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: 1130)

SUPPLEMENTARY ANNOUNCEMENT

AND

RESUMPTION OF TRADING

The board of directors of China Environmental Resources Group Limited wishes to furnish supplementary disclosures on the final results for the year ended 30 June 2010 and on the Notes to the Consolidated Financial Statement.

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 an application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 24 November 2010.

SUPPLEMENTARY DESCRIPTION FROM THE BOARD

The board of directors (the "Board") of China Environmental Resources Group Limited (the "Company") hereby refers to the announcement of final results for the year ended 30 June 2010 ("**Year 2010**") made by the Company dated 28 October 2010 and the 2010 Annual Report and wishes to supplement the following:

FINANCIAL REVIEW

The Company was listed in 1997 with business focuses on garment and property businesses in the People's Republic of China ("PRC"). Due to keen competition and rising cost of the garment and property businesses, the Company and its subsidiaries (the "Group") recorded 11-year average turnover of HKD1,937 million and average net loss of HKD29.8 million (July 1997 – June 2008). To maximize shareholders' return, the Group diversified into green business in late 2008. The Group's current green businesses include the provision of diversified products, services, systems and solutions to a variety of markets, including the environmental markets, agricultural markets, organic markets and green medical markets in the PRC market and overseas. The Group's green business, in terms of product variety, business complexity and counter-parties locality, is distinct from the garment and property businesses carried on by the Group in the past.

During the financial year ended 30 June 2010, the Group discontinued its garment and property businesses and devoted its resources to cultivate its green businesses in the PRC. The Group recorded an increase in turnover of 454% to HKD279.7 million from HKD50.5 million of the year ended 30 June 2009 (the "Year 2009") in its continuing operations. The Group's gross profit and profit for Year 2010 from continuing operations were at approximately HK$92.3 million and HK$72.0 million respectively (for Year 2009, the restated gross profit and profit for the year from continuing operations were approximately HK$12.3 million and HK$112.9 million respectively).

In Year 2010, the Group's administrative and other operating expenses of continuing operations amounted to approximately HK$68.9 million (Year 2009: approximate HK$14.9 million). The administrative and other operating expenses included major items such as other taxes of approximately HK$25.3 million, rent of approximately HK$7.3 million, commission of approximate HK$7.3 million, amortization of land concession right of approximately HK$4.9 million and amortization of technology patents of approximately HK$4.9 million. The increase in administrative and other operating expenses was commensurate with the growth of the Group's green business and related activities. In Year 2009, the green business activities were in their early stage of development and thus the related expenses were relatively lower. As the Group's turnover increased, administrative and other operating expenses and taxation also increased in line with the growth of the Group's business.

In Year 2010, equity settled share-based payment expense of approximate HK$42.1 million was recorded. Such expense was not related to operation in nature, but to equity settled share-based payment in the form of share option. In Year 2009, no such expense was recorded. In Year 2010, finance costs of continuing operations of approximately HK$10.9 million was also recorded (Year 2009: HK$15.9 million). Such expense was not related to operation in nature, it represented the effective interest expense on convertible notes issued by the Company in 2008.

For Year 2010, income tax expenses for continuing operations was approximately HK$49.4 million (Year 2009: HK$23.6 million). The increase in income tax expense was also commensurate with the growth of the Group's green business. In Year 2009, the Group's green business was in its early stage of development and thus the tax expenses were relatively lower.

AUDIT QUALIFICATIONS

BASIS FOR QUALIFIED OPINION

In the Independent Auditor's Report for Year 2010, the Group's independent auditor made certain qualified opinions as follows:

"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. ***("2008 Qualified Opinion")***

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. ***("2009 Qualified Opinion")***

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. ***("2010 Qualified Opinion")***

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

PRIOR YEAR AUDIT QUALIFICATIONS

With respect to the 2008 Qualified Opinion, the Board would like to supplement that the garment business was being discontinued during the Year 2009. The Group has entered into agreement on 5 November 2010 to dispose of such business segment which is a not a notifiable transaction according to

Chapter 14 and 14A of the Listing Rules. The 2008 Qualified Opinion will have no brought forward effect to the consolidated financial statements for the year ended 30 June 2011. As the Group already discontinued the garment business, it is expected that the 2008 Qualified Opinion could be resolved and no similar qualifications would be made in the financial year ending 30 June 2011.

The 2009 Qualified Opinion was issued by the preceding auditor in relation to the sale and purchase of organic fertilisers and related receivables and payables (the "Transactions") handled by an external sub-contractor. However, the preceding auditors of the Company considered that there was no system of internal control maintained by either the sub-contractor or the Group over the Transactions that the preceding auditor could rely on for the purpose of their audit.

In respect of such transactions for Year 2009 which related to the use of external sub-contractor, the auditor of the Company, Zhonglei (HK) CPA Company Limited (the "**Auditor**") was not able to obtain adequate reliable information, or to carry out any alternative audit procedures to satisfy themselves in respect of the brought forward effects of the Transactions during Year 2010. Therefore, it was of the Auditor's view that if any adjustments were found to be necessary in relation to the brought forward effects of the Transactions, the related taxes, trade receivables and other receivables, it would have brought-forward effect on the Group's results and cash flows for the Year 2010 and the net assets position of the Group as at 30 June 2010.

The Company ceased to engage the external sub-contractor for the organic fertilizers business in around the end of June 2009 and the Company changed its mode of operation in early July 2009. Under the current mode of operation, the Company directly handled the sales, purchases and taxation cycles. Orders were received by the Group from its customers (both in the PRC and overseas), after the goods were manufactured, they were delivered by the Group's PRC subsidiaries to customers in the PRC and by the Group's Hong Kong subsidiary(ies) to customers outside of China.

During the Year 2010, the Group has appointed an independent professional accountant to perform an internal control review on its sales and receipts cycles covering both models with external sub-contractor and without external sub-contractor. The Group has incorporated the relevant recommendations into its internal control system during Year 2010 and has kept monitoring the enforcement of the internal control system to ensure that the system is being followed strictly during Year 2010. As the Group already ceased to engage the external sub-contractor, it is expected that the 2009 Qualified Opinion could be resolved and no similar qualifications would be made in the financial year ending 30 June 2011.

The Board and the audit committee of the Company ("Audit Committee") considered that as the Group had changed its operational model and ceased to use external subcontractor in its business operation, the related internal control deficiencies, in respect of the transactions handled by external sub-contractor, should not have any effects on the Group's results for the financial year ended 30 June 2010 and onwards. Both the Board and the Audit Committee considered that internal control system is currently in place within the Group; however, they also considered that internal control is an area which requires continual monitoring and improvement and the Company would continue to strengthen its internal control system.

2010 AUDIT QUALIFICATION

With specific to 2010 Qualified Opinion, during the process of audit work, the Auditor became aware of the likelihood of certain probable PRC taxation issues as some transactions of the Group were handled by its Hong Kong subsidiary. The Group has appointed a professional firm to issue an opinion ("**PRC Opinion**") on, among others, the legality of the Company's Hong Kong subsidiary operating through its PRC subsidiaries, related taxation issues, PRC taxation treatment on sale (if applicable) and PRC taxation treatment on purchase (if applicable) as the basis to quantify the amount of tax payables.

For the purposes of Hong Kong Accounting Standard 12 and 37, the Auditor considered that they could not ascertain (i) whether PRC taxation was probably payable by the Company's Hong Kong subsidiary; and if so, (ii) whether the penalty and amount of taxation actually levied on the Group would be without material variance when compared with the amount as calculated and shown in the PRC Opinion. The Auditor, therefore, considered that the risk of misstatement on tax provision was high and it could materially affect the consolidated financial statements of the Group.

As a result, apart from the 2008 Qualified Opinion and the 2009 Qualified Opinion, the Auditor made the 2010 Qualified Opinion which related to provision of taxation and other tax related payables and any other related contingent liabilities. The financial impact of the 2010 Qualified Opinion only relates to (i) taxation of approximately HK$23.24 million; (ii) other tax related payables of approximately HK$25.32 million; and (iii) other tax related contingent liabilities, if any.

The reason behind 2010 Qualified Opinion was that during Year 2010, the Group changed its operational model and ceased to use external sub-contractor for its organic fertilizers transactions and directly handled sales, purchases and related matters in Year 2010. The Group's previous garment and property businesses were rooted in the PRC market while its new green businesses involved cross-border customers having their headquarters in Hong Kong, overseas technology providers and some transactions were done through Hong Kong subsidiary of the Company. The new green businesses include the provision of diversified products, services, systems and solutions to a variety of markets, including the environmental markets, agricultural markets, organic markets and green medical markets. The Group provides different products and services to its customers in the PRC market and overseas. The Group's green business, in terms of product variety, business complexity and counter-parties locality, is distinct from the garment and property businesses carried on by it in the past. As the Group's previous garment and property businesses were not as diversified as those of its green businesses, the Group had less experience in diversified taxation issues involving cross-border trades and which the Company considered led to the tax issues and the qualified opinion by Auditor.

The Company's preceding auditor made qualification on, among other matters, taxation related to the sale and purchase of organic fertilizers for Year 2009. However, during the relevant time, the fertilizer business was handled by external sub-contractor, which operating model was different from the period under audit by the Auditor. The Group did not receive similar audit qualification from the Auditor in the audit for Year 2010.

As the Auditor did not raise other qualification other than the taxation issues which had been disclosed in the Company's annual report for Year 2010, the Board and the Audit Committee considered that internal control system was in place but the Group would devote more resources in its finance and accounting department to ensure that its financial reporting and internal control systems were being continually monitored and strengthened. In view of the Group's migration to green business and rapid expansion of the Group's business, the Board and the Audit Committee would have more frequent discussions with the Group to ensure that the financial reporting and internal controls system are efficient and effective to synchronize with its fast growing pace.

Save for taxation issues, the Auditor was not aware that there were other significant deficiencies in the Group's internal control system including the sales and purchases cycle for the preparation of the consolidated financial statements during their audit of the Group's results for Year 2010. The Group will appoint an independent tax consultant and tax counsel to review and provide guidelines to improve the Group's internal control system on all businesses as a whole, and with particular emphasis on the taxation cycles and financial reporting system to further strengthen the Group's internal control system and to avoid similar audit qualifications in the coming financial years. If necessary, upon the Group obtaining the final tax assessment issued by the PRC tax authority regarding the relevant transactions occurred during the financial year ended 30 June 2010, it is expected that the 2010 Qualified Opinion could be resolved and no similar qualifications would be made in the financial year ending 30 June 2011.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In the Independent Auditor's Report for the year ending 30 June 2010, the Group's independent auditor made opinions as follows:

"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 the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance."

The Auditor performed audit works in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. No material misstatement had been noted for the sales, purchase, accounts receivables and other receivables and payables on organic fertilizers and therefore the Auditor concluded that the sales, purchase, accounts receivables and other receivables and payables amount was fairly stated. In the Year 2010, the Auditor also had been unable to obtain adequate reliable information, or to carry out any alternative audit procedures to satisfy themselves in respect of the 2009 Qualified Opinion. Therefore, if there are any adjustments found to be necessary in relation to the organic fertilizers transactions, the related taxes, trade receivables and other receivables, it would have brought-forward effect on the Group's results and cash flows for the year ended 30 June 2010 and net assets at 30 June 2010.

2010 ANNUAL REPORT

The Board refers to the 2010 Annual Report and wish to append notes as follows:

Notes to the Consolidated Financial Statement

13. INCOME TAX EXPENSE

For the year ended 30 June 2010, PRC Enterprise Income Taxation of approximately HK$23.24 million and other tax related payables of approximately HK$25.32 million, being tax penalty of HK$3.5 million and value added tax of HK$21.82 million, were recorded during the year ended 30 June 2010. However, the Auditor had 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 the Auditor could rely on for the purpose of audit.

Though the Company has appointed a professional PRC firm to issue an opinion ("PRC Opinion") to quantify the amount of taxation and that amount was booked as the Company's late adjustment accordingly, the Auditor considered that the PRC Opinion could not confirm the following:

i) whether the operation of the Company and its subsidiaries ("Group") is liable to the People's of Republic of China (the "PRC") tax; and

ii) whether the penalty calculated by the PRC lawyer and mentioned in the PRC Opinion is reliable.

The Auditor could not ascertain (i) whether PRC taxation was probably payable by the Hong Kong subsidiary; and if so (ii) whether the amount of taxation and related penalty actually levied on the Group and would be without material variance as shown in the PRC Opinion. The Auditor considered that the risk of misstatement on tax provision is high and it would materially affect the consolidated financial statements of the Group. As a result, the Auditor considered that qualifications should be made accordingly.

RESUMPTION 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 an application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 24 November 2010.

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

Hong Kong, 23 November 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.