Note 3)	**3,931**	78,124
Cost of sales	**(4,519)**	(55,179)
Gross profit	**(588)**	22,945
Other income and gains (losses), net (Note 5)	**8**	(16,042)
Distribution costs	**(76)**	(4,553)
Administrative and other operating expenses	**(3,470)**	(20,212)
Finance costs (Note 6)	**—**	(168)
Loss before tax	**(4,126)**	(18,030)
Income tax credit (Note 7)	**—**	1,130
Loss for the year (Note 9)	**(4,126)**	(16,900)

Loss for the year from discontinued operations included the following:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Staff costs including director's emoluments	**2,565**	2,513
Depreciation of property, plant and equipment	**12**	544
Cost of inventories recognised as an expense	**4,519**	55,179
Auditor's remuneration - current year	**25**	26
Operating leases charges on property rentals	**72**	619
Loss on disposal of property, plant and equipment and investment properties	**—**	15,643
Impairment loss on trade and other receivables recognised	**—**	4,125
Exchange differences, net	**—**	(93)
Rental income from investment properties less outgoings of HK$Nil (2009: HK$268,000)	**—**	(6,565)

Cash flows from discontinued operations:

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Net cash inflow from operating activities	**266**	3,168
Net cash outflow from investing activities	**(391)**	(533)
Net cash outflow from financing activities	**—**	(166)
Net cash (outflow) inflow	**(125)**	2,469

9. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year is arrived at after charging (crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		*(Restated)*		
Staff costs including directors' emoluments	**30,734**	2,177	**2,565**	2,513	**33,299**	4,690
Depreciation of property, plant and equipment	**73**	78	**12**	544	**85**	622
Amortisation of intangible assets	**9,895**	3,064	**—**	—	**9,895**	3,064
Cost of inventories recognised as an expense	**187,366**	38,185	**4,519**	55,179	**191,885**	93,364
Auditor's remuneration						
– under-provision in prior year	**733**	—	**—**	—	**733**	—
– current year	**815**	955	**25**	26	**840**	981
Operating leases charges on property rentals	**625**	716	**72**	619	**697**	1,335
Loss on disposal of property, plant and equipment and investment properties	**—**	—	**—**	15,643	**—**	15,643
Impairment loss on trade and other receivables recognised	**—**	—	**—**	4,125	**—**	4,125
Exchange differences, net	**—**	(3)	**—**	(93)	**—**	(96)
Rental income from investment properties less outgoings of HK$ Nil (2009: HK$268,000)	**—**	—	**—**	(6,565)	**—**	(6,565)

10. EARNINGS PER SHARE

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

For continuing and discontinued operations

Earnings	**2010** ***HK$'000***	2009 *HK$'000* *(Restated)*
Earnings for the purpose of basic earnings per share	**68,102**	96,008
Effect of dilutive potential ordinary shares:		
Interest on convertible notes, net of tax	**9,123**	7,000
Earnings for the purposes of diluted earnings per share	**77,225**	103,008

Number of shares	**2010** ***'000***	2009 *'000*
Weighted average number of ordinary shares for the purposes of basis earnings per share	**7,212,061**	4,244,431
Effect of dilutive potential ordinary shares:		
Convertible notes and share options	**1,668,030**	1,246,575
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**8,880,091**	5,491,006

For continuing operations

	2010 ***HK$'000***	2009 *HK$'000* *(Restated)*
Earnings for the purpose of basic earnings per share for continuing and discontinued operations	**68,102**	96,008
Add: Loss for the year from discontinued operations	**4,126**	16,900
Earnings for the purposes of basic earnings per share from continuing operations	**72,228**	112,908
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes, net of tax	**9,123**	7,000
Earnings for the purposes of diluted earnings per share for continuing operations	**81,351**	119,908

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operations

Basic loss per share for the discontinued operations is HK$0.06 cents per share (2009: loss of HK$0.40 cents per share) and diluted loss per share for the two years ended 30 June 2010 and 2009 has not presented as it was anti-diluting to the Group. The calculation is based on the loss for the year from the discontinued operations of approximately HK$4,126,000 (2009: HK$16,900,000). The denominators detailed above for basic and diluted earnings are approximately 7,212,061,000 shares (2009: 4,244,431,000 shares) and 8,880,091,000 shares (2009: 5,491,006,000 shares) respectively.

11. DIVIDENDS

The board of directors of the Company do not recommend the payment of any dividend for the year ended 30 June 2010 (2009: Nil).

12. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**111,966**	30,468
Prepayments, deposits and other receivables	**18,902**	45,277
	130,868	75,745
Less: Allowances for doubtful debts	**(30,046)**	(30,046)
	100,822	45,699

The movements in allowances for doubtful debts of trade and other receivables are as follows:

	2010	2009
	HK$'000	*HK$'000*
At 1 July	**30,046**	28,080
Impairment loss recognised during the year	**—**	4,125
Written off as uncollectible during the year	**—**	(2,047)
Exchange difference	**—**	(112)
At 30 June	**30,046**	30,046

The Group has individually assessed all trade and other receivables and provided in full for all receivables that are considered not recoverable. At 30 June 2010, included in the impairment loss of trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$30,046,000 (2009: HK$30,046,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

At the end of the reporting period, the ageing analysis of trade and other receivables that were past due but not impaired are as follows:

	2010	2009
	HK$'000	*HK$'000*
Less than 1 month past due	**340**	19,433
1 to 3 months past due	**8,114**	3,726
More than 3 months but less than 12 months past due	**37,001**	—
More than 12 months past due	**—**	875
Amount past due at the end of the reporting period but not impaired	**45,455**	24,034

Trade and other receivables that were neither past due nor impaired relate to a wide range of customers who has no recent history of default.

Trade and other receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Group generally allows a credit period of approximately 90 days to its trade customers and based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

Included in trade and other receivables in the consolidated statement of financial position are mainly the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2010	2009
	'000	*'000*
RMB	**67,559**	38,488
USD	**—**	21

13. ASSETS / LIABILITIES CLASSIFIED AS HELD FOR SALE

On 14 October 2010, the Company entered into the non-legally binding letter of intent with Hangfull Limited, an independent third party, in relation to the possible disposal of entire issued share capital of Benefun (BVI) Limited and its subsidiaries regarding apparel manufacturing business and property development and renting business for an aggregate non-refundable deposit of HK$1,000,000. The assets and liabilities attributable to those businesses, which is expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position accordingly.

The major classes of assets and liabilities classified as held for sale at 30 June 2010, which have been presented separately in the consolidated statement of financial position, are as follows:

	2010
	HK$'000
Property, plant and equipment	387
Trade and other receivables	16,807
Cash and cash equivalents	2,045
Total assets classified as held for sale	19,239
Trade and other payables	50,196
Total liabilities classified as held for sale	50,196
Net liabilities classified as held for sale	30,957

14. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**4,857**	21,805
Property forward sales deposits and instalments received	**—**	3,483
Other payables and accunal	**54,979**	42,549
	59,836	67,837

An ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**2,080**	6,355
31 - 90 days	**—**	3,752
91 - 180 days	**—**	767
Over 180 days	**2,777**	10,931
	4,857	21,805

The average credit period on purchases is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Trade and other payables are expected to be settled within one year. The fair values approximate to their respective carrying amounts at the end of the reporting period due to their short-term maturity.

Included in trade and other payables in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate.

	2010	2009
	'000	*'000*
RMB	**18,296**	52,847

15. EVENTS AFTER THE END OF REPORTING PERIOD

(a) Pursuant to an announcement of the Company dated 10 September 2010, the Company's wholly-owned subsidiary, Energy Ally Limited ("EAL") entered into the joint venture agreement ("JV Agreement") with an independent third party, Wealthy Technology Development Limited ("WTD"), under which the parties have agreed to form the joint venture which will be principally engaged in environmental industry specialised in urban sewage, industrial wastewater, leachate treatment and solid waste treatment (the "JV") on 10 September 2010.

Pursuant to the terms of the JV Agreement, the registered capital of the JV will be HK$4,000,000. The Group will contribute an aggregate of up to HK$2,040,000 in cash for 51% of the equity interest in JV.

WTD will contribute HK$1,960,000 in cash for 49% of the equity interest in JV. Upon establishment, the JV will become an indirect non-wholly owned subsidiary of the Company.

(b) Pursuant to the announcements of the Company dated 11 June 2010, 30 September 2010, 13 October 2010, the Company has completed the acquisition of entire issued share capital of Ally Goal Limited on 13 October 2010 at a total consideration of HK$70,400,000.

The Group shall pay to the vendor cash of HK$20,000,000 on or before 30 November 2010; issue 200,000,000 consideration shares at the price of HK$0.072 per consideration share to the vendor. The balance of 500,000,000 consideration shares shall be issued to the vendor upon Ally Goal Limited's achievement of the relevant profit guarantee during the profit guarantee period, the relevant calculation remains unchanged. The Company's issuance of consideration shares shall not be more than 700,000,000 shares in aggregate.

(c) Pursuant to an announcement of the Company dated 14 October 2010, the Company entered into non-legally binding letter of intent ("Letter of Intent") with Hangfull Limited (the "Purchaser"), an independent third party, in relation to the possible disposal of entire issued share capital of Benefun (BVI) Limited, Wylkeen Investment Limited and Zhangzhou Golden River Estate Development Company Limited (collectively known as "Disposal Group") on 14 October 2010. The Purchaser shall pay a non-refundable deposit of HK$1,000,000 to the Group within fourteen days from the date of Letter of Intent before conducting the due diligence on the Disposal Group. The Letter of Intent shall remain valid until 31 December 2010.

INFORMATION FROM THE INDEPENDENT AUDITOR'S REPORT

Basis for qualified opinion

For the year ended 30 June 2008, the preceding auditor was unable to obtain any evidence to substantiate certain alleged transactions of garment business of approximately HK$30.63 million and had qualified their opinion accordingly. Details of the qualified audit opinion are set out in the independent auditor's report dated 22 October 2008.

The preceding auditor's opinion on the consolidated financial statements of the Group for the year ended 30 June 2009, which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified by the preceding auditor because of the significance of the possible effect of the limitations on the scope of the audit in relation to transactions handled by an external sub-contractor of fertilizer production. Details of the qualified audit opinion are set out in the independent auditor's report dated 22 October 2009 issued by the preceding auditor and included in the Company's annual report for the year ended 30 June 2009.

For the year ended 30 June 2010, taxation of approximately HK$23.24 million and other tax related payables of approximately HK$25.32 million were recorded during the year ended 30 June 2010. However, we have not been provided sufficient information to assure the system of internal control on the financial reporting and taxation cycles are effectively maintained by the Group that we could rely on for the purpose of our audit. We have been unable to obtain adequate reliable information, or to carry out any alternative audit procedures to satisfy ourselves that the provision of taxation and other tax related payables and any other related contingent liabilities were properly recorded and disclosed.

Any adjustment found to be necessary in relation to the captioned matters would affect the results and cash flows of the Group for the year and net assets at 30 June 2010.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the possible effects of matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BUSINESS AND OPERATION REVIEW

In view of the intensified price competition and surge in material prices and production costs in the garment industry and the continued losses resulted from the segment of apparel manufacturing since 2006, the Group had gradually scaled down its apparel manufacturing and retailing business and discontinued such business during the year ended 30 June 2009. In addition, the Group has disposed of its investment property in the PRC, which was held by Wingo Asia Limited, during the year ended 30 June 2009.

On 14 October 2010, the Group entered into the Letter of Intent for the sale of its interests in Benefun (BVI) Limited and its subsidiaries, Wylkeen Investment Limited and Zhangzhou Golden River Estate Development Company Limited, which have been principally engaged in the apparel manufacturing business, renting business and property development business, of which activities remained sluggish during the year ended 30 June 2010. The Group considers that this possible disposal shall enable the Group to realize the value of the apparel manufacturing and property development and rental businesses which no longer has any significant business activities, and to concentrate its resources on cultivating the profitable green business in the PRC.

The Group has been continuing to explore new business opportunities for corporate development. On 5 October 2009, an extraordinary general meeting was held wherein a special resolution was passed, that the name of Company be changed to China Environmental Resources Group Limited. It signified the new chapter in the Group's green business of environmental, ecological and economical viabilities. The Group will dedicate to developing renewable, sustainable and valuable green resources serving both the mankind and the environment.

The Group is positioned to be the leading green business enterprise providing comprehensive green solutions in China. The Group is principally engaged in the business of research, development and application of technologies, manufacture, sale and distribution of products, materials and systems for green market segments vertically integrated from environmental system, plantation material, ecological plantation to green medical application.

ENVIRONMENTAL SYSTEM

In 2009, the Group successfully developed the waste-to-value "O-Live Organic Waste Treatment System" ("O-Live System") which is an automatic machine utilizing high temperature micro-organisms technology for environmental treatment of animal manures of livestock farms. Within 24 hours, O-Live System kills animal influenza and common disease bacteria and converts animal manures into raw materials for producing microbial organic fertilizer. Sale of environmental systems amounted to approximately HK$38,639,000 for the financial year, representing 13.6% of total turnover of the Group.

In 2010, the Group boardens its technology application by integrating micro-organisms technology with nanotechnology to develop the "O-Pure Sewage Treatment System" ("O-Pure System"). On 10 September 2010, the Group formed the joint venture with Wealthy Technology Development Limited to engage in business of specialized treatment of urban sewage, industrial wastewater, leachate treatment and high density liquid waste treatment.

PLANTATION MATERIAL

The Group engages in the waste-to-value green business by utilizing the organic waste treated by O-Live System to be the organic raw materials for production of organic fertilizers. To further complete its range of technologies, the Group acquired from the Cathay Investment Fund Limited the patents which cover the technologies and processes in relation to the production of fertilizers.

In 2009, the Group partnered with The Agricultural No. 8 Division No. 142 Regiment of the Xinjiang Production and Construction Corps. (XPCC) to form the joint venture on respective 70:30 equity basis in Shihezi City, Xinjiang Region to engage in the production and sales of organic fertilizers.

Xinjiang is China's largest autonomous region of total area of 1,664,900 square kilometers. It is a major agricultural base and its primary industry accounted for 17.8% of GDP in 2007. The Chinese government had issued various policies and contributed billions of state revenues for the development of Xinjiang under its western development strategy. In 2010, Chinese government required 19 provinces and cities to contribute certain proportion of the local government revenues to support the production and construction of Xinjiang. Xinjiang Region achieved the above-scale industrial added value of RMB102.4 billion, with the growth rate of 14.8% in the first seven months of 2010. The government caliber revenue had achieved about RMB64.3 billion, with the growth rate of 38.6% in the same period. The <Several Policies and Regulations for Encouraging Foreign Investments> published by Xinjiang government had identified agriculture, forestry, livestock and environmental treatments as the key industries in the future development. The Group's green business will be in line with the encouraging development of Xinjiang.

In January 2010, the Group's organic fertilizer product (Tian Mi Mi) was awarded the 2009 leading brand in the industry of organic fertilizer market. The sales of organic fertilizers amounted to amounted to HK$180,012,000 for the financial year, representing 64.5% of total turnover of the Group.

ECOLOGICAL PLANTATION

Having utilized its microbial technology and organic fertilizer, the Group engages in ecological plantation for sustainable farming of timber resources and herbal crops. The Group owns ecological plantation site of 60,000 mu (Chinese Mu) in Shihezi City, Xinjiang Region, China. The site is about 150 kilometers west from Urumqi, the provincial capital, and is well connected with the China National Highway No. 312 and railways.

Ecological plantation business includes the plantation of fast growing, high yield, renewable, sustainable and self-growing timber resource, organic herbs and crops. Timber resource of poplar tree provides the raw material for wood product making industry, wood pulp for paper making industry, construction industry, infrastructural development in line with prospering China' West Development Plan. Herbal crops are basic ingredients for green and natural medicine. The sales of plantation products amounted to amounted to HK$52,023,000 for the financial year, representing 18.3% of total sales turnover of the Group.

GREEN MEDICAL APPLICATION

To explore further green business opportunity, the Group vertically penetrated its ecological plantation for organic farming of herbs and crops of high value green medicine. On 13 October, 2010, the Group completed the acquisition of the 100% equity interest in Ally Goal Limited. Ally Goal's wholly owned subsidiary is a company operating in the PRC and principally engaged in the research and development, application and sale of herbal product, biotechnology, green medical application and related products. The green medical business is housed in the research and development centre of approximate 8,000 square meters in the Songshan Lake Science and Technology Industrial Area in Dongguan, which was established by the government of Guangdong Province in 2001. By the end of 2008, total of 290 renowned international and national high-tech enterprises have their headquarters and R&D centers in the area.

Ally Goal has the research and management team of international standards in herbal medicinal plants, biotechnology and green medical applications, proprietary technology and intellectual property rights and clientele for related products sale. It will assist the Group's vertical integration of the green business, from the organic waste treatment by environmental system, bio-technological production of microbial organic fertilizer for plantation of organic medicinal herbs, further processing the organic medicinal herbs into high-value green medical and pharmaceutical products.

PROSPECTS

China has a population of approximately 1.3 billion, which is accounted for 22% of the world's population. In contrast, the cultivable land in China is only 1.826 billion Chinese mu, which is accounted for 7% of world's total cultivable land. This year has been the seventh year that central document No.1 focused on the agriculture issues. The document accentuated that China should continue to increase input into agriculture and rural areas.

In addition, according to China's <the Eleventh Five-Year Plan for National Economic and Social Development>, Chinese government would be committed to energy saving and low-carbon economy. The Plan stated that the energy consumption of GDP per unit and the major pollutants discharged should be reduced by around 20% and 10% respectively.

Having based on the above two sectors blessed by China' prioritized policies, the Group is confident in capitalizing the green business opportunities stimulated by supportive government policies and booming green market.

ENVIRONMENTAL SYSTEM

In 2010, the State Council issued important notices to ensure the realization of target to achieve energy saving and emission reduction under the <Eleventh Five-Year Plan>. At the same time, according to the plan, it can be forecasted that the total demand of meats will increase to 88.45 million tons by year 2015 from 84 million tons in 2010. Predicated upon the continuous development of China's agriculture and livestock farming, large amount of livestock farms would face the unavoidable problem of increasing organic waste, driving up demand for environmental treatment for this industry.

The Group's O-Live System provides economical and environmental treatment of the organic waste produced and discharged by the farms, and can kill most common harmful bacteria within 24 hours. It also turns the organic waste into raw materials for organic fertilizers by microbial technology, which will bring a new source of income to livestock farms.

In light of the success of O-Live system on the organic waste treatment, the Group widens its technology spectrum to develop O-Pure System for sewage treatment business. China is deficient in the water resource per capita. The total amount of water resource in China approximates to be 2.37 trillion cubic meters. However, the water resource per capita in China is only 1,784 cubic meters, which is approximately equal to one-fourth of the world's average level. Based on the statistics above and government's support to projects of energy saving and emission reduction, the Group has the reasons to believe that the sewage treatment industry would have large market opportunities.

PLANTATION MATERIAL

According to the National Bureau of Statistics, China's grain output has experienced six years' growth, which makes the total output of grain rank first in the world. In 2010, the central government proposed to arrange the input of RMB818.3 billion into "three rural", with an increase of RMB93 billion compared to the last year. However most of China's cultivable lands have been overdosed by chemical fertilizers and pesticides in the past decades, which made the land suffering from serious chemical pollution, deteriorating soil productivity and decreasing crops yield.

In order to ensure the continuous increase of crops yield and the sustainable use of cultivable lands, organic fertilizer offers effective, economical and sustainable solution for curing the chemically contaminated soil, increasing crops yield and cultivating organic food. The Group has the reasons to believe that the organic fertilizer industry would have large market opportunities.

ECOLOGICAL PLANTATION

According to the World Wide Fund for Nature (WWF), the demand-supply gap of the timber in China will reach over 125 million cubic meters in 2010. The demand for timber resources in construction, housing and wood products in the China is expected to grow in the long run in view of the economic expansion, infrastructural development and urbanization in China. The ecological plantation business of timber is expected to be on an upward trend due to their scarcity and the increasing demand, particularly when China is now the world's number one importer of industrial wood logs.

In addition, according to the Association of Chinese Medicine, the export of Chinese medicine is USD1.46 billion in 2009 and will maintain 11.72% of the growth rate. In order to seize the market opportunity, the Group's ecological plantation site in Shihezi City, Xinjiang Region, China of 60,000 mu is mainly used for the plantation of timber resource and high value herbal crops. The Group has reasons to believe that its ecological plantation would become one of driving force of profit for the Group.

GREEN MEDICAL APPLICATION

According to the National Bureau of Statistics, the industry of medicine had achieved sales revenue of RMB796.37 billion in the first eleven months of 2009, with the growth rate of 21.3%. With the development trends of population aging and urbanization, the Group believes that the development trends of Chinese medicine and herbal medicine would remain roboust in the future several years.

The Group's acquisition of Ally Goal and its subsidiary will immediately obtain internationally professional management, technology strength and clientele for green medical sector business of the Group.

The Group had made the vertical integration of the green business from organic waste treatment by environmental system, organic fertilizers produced by the raw materials from O-Live system, ecological plantation by the its organic fertilizers and utilize the herbal crops for making of green medical products of higher value. The Group has the confidence to capitalize the green business opportunities to create more value to the shareholders.

FINANCIAL REVIEW

For the year ended 30 June 2010, the Group recorded a consolidated turnover of continuing operations at approximately HK$279.7 million, representing an increase of 454% compared with the year ended 30 June 2009 (the "Previous Year"). The Group's gross profit and profit for the year from continuing operations were at approximately HK$92.3 million and HK$72 million respectively, and its basic and diluted earnings per share from continuing operations for the year was HK$1.00 and HK$0.92 respectively (for the Previous Year: restated gross profit and profit for the year from continuing operations were approximately HK$12.3 million and HK$112.9 million respectively, representing its diluted earnings per share from continuing operations was HK$2.18).

In calculating the Group's consolidated net profit, the administrative and other operating expenses of approximately HK$68.9 million included major items, such as other taxes of HK$25.3 million, rent of HK$7.3 million, commission of HK$7.3 million, amortization of land concession right of HK$4.9 million and amortization of technology patents of HK$4.9 million. Finance costs of HK$10.9 million, not related to operation in nature, was interest expense on Convertible Notes.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2010, the Group's cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, totally amounted to approximately HK$18.4 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in China and did not use any financial instruments for hedging purpose.

As as 30 June 2010, the Group's current assets amounted to approximately HK$150.0 million and current liabilities amounted to approximately HK$139.6 million. The Group's net current assets, being its current assets minus its current liabilities, amounted to approximately HK$10.4 million. On 14 October 2010, the Group entered into non-legally binding letter of intent regarding possible disposal of some of its subsidiaries engaging in garment and property businesses. Net current liabilities classified as held for sale arrived at HK$31.0 million and its disposal will contribute to net current assets.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2010, the Group pledged bank deposits of HK$5 million to secure general banking facilities.

CAPITAL RAISING AND EXPENDITURE

During the year ended 30 June 2010, the Group did not carry out any equity fund raising activities except for the conversion of convertible notes and exercise of share options.

EMPLOYEES AND RETIREMENT BENEFIT SCHEME

The Group had approximately 73 employees in Hong Kong and the PRC as at 30 June 2010. The Group implements remuneration policy, bonus and share options scheme 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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted all the code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules as its own code on corporate governance practices. The Company has compiled with code provisions as set out in the Code during the year ended 30 June 2010 except for the following deviation:

Code Provision A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not have a separate chairman and chief executive officer and Ms. Kam Yuen, an Executive Director of the Company, currently assumes both roles. The Board believes that the vesting of the roles of chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The Board also believes that the Company already has a strong corporate governance structure and as such the present structure is considered to be appropriate under the circumstances.

AUDIT COMMITTEE

The Company's audit committee is composed of three independent non-executive directors. It reports directly to the board and reviews matters within the scope of audit, such as financial statements and internal controls. The written terms of reference which describes the authority and duties of the audit committee are regularly reviewed and updated by the board. The audit committee has discussed auditing and financial reporting matters including the annual consolidated results of the Group for the year ended 30 June 2010.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's codes of conduct regarding Directors' securities transactions. Having made specific enquiry with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the year ended 30 June 2010.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange.

SUSPENSION OF TRADING

Trading in the shares was suspended from 9:30 a.m. on 29 October 2010 at the request of the Company pending the issue of this announcement and will remain suspension.

By Order of the Board
China Environmental Resources Group Limited
Kam Yuen
Chairman

Hong Kong, 28 October 2010

As at the date of this announcement, the Board comprises three executive directors, namely Ms. Kam Yuen (Chairman and Chief Executive Officer), Mr. Kwok Wai, Wilfred and Mr. Leung Kwong Choi; and three independent non-executive directors, namely Mr. Cheung Ngai Lam, Mr. Wong Kwai Sang and Mr. Christopher David Thomas.