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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2012

The board of directors (the "Board") of China Environmental Resources Group Limited (the "Company") announces the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2012 together with comparative figures for the year ended 30 June 2011.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Turnover	3	**28,838**	331,555
Cost of sales		**(23,871)**	(290,718)
Gross profit		**4,967**	40,837
Other gains and losses	5	**(282,432)**	508
Other income	6	**1,301**	822
Selling and distribution expenses		**(22)**	(137)
Administrative and other operating expenses		**(58,493)**	(74,094)
Share of result of an associate		**—**	(223)
Finance costs	7	**(9)**	(4,990)
Loss before tax		**(334,688)**	(37,277)
Income tax credit/(expense)	8	**64,945**	(17,207)
Loss for the year	9	**(269,743)**	(54,484)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**17,160**	49,250
Total comprehensive loss for the year		**(252,583)**	(5,234)
Loss for the year attributable to:			
Owners of the Company		**(269,834)**	(54,117)
Non-controlling interests		**91**	(367)
		(269,743)	(54,484)

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Total comprehensive loss attributable to:			
Owners of the Company		**(252,674)**	(4,867)
Non-controlling interests		**91**	(367)
		(252,583)	(5,234)
Loss per share			
– Basic (cents per share)	10	**(11.89)**	(0.94)
– Diluted (cents per share)	10	**(11.89)**	(0.94)

Consolidated Statement of Financial Position

At 30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**2,862**	2,906
Prepaid lease payment		**—**	1,041
Construction in progress		**—**	763
Biological assets		**767,064**	933,542
Goodwill		**—**	36,281
Intangible assets		**130,536**	212,997
Long-term prepayments		**33,660**	73,206
Deposit paid for acquisition of long term assets		**12,000**	—
Interest in an associate		**—**	—
		946,122	1,260,736
Current assets			
Inventories		**335**	1,787
Trade and other receivables	12	**32,914**	19,702
Amount due from non-controlling interest		**—**	1,911
Cash and bank balances		**724**	3,743
		33,973	27,143
Current liabilities			
Trade and other payables	13	**29,966**	36,546
Purchase consideration payable		**45,721**	52,461
Amount due to a related party		**—**	101
Tax payable		**2,759**	2,877
Bank overdraft, unsecured		**4**	—
Obligations under finance lease		**43**	—
		78,493	91,985
Net current liabilities		**(44,520)**	(64,842)
Total assets less current liabilities		**901,602**	1,195,894

	2012	2011
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**207,910**	274,458
Obligations under finance lease	**142**	—
Advance from a related party	**4,842**	11,515
	212,894	285,973
NET ASSETS	**688,708**	909,921
Capital and reserves		
Share capital	**128,270**	108,526
Non-controlling interests	**—**	4,251
Reserves	**560,438**	797,144
TOTAL EQUITY	**688,708**	909,921

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.

The Group had incurred losses of approximately HK$269,743,000 for the year ended 30 June 2012 and net current liabilities as at 30 June 2012 were approximately HK$44,520,000. The ongoing operation of the Group is dependent on:

— the future performance of the operating businesses; and/or
— the additional fundings or loans from its shareholders or other parties.

The directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume that the Group is able to obtain sufficient additional fundings from its major shareholders. A major shareholder of the Company has confirmed to provide an unsecured and interest free revolving loan facility of HK$20,000,000 to the Group. This facility is available to be drawn down by the Group at any time from 24 September 2012 until 30 September 2013. The directors thus believe that the Group has sufficient cash flows to meet its liabilities and financial obligations as and when they fall due and to carry on its businesses without a significant curtailment of operations in the coming twelve months from the date of these financial statements. Accordingly, the directors considered it is appropriate to prepare these financial statements on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANACIAL 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 2010
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets
HKAS 24 (Revised)	Related Party Disclosure
HK (IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement

The adoption of the above new and revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods.

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)	Annual Improvements 2009-2011 Cycle[3]
HKAS 1 (Amendment)	Presentation of Financial Statements[2]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[1]
HKAS 19 (Amendment)	Employee Benefits[3]
HKAS 27 (2011)	Separate financial statements[3]
HKAS 28 (2011)	Investments in associates and joint ventures[3]
HKAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities[4]
HKFRS 7 (Amendment)	Financial instruments: Disclosures - Offsetting financial assets and financial liabilities[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosures of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HK(IFRIC)–Int 20	Stripping Costs in the Production Phase of a Surface Mine[3]

[1] Changes effective for annual periods beginning on or after 1 January 2012
[2] Changes effective for annual periods beginning on or after 1 July 2012
[3] Changes effective for annual periods beginning on or after 1 January 2013
[4] Changes effective for annual periods beginning on or after 1 January 2014
[5] Changes effective for annual periods beginning on or after 1 January 2015

The Group is assessing the impact of these revised standards, amendments and interpretations. The adoption of these revised standards, amendments and interpretations does not have significant impact on the Group's financial statements.

3. TURNOVER

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

	2012	2011
	HK$'000	*HK$'000*
Sales of plantation materials	**3,213**	273,776
Sales of plantation products	**318**	15,740
Green technology income	**25,307**	13,500
Sales of environmental system	**—**	28,539
	28,838	331,555

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" which 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 in order to allocate resources to segments and to assess their performance. The chief operating decision maker is the Company's executive directors.

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) Sales of plantation materials

(ii) Sales of plantation products

(iii) Green technology income

(iv) Sales of environmental system

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 2012

	Green technology income	Sales of plantation materials	Sales of environmental system	Sales of plantation products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
– External sales	**25,307**	**3,213**	**—**	**318**	**28,838**
Segment results before change in fair value of biological assets	**20,882**	**403**	**—**	**(31,340)**	**(10,055)**
Loss on change in fair value of biological assets less estimated point-of-sale costs	**—**	**—**	**—**	**(183,729)**	**(183,729)**
Segment results	**20,882**	**403**	**—**	**(215,069)**	**(193,784)**
Unallocated results					**(140,895)**
Interest income					**—**
Finance costs					**(9)**
Loss before tax					**(334,688)**
Income tax credit					**64,945**
Loss for the year					**(269,743)**

For the year ended 30 June 2011

	Green technology income HK$'000	Sales of plantation materials HK$'000	Sales of environmental system HK$'000	Sales of plantation products HK$'000	Total HK$'000
Segment revenue:					
– External sales	13,500	273,776	28,539	15,740	331,555
Segment results before change in fair value of biological assets	11,971	(8,414)	2,096	(7,958)	(2,305)
Gain on change in fair value of biological assets less estimated point-of-sale costs	—	—	—	112,314	112,314
Segment results	11,971	(8,414)	2,096	104,356	110,009
Unallocated results					(142,315)
Interest income					19
Finance costs					(4,990)
Loss before tax					(37,277)
Income tax expense					(17,207)
Loss for the year					(54,484)

(b) Segment assets and liabilities

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

At 30 June 2012

	Green technology income *HK$'000*	**Sales of plantation materials** *HK$'000*	**Sales of environmental system** *HK$'000*	**Sales of plantation products** *HK$'000*	**Total** *HK$'000*
Segment assets	**11**	**773**	**—**	**897,162**	**897,946**
Unallocated corporate assets					**82,149**
Total assets					**980,095**
Segment liabilities	**145**	**1,192**	**—**	**1,633**	**2,970**
Unallocated corporate liabilities					**288,417**
Total liabilities					**291,387**

At 30 June 2011

	Green technology income *HK$'000*	Sales of plantation materials *HK$'000*	Sales of environmental system *HK$'000*	Sales of plantation products *HK$'000*	Total *HK$'000*
Segment assets	4	120,961	—	1,068,572	1,189,537
Unallocated corporate assets					98,342
Total assets					1,287,879
Segment liabilities	—	233	—	1,550	1,783
Unallocated corporate liabilities					376,175
Total liabilities					377,958

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 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 2012

	Green technology income *HK$'000*	**Sales of plantation materials** *HK$'000*	**Sales of environmental system** *HK$'000*	**Sales of plantation products** *HK$'000*	**Total** *HK$'000*
Other segment information:					
Depreciation of property, plant and equipment	1	99	—	—	100
Amortisation of intangible assets	—	12,965	—	4,932	17,897
Impairment of intangible assets	—	64,564	—	—	64,564
Capital expenditure incurred during the year	—	—	—	—	—
Unallocated depreciation of property, plant and equipment					406
Unallocated capital expenditure					3,272

For the year ended 30 June 2011

	Green technology income *HK$'000*	Sales of plantation materials *HK$'000*	Sales of environmental system *HK$'000*	Sales of plantation products *HK$'000*	Total *HK$'000*
Other segment information:					
Depreciation of property, plant and equipment	1	277	—	—	278
Amortisation of intangible assets	—	18,263	—	4,932	23,195
Impairment of intangible assets	—	60,366	—	—	60,366
Capital expenditure incurred during the year	6	4,505	—	31,384	35,895
Unallocated depreciation of property, plant and equipment					—
Unallocated capital expenditure					—

Geographical information

The Group's revenue from external customers and information about its segment assets and capital expenditure by geographical location of the assets are detailed below:

	Mainland China		Hong Kong		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**18,046**	273,776	**10,792**	57,779	**28,838**	331,555
Segment assets	**975,840**	1,283,309	**4,255**	4,570	**980,095**	1,287,879
Capital expenditure						
– property, plant and equipment	**—**	2,682	**3,272**	6	**3,272**	2,688
– construction in progress	**—**	32,147	**—**	—	**—**	32,147
– prepaid lease payments	**—**	1,060	**—**	—	**—**	1,060
	—	35,889	**3,272**	6	**3,272**	35,895

Information about major customers

Turnover from customers of the corresponding years contributing over 10% of the total turnover of the Group are as follows:

Customer	**Details**	**2012**	2011
		HK$'000	*HK$'000*
A	Green technology income	**14,515**	—
B	Green technology income	**10,792**	—
C	Sales of plantation materials and environmental system	**—**	95,887
D	Sales of plantation materials	**—**	95,887
E	Sales of plantation materials	**—**	87,991

5. OTHER GAINS AND LOSSES

	2012	2011
	HK$'000	*HK$'000*
(Loss)/gain on changes in fair value of biological assets less estimated point-of-sale costs	**(183,729)**	112,314
(Loss)/gain on disposal of subsidiaries	**(4,479)**	34,056
Changes in fair value of purchase consideration payable	**6,740**	27,068
Exchange loss, net	**(119)**	(2,610)
Impairment loss on goodwill	**(36,281)**	(109,394)
Impairment on intangible assets	**(64,564)**	(60,366)
Impairment on interest in an associate	**—**	(532)
Loss on disposal of intangible assets	**—**	(28)
	(282,432)	508

6. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Rental income	**1,110**	—
Interest income	**1**	19
Others	**190**	803
	1,301	822

7. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Effective interest expenses on convertible notes	**—**	4,954
Finance lease interest	**8**	—
Other finance charges	**1**	36
	9	4,990

8. INCOME TAX (CREDIT)/EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax		
– Hong Kong	**1,502**	1,984
– PRC Enterprise Income Tax ("EIT")	**101**	11,642
Under-provision in prior year		
– Hong Kong	**—**	893
Deferred tax		
– current year	**(66,548)**	2,688
Income tax (credit)/expense	**(64,945)**	17,207

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.

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 then wholly-owned subsidiary of the Company, was disposed on 28 June 2011. XJGV operated in forestry business in the PRC and it was subjected to corporate income tax rate of 15% pursuant to relevant preferential tax treatment.

The income tax (credit)/expense for the year can be reconciled to the loss 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:

	2012	2011
	HK$'000	*HK$'000*
Loss before tax	**(334,688)**	(37,277)
Tax calculated at applicable PRC tax rate of 25% (2011: 25%)	**(83,672)**	(9,319)
Tax effect of expenses not deductible for tax purpose	**24,389**	16,619
Tax effect of income not taxable for tax purpose	**(5,652)**	—
Origination and reversal of temporary differences	**—**	8,399
Effect of different tax rates of group companies operating in jurisdictions other than PRC	**(10)**	615
Under-provision in prior year	**—**	893
Income tax (credit)/expense	**(64,945)**	17,207

9. LOSS FOR THE YEAR

Loss for the year is arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
Staff costs including directors' emoluments	**6,058**	4,698
Depreciation of property, plant and equipment	**506**	278
Amortisation of intangible assets	**17,897**	23,195
Cost of inventories recognised as an expense	**2,279**	290,718
Auditor's remuneration		
– under-provision in prior years	**—**	68
– current year	**726**	1,169
Operating leases charges on property rentals	**1,713**	1,460
Impairment loss on amounts due from ex-subsidiaries	**4,189**	—
Impairment loss on long-term prepayments	**2,825**	—
Impairment loss on trade and other receivables recognised	**—**	3,995
Equity-settled share-based payment expense	**5,353**	—

10. LOSS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(269,834)**	(54,117)

	2012 '000	2011 '000
Number of shares *(note)*		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	**2,270,040**	5,777,223

Note: The weighted average of ordinary shares for the purpose of calculating basic loss per share for both years have been retrospectively adjusted for the effect of share consolidation completed in January 2011.

No diluted losses per share have been presented for both years because the purchase consideration payables to be settled in shares and the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share of both years.

11. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 30 June 2012 (2011: Nil).

12. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**—**	664
Prepayments, deposits and other receivables	**32,914**	19,038
	32,914	19,702

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:

	2012 HK$'000	2011 HK$'000
RMB	**902**	100

13. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**—**	70
Other payables and accruals	**29,966**	36,476
	29,966	36,546

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

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**—**	70
31 - 90 days	**—**	—
91 - 180 days	**—**	—
Over 180 days	**—**	—
	—	70

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.

	2012	2011
	HK$'000	*HK$'000*
RMB	**21,016**	12,060

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

BUSINESS AND OPERATION REVIEW

The Group 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 Group diversified into green business in late 2008 to maximize shareholders' return.

The Group is currently engaged in the green businesses of research, development and application of technologies and solutions, manufacture, sale and trading of products, materials, systems and services for green market segments including the environmental markets, agricultural markets, organic markets and green technology markets in the PRC market and overseas. The Group has been continuing to explore new business opportunities for corporate development and dedicates to develop, sustainable and viable green businesses serving both the mankind and the environment.

As mentioned in the Chairman's Statement in the Company's annual report for the financial year ended 30 June 2011, most developed countries' economies remained sluggish and drastic turbulences in global financial markets will cloud the economic development of PRC in next few years. Due to global climate change, the world and the PRC had experienced non-stopped natural disasters on unprecedented scale and damage during last few years and the weather will become extremely unpredictable for business activities in near future. The financial market turbulences coupled with the increasing natural disasters on huge scale and damage, the Group expected to face extreme uncertainties and risks in its business activities.

Expecting extreme uncertainties and risks in its business activities affected by worsening economic conditions and unstable natural factors, the Group proactively revisited its business approach to protective orientation during the financial year ended 30 June 2012. The protective business approach included tighter credit control and pricing measures to corporate clients in the plantation materials, shifting from production to purchase of plantation materials for sale, scaling down of new plantation activities, scaling up protection of biological assets, suspension of sales of environmental system of loss and disposal of inactive subsidiaries and some subsidiaries which require considerable capital intensive investments.

During the financial year ended 30 June 2012, the adverse conditions of continued impact of global economic crisis had not ameliorated and China had continued to be plagued by natural disasters. Growth in the PRC economy declined to its lowest level of 8.1% in nearly 3 years during the first quarter of 2012, falling from the previous quarter's 8.9%. The PRC's economic growth has declined steadily since 2010 as a slump in global demand battered its exporters and PRC government's economic strategy of tightened lending and investment curbs. The World Bank and International Monetary Fund expected 8.2% growth for China in 2012 decreasing from 10.4% in 2010

The reinsurer Swiss Re estimated that 2011 was the year with the highest global catastrophe-related economic losses in history, at USD 350 billion as compared to USD226 billion in 2010. The reinsurer Munich Re estimated that 2011 global catastrophe-related economic losses was USD380 billion and the increase in frequency of climate related catastrophe was caused by the global climate change. On 23 December 2011, the Ministry of Civil Affairs of the PRC announced that in 2011, the natural disasters in China affected 0.44 billion people and damaged agricultural crops area of 41,485,000 hectares and resulted in catastrophe-related economic losses of RMB311.03 billion.

With specific to the Group's operating Plantation Land of approximately 60,000 mu (Chinese Mu) in Shihezi City, Xinjiang Region, Xinjiang Region experienced series of natural disasters of earthquake, drought, flooding, windstorm, low-temperature freeze, ice storm affecting 1.75 million people and resulting in catastrophe-related economic losses of RMB 3.2 billion during the financial year ended 30 June 2012. The Shihezi City was further hit by the earthquakes with magnitude of Mw6.3 on 29 June 2012.

Under the protective business approach, the Group managed to substantially trim down the losing segment of production and sales of plantation materials (2011: Sales of Plantation Materials of HK$273.78 million at gross loss of HK$8.41 million) and turned around the business to gross profitability (2012: Sales of Plantation Materials of HK$3.21 million at gross profit of HK$403,000) for the financial year ended 30 June 2012. Through the disposal of plantation materials production facilities in Shihezi City in April 2012, the Group's operating activities and interests were thus protected from the Shihezi City earthquakes with magnitude of Mw6.3 on 29 June 2012. The Group scaled down its original plan of herbal crops plantation land of approximately 10,000 Chinese mu to approximately 1,450 Chinese mu of land for organic herbal crops of Chinese wolfberry. The revised plantation plan decreased the risks and uncertainties of the adverse impact on the newly grown saplings which are highly vulnerable to natural disasters and availed more resources for protection of the Group's existing poplar trees assets on the Plantation Land to weather natural disasters.

For the financial year ended 30 June 2012, turnover of the Group decreased by 91.3% to HK$28,838,000 with gross profit of HK$4,967,000 (2011: Sale of HK$331,555,000 with gross profit of HK$40,837,000). Loss for the year amounted to HK$269,743,000 (2011: Loss of HK$54,484,000), including HK$36.28 million impairment of goodwill arising from the acquisitions of subsidiaries holding the technology patents, HK$64.56 million impairment of intangible assets of technology patents and HK$183.73 million decrease in valuation of biological assets in accordance with the general decrease in timber prices in the PRC. The Group considers that the impairments are non-cash in nature and will not have material adverse effect on the financial position of the Group.

Plantation Material

With reference to the Company's annual report for the financial year ended 30 June 2011, the sales of plantation materials of HK$273,776,000 represented 82.57% of total turnover of the Group. During the financial year ended 30 June 2011, China's agricultural sector encountered continuous natural disasters of huge scale and damage, including a prolonged droughts and snowstorms over 8 provinces in northern China and series of flooding over 13 provinces in southern China. Those natural disasters had unavoidably hardhit most agricultural operators. The Group offered significant discounts to deepen the client relationship and to quicken collection of trade receivables. The discount strategy resulted in gross loss from sale of plantation material to HK$8,414,000 with gross loss margin of 3.07%.

During the financial year ended 30 June 2012, the corporate customers who were adversely affected by the natural disasters had sought terms including extended credit period and deep discount in pricing which, if accepted by the Group would have led to losses. Instead the Group focused mainly on diversified customers that mainly purchase with cash deposit or on a "cash on delivery" basis and which afforded the Group a higher profit margin of 12.54% against the gross loss margin of 3.07% recorded in the financial year ended 30 June 2011. Whilst the sales turnover for the financial year ended 30 June 2012 for this business segment was substantially lower than that of last financial year, it in fact represented a substantial improvement over the results restoring back to gross profitability from last year gross loss. For the financial year ended 30 June 2012, the sale of plantation materials decreased by 98.8% to HK$3,213,000 from HK$273,776,000 as compared to last year. Sale of plantation materials represented approximately 11.14% (2011: 82.57%) of the Group's total turnover.

As mentioned in the Chairman Statement in the Company's annual report for the financial year ended 30 June 2011, due to global climate change, the world and the PRC experienced non-stopped natural disasters on unprecedented scale and damage during last few years and the weather will become extremely unpredictable for agricultural activities in near future. To protect the interest of shareholders, the Group's strategy will weight toward trading of plantation materials from capital-intensive production of plantation materials.

During 2011, Xinjiang Region experienced lots of natural disasters, including series of earthquakes. In April 2012, the Group disposed the subsidiaries holding plantation materials production facilities in Shihezi City, Xinjiang Region. The Group thus managed to protect the Group's operating activities and interest from the Shihezi City earthquakes with magnitude of Mw6.3 on 29 June 2012. The Group currently sources the plantation materials for sale and will consider acquisition and/or establishment of production facilities under natural stability and commercial viability.

Predicated upon the uncertainties and risks involved with worsening economy and increasing natural disasters, the Company appointed professional valuer to re-value the intangible assets value of technology patents in fertilizer application in relation to business of plantation material and technology income segment for the financial year ended 30 June 2012. Upon review by the professional valuer, in view of the reduced business activities of weaker market, impairment of HK$64.56 million was thus provided for the intangible assets value of technology patents and impairment of the goodwill of HK$36.28 million arising from the acquisitions of subsidiaries holding the technology patents during the financial year. The Group considers that the impairments are non-cash in nature and will not have material adverse effect on the financial position of the Group.

Plantation Product

On 24 June 2008, the group acquired at a total consideration of HK$500,000,000 for the 30 years operating right of the Plantation Land of approximately 60,000 mu (Chinese Mu). The Plantation Land is the flatland area mainly cultivated with poplar trees in Shihezi City, Xinjiang Region, the PRC and is about 150 kilometers west from the Xinjiang provincial capital Urumqi and connected by the China national highway No. 312 and railways.

The profit guarantees of HK$60 million and HK$70 million for the financial years ended 30 June 2009 and 30 June 2010 respectively given under the terms of the acquisition was achieved. In addition, the valuation of biological assets of standing trees on the Plantation Land increased by 27.3% from RMB530,000,000 (approximately HK$602,663,000) as at 30 June 2008 (as disclosed in independent valuation report set out in the circular dated 30 September 2008) to HK$767,064,000 as at 30 June 2012.

The Group engages in ecological plantation of timber resources, organic herbs and crops on the Plantation Land, within which approximately 30,000 Chinese mu of land has already been cultivated with poplar trees (the "Planted Land"). The remaining 30,000 Chinese mu of land has not been cultivated with trees and crops (the "Unplanted Land") within which the development, including, amongst others, the construction of infrastructure such as the building of roads, construction of water pipes and power supply connections of the approximately 10,000 Chinese mu of land has been completed and available for new plantation with the remaining approximately 20,000 Chinese mu of land has not yet completed.

Considering the risks and uncertainties involved with unprecedented varieties and scale of natural disasters in the world and in PRC, the Group scaled down its original plan of herbal crops plantation of approximately 10,000 Chinese mu Unplanted Land to approximately 1,450 Chinese mu for organic herbal crops of Chinese wolfberry. The revised plantation plan decreased the risks and uncertainties of the adverse impact on the newly grown saplings which are highly vulnerable to natural disasters and availed more resources for protection of the Group's existing poplar trees assets on the Plantation Land to weather natural disasters.

During 2011, Xinjiang Region experienced series of natural disasters of earthquakes, drought, flooding, windstorm, low-temperature freeze, ice storm affecting 1.75 million people and resulting in catastrophe-related economic losses of RMB 3.2 billion. Under the protective strategy, the Group's herbal crops and biological assets in the Plantation Land had weathered the windstorm from west of Siberia in April 2012 and the Shihezi City earthquakes on 29 June 2012 with magnitude of Mw6.3. The Group managed to shelter the biological assets from material damages by natural disasters but the normal growth rates of the plantation products were unavoidably affected, especially the biological assets are still currently facing shortage of underground water in the region.

As most plantation products are pending for harvest, the sales turnover for the financial year ended 30 June 2012 for this business segment was considerably lower than that of last year. The sale of plantation products was thus recorded at HK$318,000 with decrease of 98.0% as compared to last year (2011: approximately HK$15,740,000), representing approximately 1.1% of the Group's total turnover.

For the annual audited financial year ended 30 June 2012, the Company appointed professional valuer to re-value the biological assets value of poplar trees cultivated on the Plantation Land. Upon review by the professional valuer, in accordance with the general decrease of timber prices in the PRC, the Group recorded the decrease by 17.8% to HK$767,064,000 from HK$933,542,000 in the fair value of the poplar trees biological assets. The Group considers that the decreases are non-cash in nature and will not have material adverse effect on the financial position of the Group.

Environmental System

In 2009, the Group developed the waste-to-value "O-Live Organic Waste Treatment System" ("O-Live System") which is an automatic machine utilizing high temperature microorganisms 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.

Towards the end of the financial year ended 30 June 2011, the sale of the 2009 O-Live System was suspended pending the development of a more cost-effective, upgraded version of the product. Contrary to expectations, the Group was not able to come up with a more cost-effective new model for sale in the financial year ended 30 June 2012, as was originally contemplated. Whilst no sales turnover and net profit during the financial year for this business segment were recorded as compared to that of last year, the Company had in effect stopped continued losses in this segment. For the financial year ended 30 June 2012, sales of environmental systems recorded no turnover and had no representation of the Group's total turnover (2011: sales of approximately HK$28,539,000).

Green Technology

On 28 January 2011, the Group completed the acquisition of the 100% equity interest in Bright Delight Group Limited ("Bright Delight"). The Vendor is company principally engaged in the research and development, project establishment, application and sale of green and environmental product, technology, service and related products for sustainable development. The operating team of the Vendor includes Mr. Chen Ching, who is the Executive Chairman of 北京天恒可持續發展研究所 (*Beijing Tian Heng Research Institute for Sustainable Development) which had been entrusted by the Ministry of Environmental Protection of the People's Republic of China (formerly known as State Environmental Protection Administration) for the compilation of laws and regulations of the biological species resources. Mr. Chen had worked for China Council for International Cooperation on Environment and Development ("CCICED") and had engaged in various national and international green and environmental projects in Beijing, Shanghai, Yunnan, Inner Mongolia, Myanmar, North Korea and Cambodia.

The total consideration for the Acquisition is HK$67,040,000, within which HK$47,040,000 shall be satisfied by the issue of 735,000,000 Consideration Shares (before 5 to 1 share consolidation) at the price of HK$0.064 per Consideration Share and the balance of HK$20,000,000 shall be payable in cash by two equal installments. The issued Consideration Shares were deposited in escrow by the Group's lawyer and shall be released to and the cash shall be paid to the Vendor upon the fulfillment of the Guarantee Profit(s) during the Guarantee Period(s).

The "First Guaranteed Period" is the period commencing from 28 January 2011 and ending on 30 June 2011. The "First Period Deposit Shares" of 367,500,000 Consideration Shares (before share consolidation) shall be released to and HK$10,000,000 cash shall be paid to the Vendor for Bright Delight's achieving the "First Period Guaranteed Profit" of HK$33,500,000 net profit for the First Guaranteed Period. The "Second Guaranteed Period" is the period commencing from 1 July 2011 and ending on 30 June 2012. The "Second Period Deposit Shares" of 367,500,000 Consideration Shares (before share consolidation) shall be released to and HK$10,000,000 cash shall be paid to the Vendor for Bright Delight's achieving the "Second Period Guaranteed Profit" of HK$33,500,000 net profit for the Second Guaranteed Period.

During the financial year ended 30 June 2011, Bright Delight had signed technology transfer and technical consultancy agreement for fee of HK$38.5 million. The technology development and technical service company was established in Macau and its operation was approved by Macau government on 9 June 2011. The "First Period Guaranteed Profit" was not met during the "First Guaranteed Period". As per supplementary agreement, cash consideration of HK$10 million had been waived by the Vendor and the 367,500,000 "First Period Deposit Shares" (before share consolidation) had not been released to the Vendor.

During the "Second Guaranteed Period", owing to worsening economic environment in the PRC and the world, Bright Delight did not fully achieve the "Second Period Guaranteed Profit" of HK$33,500,000 net profit for the Second Guaranteed Period. As at 30 June 2012, the 367,500,000 "Second Period Deposit Shares" (before share consolidation) had not been released to and cash consideration of HK$10 million had not been paid to the Vendor.

The green technology segment comprises the research and development, project establishment, application and sale of green and environmental product, technology, service and related products for sustainable development. The green technology segment commanded higher gross profit margin of 82.5% and contributed the major turnover and profit for the Group. For the financial year ended 30 June 2012, technology income recorded approximately HK$25,307,000 with gross profit HK$20,882,000 (2011: sales HK$13,500,000 and gross profit HK$11,971,000), representing approximately 87.76% of the Group's total turnover.

Green Medical Application

On 13 October 2010, the Group completed the acquisition of the 100% equity interest in Ally Goal Limited ("Ally Goal"). Ally Goal's wholly owned subsidiary is a company operating in the PRC which engages in the research and development, application and sale of herbal product, biotechnology, green medical application and related products. The management of the Vendor includes Professor Zeng Yi who is the internationally reputed expert in medical and virology arenas, the Academician of Chinese Academy of Sciences, Foreign Member of France National Academy of Medical Sciences and Foreign Member of Russian Academy of Medical Sciences. Professor Zeng has been the former President of Chinese Academy of Preventive Medicine and is the Dean of College of Life Science and Bioengineering, Beijing University of Technology, Chief Scientist of National Center for Prevention and Control of AIDS, Member of WHO Expert Advisory Panel on Cancer, and Member of Steering Committee of Asia Pacific Leadership Forum on HIV/AIDS and Development (APLF).

The total consideration for the Acquisition is HK$70,400,000 and the Group had paid cash of HK$20,000,000 and issued 200,000,000 Consideration Shares (before 5 to 1 share consolidation) at the price of HK$0.072 per Consideration Share to the Vendor. The balance of 500,000,000 Consideration Shares (before 5 to 1 share consolidation) shall be issued to the Vendor upon Ally Goal's achievement of the relevant Profit Guarantee(s) during the two Profit Guarantee Period(s). The "First Guaranteed Period" is the period commencing from 1 July 2010 and ending on 30 June 2011 with 200,000,000 Consideration Shares (before share consolidation) shall be issued to the Vendor for Ally Goal's achieving the "First Period Guaranteed Profit" of HK$30,000,000 net profit for the First Guaranteed Period. The "Second Guaranteed Period" is the period commencing from 1 July 2011 and ending on 30 June 2012 with 300,000,000 Consideration Shares (before share consolidation) shall be issued to the Vendor for Ally Goal's achieving the "Second Period Guaranteed Profit" of HK$45,000,000 net profit for the Second Guaranteed Period.

During the financial year ended 30 June 2011, Ally Goal's wholly owned PRC subsidiary had signed the agreement with Research Institute of Chinese Medical Mathematical Engineering of Dongguan Guangzhou Chinese Medicine University (東莞廣州中醫藥大學中醫藥數理工程研究院) for research and development and promotion of anti-hand, foot and mouth disease (抗手足口病) product. Extended timeframe was required for research, development and commercialization of the anti-hand, foot and mouth disease product. The "First Period Guaranteed Profit" was not met during the "First Guaranteed Period" and the 200,000,000 Consideration Shares (before share consolidation) had not been issued to the Vendor.

During the financial year ended 30 June 2012, research, development and commercialization of the poduct in Dongguan Songshan Lake National High-tech Industrial Development Zone (東莞松山湖高新技術產業開發區) was not expected to materialize to contribute in the results of the Company. In order to save resources to weather the uncertainties and risks and to avail resources for other business development, the Group streamlined the green medical application sector and disposed the Ally Goal to independent third party at HK$100,000. As per supplementary agreement with the Vendor, the Group was released from all kinds of liabilities including the liability of issue of consideration shares upon Ally Goal's achievement of the profit guarantees.

During the financial year ended 30 June 2012, the Group had further disposed some inactive subsidiaries, some subsidiaries which require intensive capital for project establishments and some subsidiaries holding production facility vulnerable to natural disasters. The disposal recorded a net loss of approximately HK$4,479,000 for the Group and reduced the Group's capital commitments to zero amount (30 June 2011: capital commitments at approximately HK$28,821,000) on projects that will take time to mature and contribute in the results of the Company. The disposal enables the Group to concentrate its resources on weathering the uncertainties and risks in the business environment and to avail resources for other business development.

To maximize the return for shareholders, the Group will continue to edge on its green technology competence, forefront market experience, proactive business strategy and nationwide Chinese business network to continuously explore investment opportunity to diversify its business areas for higher return.

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. In the past five years, the PRC Government continuously placed strategic importance on the "Three Rural Issues" and spent aggregate amount of approximately RMB2,910.7 billion in the agricultural sector.

The <Twelfth Five-Year Plan for National Economic and Social Development>, formulating the next phase of economic growth for 2011-2015, reiterated the modernization of agriculture and accelerated establishment of modern agricultural village. The Chinese government would continue to commit to environmental improvements for energy saving and low-carbon economy. The <Twelfth Five-Year Plan for National Economic and Social Development> targeted to achieve 16% decrease in energy consumption of production by 2015 as compared to 2010.

Having based on the above sectors blessed by China' prioritized policies, the Group will continue to capitalize the green business opportunities stimulated by supportive government policies and uprising green markets. However, the sluggish economies of most developed countries' economies, global financial markets turbulences and decreasing PRC economic growth rate will continue to cloud the economic development of PRC in next few years. In addition, the scale, intensity, frequency and related economic loss of natural disasters in the world as well as in PRC caused by the global climate change will continue to become extreme uncertainties and risks for the Group's operating activities.

Under these circumstances, the Group will continue to exercise tight control in plantation materials business, adjusting plantation operation to local conditions in plantation product business, upgrading the environmental system to restore profitability, developing and diversifying green technology incomes which commands higher profit margin with less capital intensive investment. To minimize the operating risk and to maximize the return for shareholders, the Group will edge on its technology competence, forefront market experience, proactive business strategy and nationwide Chinese business network to continuously explore new investment opportunity to diversify its business areas for higher return.

FINANCIAL REVIEW

For the year ended 30 June 2012, the Group recorded a consolidated turnover at approximately HK$28.84 million (2011: HK$331.56 million), representing a decrease of 91.3% compared with the year ended 30 June 2011 (the "Previous Year"). The substantial decrease in the Group's turnover was mainly resulted from the Group's decisive business strategy to trim down the Previous Year's sales of plantation material of HK$273.78 million at gross loss margin of 3.07%. This segment constituted only 11.14% of total turnover and was restored back to gross profit margin of 12.54% for the year ended 30 June 2012.

The Group's gross profit decreased by 87.83% to approximately HK$4.97 million (2011: HK$40.84 million). The considerable decrease in gross profit was mainly attributable to the Group's allocation of HK$19.5 million for protection and maintenance works on poplar trees biological assets to weather natural disasters and HK$2.1 million for new plantation activities of Chinese wolfberry.

The loss for the year significantly increased to HK$269,74 million from Previous Year's loss of HK$54.48 million, mainly attributable to the HK$36.28 million impairment of goodwill arising from the acquisitions of subsidiaries and HK$64.56 million impairment of intangible assets of technology patents and HK$183.73 million loss on changes in fair value of biological assets . Its basic and diluted loss per share for the year was HK$11.89 cents (2011: basic and diluted loss per share at HK$0.94 cents).

After taking into account the impairment loss on goodwill of HK$36.28 million and impairment on intangible assets of technology patents of HK$64.56 million, loss on changes in fair value of biological assets of HK$183.73 million, loss on disposal of subsidiaries of HK$4.48 million and gain on changes in fair value of purchase consideration payable of HK$6.74 million and exchange loss of HK$0.12 million, other losses significantly upsurged to HK$282,432,000 from Previous Year's other gains of HK$508,000.

In calculating the Group's consolidated net loss, the administrative and other operating expenses of approximately HK$58.49 million (2011: approximately HK$74.09 million) included major items, such as litigation settlements of HK$5.42 million, concession fee of HK$6.64 million, share based payment of HK$5.35 million, rent of HK$1.7 million, agency and professional fee of HK$3.3 million, amortization of intangible assets of HK$17.9 million, staff costs of HK$6.06 million, impairment loss on amounts due from ex-subsidiaries of HK$4.19 million, impairment loss on long term prepayment of HK$2.83 million and others of HK$5.1 million.

Finance costs of HK$9,000 with which approximately HK$8,000 were recorded for finance lease interest (2011: HK$4.99 with which HK$4.95 million mainly represented effective interest expense on convertible notes issued by the Company in 2008). Income tax credit was approximately HK$64.95 million (2011: Income tax expense of HK$17.2 million) mainly due to deferred tax credit of HK$66.55 million for the current year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2012, the Group's cash and bank balances, which were principally Renminbi and Hong Kong Dollar denominated, totally amounted to approximately HK$0.724 million (2011: HK$3.74 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 at 30 June 2012, the Group's current assets amounted to approximately HK$33.97 million and current liabilities amounted to approximately HK$78.49 million. The Group's net current liabilities, being its current assets minus its current liabilities, amounted to approximately HK$44.52 million (2011: HK$64.84 million).

Included in the current liabilities, there were obligations under finance lease of HK$43,000 and purchase consideration payables of HK$45.72 million. The payment of purchase consideration will be subject to the achievement of profit guarantee and HK$35.72 million in form of Consideration Shares and HK$10 million in form of cash. The major shareholder of the Group made available an unsecured and interest-free, revolving loan facility totaling HK$20 million to the Group till 30 September 2013 for standby basis.

Gearing ratio, defined as total borrowings divided by the total equity as at 30 June 2012 was 0.03% (2011: Nil).

As at 30 June 2012, the capital commitment contracted but not provided for in the consolidated statement of financial position arrived at zero amount (2011: HK$28.82 million).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2012, the Group did not have pledged assets to secure general banking facilities.

CAPITAL RAISING AND EXPENDITURE

During the year ended 30 June 2012, the Group carried out equity fund raising activities in addition to the exercise of share options. Pursuant to the announcement dated 18 November 2011, the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to place, on a best effort basis, to not less than six independent Placees for up to 360,000,000 new Shares at a price of HK$0.073 per Placing Share, for and on behalf of the Company. On 25 November 2011, the Placement was completed and the Company allotted and issued 360,000,000 Placing Shares. The net proceeds from the Placing of approximately HK$25.41 million will be used for financing the Acquisition and/or general working capital.

SHARE CAPITAL

Pursuant to an ordinary resolution passed at the annual general meeting on 28 November 2011 and conditional upon the approval from the Grant Court of the Cayman Islands and the listing approval from the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the share capital of the Company will be reduced from HK$300,000,000 to HK$6,000,000 by canceling paid up capital of HK$0.049 on each issued shares and by reducing the nominal value of all the issued and unissued shares from HK$0.05 to HK$0.001 and following the said capital reduction, the authorised share capital shall be increased back to HK$300,000,000 by the creation of additional 294,000,000,000 shares of HK$0.001 each (the "Capital Reorganisation").

Pursuant to an ordinary resolution passed at an extraordinary general meeting on 29 March 2012 and conditional upon the Capital Reorganisation becoming effective, every 20 issued and unissued shares of HK$0.001 each shall be consolidated into one consolidated share of HK$0.02 each (the "Share Consolidation"). The Board proposed to change board lot size for trading in the shares of the Company from 8,000 shares of HK$0.001 each to 4,000 consolidated shares of HK$0.02 each upon the Share Consolidation becoming effective.

As at the date hereof, the effective date for the Capital Reorganisation is yet to be determined. As a result, the Share Consolidation and change in board lot size will be delayed.

SUSPENSION OF TRADING OF SHARES OF THE COMPANY

Trading in the shares of Company has been suspended since 24 February 2012. Further announcement will be made on resumption of trading in the shares of the Company as and when appropriate.

EMPLOYEES AND RETIREMENT BENEFIT SCHEME

The Group had approximately 25 employees in Hong Kong and the PRC as at 30 June 2012. 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 complied with the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) ("the CG Code") contained in Appendix 14 of the Rule Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") for the year ended 30 June 2012, except the following.

Code provision A.2.1 of the CG Code stipulate that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual.

During the year, Ms. Kam Yuen acted as the Chairman of the Board and the Chief Executive Officer of the Company until 30 May 2012. On 1 June 2012, Ms. Kam Yuen ceased to act as the Chairman of the Board and remains as the Chief Executive Officer of the Company; and Mr. Zhou Hongbo was appointed as the Chairman of the Board. From 1 June 2012, the roles of the Chairman of the Board and the Chief Executive Officer of the Company are separate, namely, Mr. Zhou Hongbo as the Chairman of the Board and Ms. Kam Yuen as the Chief Executive Officer of the Company.

Code provision C.2.1 of the CG Code provide that the directors should at least annually conduct a review of the effectiveness of the issuers' and its subsidiaries' internal control systems and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

The Board has, through the Audit Committee, conducted review of the effectiveness of the internal control system of the Group. The internal control system is designed to provide reasonable but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

The Company has appointed an independent professional company to carry out review on the corporate governance and the internal control system of the Company and its subsidiaries, but until now, the review has not been completed.

Code provision D.1.4 of the CG Code provide that issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company does not have formal letter of appointment for a Director setting out the key terms and conditions of his/her appointment. The Directors are required to refer to the relevant key terms and conditions as set out in the Articles of Association and the guidelines for Directors and Guide for Independent Non-executive Directors (if applicable) published by the Hong Kong Institute of Directors.

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 2012.

AUDIT COMMITTEE

The Audit Committee of the Company (the "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 reviewed and discussed with the external auditors the auditing and financial reporting matters including the annual consolidated results of the Group for the year ended 30 June 2012.

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

During the year ended 30 June, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange.

By Order of the Board
China Environmental Resources Group Limited
Zhou Hongbo
Chairman

Hong Kong, 26 September 2012

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Zhou Hongbo, Ms. Kam Yuen, 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.