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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

FINANCIAL RESULTS

The board of directors (the "Board") of China Environmental Resources Group Limited (formerly known as Benefun International Holdings Limited) (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31 December 2009 together with the comparative figures for the corresponding period in 2008. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2009

		Unaudited Six months ended 31 December	
	<i>Notes</i>	2009 HK\$'000	2008 HK\$'000 <i>(Restated)</i>
Continuing operations			
Turnover	3	171,860	70,595
Cost of sales		(107,838)	(56,428)
		<hr/>	<hr/>
Gross profit		64,022	14,167
Gain from changes in fair value of biological assets less estimated point-of-sale costs	11	66,470	—
Other gains and losses	4	8	4,741
Distribution costs		(7,177)	(3,215)
Administrative and other operating expenses		(23,554)	(5,130)
Finance costs	6	(6,365)	(10,933)
		<hr/>	<hr/>
Profit/(loss) before income tax expense	(5a)	93,404	(370)
Income tax (expense)/credit	7	(17,587)	218
		<hr/>	<hr/>
Profit/(loss) for the period from continuing operations		75,817	(152)
		<hr/>	<hr/>
Discontinued operations			
Loss for the period from discontinued operations	5(b)	(409)	(596)
		<hr/>	<hr/>
Profit/(Loss) for the period		75,408	(748)
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Other comprehensive income, after tax			
Exchange differences on translating foreign operations	9	1,402	85
		<hr/>	<hr/>
Total comprehensive income/(loss) for the period		76,810	(663)
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 31 December 2009

		Unaudited	
		Six months	
		ended 31 December	
		2009	2008
		HK\$'000	HK\$'000
			<i>(Restated)</i>
Profit/(Loss) attributable to:			
	– Owners of the Company	<u>75,408</u>	<u>(748)</u>
Total comprehensive income/(loss) attributable to:			
	– Owners of the Company	<u>76,810</u>	<u>(663)</u>
		Unaudited	
		Six months	
		ended 31 December	
		2009	2008
		HK\$	HK\$
			<i>(Restated)</i>
	<i>Notes</i>		
Earnings/(Losses) per share (cents) from			
	continuing and discontinued operations		
	– Basic	<u>1.179</u>	<u>(0.029)</u>
	– Diluted	<u>1.091</u>	<u>(0.029)</u>
Earnings/(Losses) per share (cents)			
	from continuing operations		
	– Basic	<u>1.185</u>	<u>(0.006)</u>
	– Diluted	<u>1.097</u>	<u>(0.006)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

		Unaudited As at 31 December 2009 <i>HK\$'000</i>	Audited As at 30 June 2009 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Biological assets	11	720,948	676,123
Property, plant and equipment	12	353	332
Construction in progress	13	5,722	1,322
Intangible assets	14	142,701	144,894
Trade receivables, due after one year, net	16	20,493	—
		890,217	822,671
Total non-current assets		890,217	822,671
Current assets			
Inventories	15	14,482	8,845
Trade and other receivables	16	92,954	45,699
Tax recoverable		—	151
Cash and cash equivalents		6,404	9,518
		113,840	64,213
Total current assets		113,840	64,213
Total assets		1,004,057	886,884
Current liabilities			
Trade and other payables	17	72,988	67,837
Other financial liabilities	18	505	5,908
Provision		6,583	6,568
Tax payable		17,689	5,603
		97,765	85,916
Total current liabilities		97,765	85,916
Net current assets/(liabilities)		16,075	(21,703)
Total assets less current liabilities		906,292	800,968

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

		Unaudited	Audited
		As at	As at
		31 December	30 June
	<i>Notes</i>	2009	2009
		HK\$'000	HK\$'000
Non-current liabilities			
Convertible notes	19	70,967	124,910
Deferred tax liabilities		215,912	205,254
		-----	-----
Total non-current liabilities		286,879	330,164
		-----	-----
Total liabilities		384,644	416,080
		-----	-----
TOTAL NET ASSETS		619,413	470,804
		=====	=====
Capital and reserves attributable to equity holders of the Company			
Share capital	20	71,779	62,404
Reserves		547,634	408,400
		-----	-----
TOTAL EQUITY		619,413	470,804
		=====	=====

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2009

Unaudited

	Issued share capital HK\$'000	Employee share-based Share compensation premium HK\$'000	Employee share-based reserve HK\$'000	Convertible notes equity reserve HK\$'000	Legal reserve HK\$'000	Foreign exchange revaluation reserve HK\$'000	Foreign exchange Revaluation reserve HK\$'000	(Accumulated losses)/ Retained earnings HK\$'000	Total HK\$'000
Balance at 1 July 2008	19,550	173,660	2,401	—	3,090	11,322	22,783	(146,931)	85,875
Total comprehensive income for the period	—	—	—	—	—	85	—	(748)	(663)
Transfer between reserves	—	—	—	—	610	—	—	(610)	—
Equity component of convertible notes	—	—	—	41,456	—	—	—	—	41,456
Conversion of convertible notes	35,237	190,277	—	(23,372)	—	—	—	—	202,142
Balance at 31 December 2008	<u>54,787</u>	<u>363,937</u>	<u>2,401</u>	<u>18,084</u>	<u>3,700</u>	<u>11,407</u>	<u>22,783</u>	<u>(148,289)</u>	<u>328,810</u>
Balance at 1 July 2009	<u>62,404</u>	<u>408,563</u>	<u>—</u>	<u>13,473</u>	<u>5,402</u>	<u>11,414</u>	<u>—</u>	<u>(30,452)</u>	<u>470,804</u>
Total comprehensive income for the period	—	—	—	—	—	1,402	—	75,408	76,810
Transfer between reserves	—	—	—	—	612	—	—	(612)	—
Employee share option benefit	—	—	11,505	—	—	—	—	—	11,505
Conversion of convertible notes	9,375	57,137	—	(6,218)	—	—	—	—	60,294
Balance at 31 December 2009	<u>71,779</u>	<u>465,700</u>	<u>11,505</u>	<u>7,255</u>	<u>6,014</u>	<u>12,816</u>	<u>—</u>	<u>44,344</u>	<u>619,413</u>

CONDENSED CONSOLIDATED CASH FLOWS STATEMENT

For the six months ended 31 December 2009

	Unaudited	
	Six months	
	ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Net cash generated from operating activities, including discontinued operations	1,372	9,470
Net cash used in investing activities, including discontinued operations	(4,501)	(192)
Net cash used in financing activities, including discontinued operations	—	(32,479)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(3,129)	(23,201)
Effect of exchange rate changes on cash and cash equivalents	15	191
Cash and cash equivalents at 1 July	9,518	28,199
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	6,404	5,189
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Cash at banks and in hand	6,404	5,189
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Listing Rules of The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2008/09 annual financial statements.

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2009.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

In the current period, the Group has adopted the following new/revised HKFRSs issued by HKICPA that are effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009, except for the amendments of HKFRSs 5 and HKAS 17 that are effective for annual periods beginning on or after 1 January 2010
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Amendment to HKAS 39	Eligible Hedged Items
HK(IFRIC) - Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - Interpretation 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) - Interpretation 18	Transfers of Assets from Customers

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for certain presentational change as a result of adopting HKAS 1 (Revised). Comparative figures have been restated or included in these financial statements in order to achieve a consistent presentation.

HKAS 1 (Revised), Presentation of Financial Statements

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the “Statement of Comprehensive Income”, the “Statement of Financial Position” and the “Statement of Cash Flows” respectively. All income and expenses arising from transactions with non-owners are presented under the “Statement of Comprehensive Income”; while the owners’ changes in equity are presented in the “Statement of Changes in Equity”.

HKFRS 8, Operating Segments

HKFRS 8 replaces HKAS 14 “Segment Reporting”, and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Classification of Rights Issues ²
Amendments to HKFRS 2	Share-based Payment - Group Cash-settled Share-based Payment Transactions ¹
HKFRSs (Amendments)	Amendments to HKFRS 5 and HKAS 17 as part of Improvements to HKFRSs ¹
HK(IFRIC) - Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 January 2010

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of other new/ revised HKFRSs and the directors so far concluded that the application of the other new/ revised HKFRSs will have no material impact on the results and the financial position of the Group.

2. SEGMENT INFORMATION

For management purpose the Group is currently organised into six operating divisions - sales of organic fertilisers, sales of plantation products, sales of environmental machines, apparel manufacturing, property rental and property development.

During the year ended 30 June 2009, the operations in apparel manufacturing and property rental were abandoned and were presented as discontinued operations.

2. SEGMENT INFORMATION (Continued)

Segment information is presented below:

For the six months period ended 31 December 2009

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Property development HK\$'000	Sales of organic fertilisers HK\$'000	Sales of plantation products HK\$'000	Sales of environmental machines HK\$'000	Apparel manu- facturing HK\$'000	Property rental HK\$'000	
Revenue from external customer	4,100	116,642	23,182	25,584	—	—	169,508
Unallocated revenue	—	—	—	—	—	—	2,352
Inter-segment revenue	—	—	—	—	—	—	—
Reportable segment revenue	<u>4,100</u>	<u>116,642</u>	<u>23,182</u>	<u>25,584</u>	<u>—</u>	<u>—</u>	<u>171,860</u>
Reportable segment profit/ (loss) before change in fair value of biological assets	(782)	34,416	—	18,030	(409)	—	51,255
Gain from change in fair value of biological assets less estimated point-of-sale costs	—	—	66,470	—	—	—	66,470
Reportable segment profit/(loss)	<u>(782)</u>	<u>34,416</u>	<u>66,470</u>	<u>18,030</u>	<u>(409)</u>	<u>—</u>	<u>117,725</u>
Unallocated expenses							(18,373)
Interest and other unallocated income							8
Finance costs							(6,365)
Profit before income tax expense							92,995
Income tax expense							(17,587)
Profit for the period							<u>75,408</u>

2. SEGMENT INFORMATION (Continued)

For the six months period ended 31 December 2008

	Continuing operations			Discontinued operations		Consolidated HK\$'000	
	Property development HK\$'000	Sales of organic fertilisers HK\$'000	Sales of plantation products HK\$'000	Sales of environmental machines HK\$'000	Apparel manu- facturing HK\$'000		Property rental HK\$'000
Revenue from external customer	70,595	—	—	—	576	3,615	74,786
Inter-segment revenue	—	—	—	—	—	—	—
Reportable segment profit/(loss)	<u>70,595</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>576</u>	<u>3,615</u>	<u>74,786</u>
Reportable segment profit/(loss) before change in fair value of biological assets	<u>10,107</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,983)</u>	<u>3,615</u>	<u>8,739</u>
Reportable segment profit/(loss)	<u>10,107</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,983)</u>	<u>3,615</u>	<u>8,739</u>
Unallocated expenses							(4,285)
Interest and other unallocated income							5,517
Finance costs							<u>(10,937)</u>
Loss before income tax expense							(966)
Income tax credit							<u>218</u>
Loss for the period							<u>(748)</u>

3. TURNOVER

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

	Unaudited					
	Six months ended 31 December					
	Continuing operations		Discontinued operations		Consolidated	
2009	2008	2009	2008	2009	2008	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Continuing operations						
Sales of organic fertilisers	116,642	—	—	—	116,642	—
Sales of plantation products	23,182	—	—	—	23,182	—
Sales of environmental machines	25,584	—	—	—	26,786	—
Property development	4,100	70,595	—	—	4,100	70,595
Technical services income	2,352	—	—	—	2,352	—
Discontinued operations						
Manufacturing, retailing and distribution of apparel	—	—	—	576	—	576
Rental income	—	—	—	3,615	—	3,615
	171,860	70,595	—	4,191	171,860	74,786

4. OTHER GAINS AND LOSSES

	Unaudited					
	Six months ended 31 December					
	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	7	3	—	22	7	25
Exchange gains/(losses), net	1	7	—	754	1	761
Early repayment discount of promissory note	—	4,731	—	—	—	4,731
	8	4,741	—	776	8	5,517

5. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

(a) Profit/(loss) before income tax expense is arrived at after charging:

	Unaudited					
	Six months ended 31 December					
	Continuing operations		Discontinued operations		Consolidated	
2009	2008	2009	2008	2009	2008	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Staff cost						
– Salaries, wages and other benefits	3,613	3,347	563	855	4,176	4,202
– Contributions to defined contribution retirement plans	19	13	6	13	25	16
– Share based payment expenses (equity settled)	11,505	—	—	—	11,505	—
Depreciation of property, plant and equipment	84	3	—	560	84	563
Amortisation of intangible assets	2,523	—	—	—	2,523	—
Cost of inventories sold	107,838	56,428	—	590	107,838	57,018
Imputed interest on convertible notes	6,351	4,952	—	—	6,351	4,952
Imputed interest on promissory notes	—	5,983	—	—	—	5,983
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE *(Continued)*

(b) Discontinued operations

In May 2009, the Group had entered into sales agreements to dispose of certain assets in the operations in manufacturing, retailing and distributing of apparel and property investment for rental income. Since then, these two operations had been abandoned and were presented in the financial statements as discontinued operations.

5. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE *(Continued)*

(b) Discontinued operations *(Continued)*

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

	6 months to 31 December 2009 HK\$'000	6 months to 31 December 2008 HK\$'000
Turnover (Note 3)	—	4,191
Cost of sales	—	(590)
	<hr/>	<hr/>
Gross profit	—	3,601
Other income	—	776
Distribution costs	—	(1,333)
Administrative and other operating expenses	(409)	(3,636)
Finance cost	—	(4)
	<hr/>	<hr/>
Loss before income tax expense	(409)	(596)
Income tax expense	—	—
	<hr/>	<hr/>
Loss for the period	(409)	(596)
	<hr/> <hr/>	<hr/> <hr/>
Operating cash flows	(342)	(18,833)
Investing cash flows	—	(294)
Financing cash flows	—	—
	<hr/>	<hr/>
Total net cash flows	(342)	(19,127)
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6. FINANCE COSTS

		Unaudited					
		Six months ended 31 December					
		Continuing operations		Discontinued operations		Consolidated	
		2009	2008	2009	2008	2009	2008
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Imputed interests on convertible notes		6,351	4,952	—	—	6,351	4,952
Imputed interests on promissory notes		—	5,979	—	—	—	5,979
Other finance charges		14	2	—	4	14	6
		6,365	10,933	—	4	6,365	10,937

7. INCOME TAX EXPENSE/(CREDIT)

The amount of taxation in the consolidated statement of comprehensive income represents:

	Unaudited					
	Six months ended 31 December					
	Continuing operations		Discontinued operations		Consolidated	
2009	2008	2009	2008	2009	2008	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Current tax						
- tax for the year - Hong Kong	7,264	—	—	—	7,264	—
- tax for the year - outside						
Hong Kong	132	4,025	—	—	132	4,025
Deferred tax						
- current year	10,191	(4,243)	—	—	10,191	(4,243)
Income tax expense/(credit)	<u>17,587</u>	<u>(218)</u>	<u>—</u>	<u>—</u>	<u>17,587</u>	<u>(218)</u>

No provision for profit 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 profit tax in these jurisdictions for current and prior periods.

Hong Kong Profit Tax is calculated at 16.5% on the estimated profit for the period. No provision for Hong Kong Profits Tax has been made in last period as the Group's Hong Kong operations sustained a loss for taxation purposes during the period. Overseas tax is calculated at the rates applicable in the respective jurisdiction.

8. DIVIDENDS

No interim dividend has been declared in respect of the interim period ended 31 December 2009 (2008: HK\$Nil).

9. OTHER COMPREHENSIVE INCOME

Tax effects relating to the component of other comprehensive income

Unaudited					
Six months ended 31 December					
2009			2008		
Tax			Tax		
Before tax (expenses)/ amount	Benefit	Net-of-tax amount	Before tax (expenses)/ amount	Benefit	Net-of-tax amount
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange differences on translating foreign operations	1,402	—	1,402	85	—
	1,402	—	1,402	85	—

10. EARNINGS/(LOSSES)

The calculation of basic earnings/(losses) per share is based on the consolidated profit attributable to shareholders of HK\$75,408,000 (six months ended 31 December 2008: Losses of HK\$748,000) and the weighted average of 6,398,327,000 ordinary shares (six months ended 31 December 2008: 2,582,234,000 ordinary shares) in issue during the period.

For continuing and discontinued operations

The calculation of the basic and diluted earnings/(losses) per share attributable to the ordinary equity holders of the Company is based on the followings data:

Earnings/(losses)	Unaudited Six months ended 31 December	
	2009 HK\$'000	2008 HK\$'000
Earnings/(losses) for the purposes of basic earnings/(losses) per share	<u>75,408</u>	<u>(748)</u>
Effect of dilutive potential ordinary shares Interest on convertible notes	<u>6,351</u>	<u>—</u>
Earnings/(losses) for the purposes of diluted earnings/(losses) per share	<u>81,759</u>	<u>(748)</u>

10. EARNINGS/(LOSSES) (Continued)

For continuing and discontinued operations (Continued)

	2009	2008
Number of share	'000	'000
Weighted average number of ordinary shares for the purposes of basis earnings/(losses) per share	6,398,327	2,582,234
Effect of dilutive potential ordinary shares: – convertible notes	1,093,750	—
Weighted average number of ordinary shares for the purposes of diluted earnings/(losses) per share	7,490,077	2,582,234

10. EARNINGS/(LOSSES) (Continued)

For continuing operations

The calculation of the basic and diluted earnings/(losses) per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data:

	Unaudited	
	Six months ended	
	31 December	
	2009	2008
	HK\$'000	HK\$'000
Earnings/(losses) figures are calculated as follows:		
Profit/(losses) for the year attributable to equity holders of the parent	75,408	(748)
Less: Loss for the year from discontinued operations	(409)	(596)
Earnings/(losses) for the purposes of basic earnings/(losses) per share from continuing operations	75,817	(152)
Effect of dilutive potential ordinary shares		
Interest on convertible loan notes	6,351	—
Earnings/(losses) for the purposes of diluted earnings/(losses) per share from continuing operations	82,168	(152)

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

11. BIOLOGICAL ASSETS

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
At beginning of the period/year	676,123	—
Exchange alignment	1,535	—
Acquisition through business combination at 19 November 2008	—	600,907
Harvested timber transferred to inventories and sold	(23,180)	(5,972)
Gain from changes in fair value less estimated point-of-sale costs	66,470	81,188
	<u> </u>	<u> </u>
At end of the period/year	<u>720,948</u>	<u>676,123</u>

The Group's biological assets represent standing timber on plantation land of approximately 60,000 Chinese Mu with lease term of 30 years, expiring in 2038.

The Group's standing timber volume as at 31 December 2009 was evaluated by the Forestry Department of No.142 Regiment of the Xinjing Production and Construction Corps. The principal assumptions adopted are as follows:

1. no material changes in the existing political, legal, technological, fiscal, economic conditions, climate and any other natural condition;
2. poplar trees can grow to certain size and can be legally cut in 8 years and in 5 years with organic fertilisers added; and
3. the growth rate of the price of the timber, the setup fee and maintenance fee for tree plantation, and the new terms of the concession fee will change as the price index of forestry product in China.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2009, the Group have no material disposal of property, plant and equipment (six months ended 31 December 2008: HK\$Nil).

In addition, the Group spent approximately HK\$104,000 (six months ended 31 December 2008: HK\$294,000) in respect of property, plant and equipment during the period.

13. MOVEMENTS IN CONSTRUCTION IN PROGRESS

During the six months ended 31 December 2009, the Group spent approximately HK\$4,400,000 (six months ended 31 December 2008: HK\$Nil) in respect of construction in progress during the period.

14. INTANGIBLE ASSETS

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Cost		
At beginning of the period/year	147,958	—
Exchange alignment	330	—
Acquisition through business combination at 19 November 2008	—	147,958
	<hr/>	<hr/>
At end of the period/year	148,288	147,958
	<hr/>	<hr/>
Accumulated amortisation and impairment		
At beginning of the period/ year	(3,064)	—
Amortisation for the period/year	(2,523)	(3,064)
	<hr/>	<hr/>
At end of the period/year	(5,587)	(3,064)
	<hr/>	<hr/>
Net carrying amount		
At end of the period/year	142,701	144,894
	<hr/> <hr/>	<hr/> <hr/>

14. INTANGIBLE ASSETS (Continued)

The intangible assets relate to the favourable aspect of the right to use and operate the plantation land, which in substance is an operating lease, acquired in the acquisition of 100% equity interest of Ample Rich Enterprises Limited (“Ample Rich”) and its subsidiaries (collectively referred to as the “Ample Rich Group”), where the acquiree is the lessee. The fair value on acquisition was determined based on a valuation report prepared by an independent valuer using discount cash flows method at the date of acquisition and the estimated present value of payments due under the agreement entered into by Ample Rich Group. The intangible assets are amortised using straight-line method over the remaining lease term of 30 years.

15. INVENTORIES

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
<u>Property development</u>		
Completed properties	—	4,524
<u>Sales and distribution of organic fertilisers</u>		
Raw material	14,482	4,321
	14,482	8,845

16. TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Trade debtors	92,773	45,277
Prepayments, deposits and other receivables	20,674	30,468
Less: Impairment loss on trade and other receivables	—	(30,046)
	113,447	45,699
Less: Non-current portion	(20,493)	—
	92,954	45,699

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

Included in trade and other receivables are trade debtors (net of impairment loss) with the following ageing analysis as of the end of reporting period:

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Current	70,992	21,243
Less than 1 month past due	21,211	19,433
1 to 3 months past due	—	3,726
More than 3 months but less than 12 months past due	—	—
More than 12 months past due	570	875
	92,773	45,277

16. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows a credit period of approximately 90 to 120 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.

17. TRADE AND OTHER PAYABLES

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Trade creditors	28,853	21,805
Property forward sales deposits and instalments received	—	3,483
Other payables and accrued liabilities	44,135	42,549
	<hr/>	<hr/>
	72,988	67,837
	<hr/> <hr/>	<hr/> <hr/>

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

17. TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of reporting period.

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Current or less than 1 month	—	6,355
1 to 3 months	2,129	3,752
More than 3 months but within 6 months	16,021	767
Over 6 months	10,703	10,931
	<hr/> 28,853 <hr/>	<hr/> 21,805 <hr/>

18. OTHER FINANCIAL LIABILITIES

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Amounts due to directors	—	2,013
Amount due to a related party	505	3,895
	<hr/> 505 <hr/>	<hr/> 5,908 <hr/>

The amounts due to directors and a related party are unsecured, interest-free and have no fixed repayment terms.

19. CONVERTIBLE NOTES

The Company issued HK\$ denominated, zero coupon convertible notes on 19 November 2008 with the principal amount of HK\$400 million as part of the consideration to acquire Ample Rich Group. The convertible notes mature in three years from the issue date at 125% of the nominal value or can be converted into ordinary shares of the Company at the holder's option at a conversion price of HK\$0.064 per share at a fixed exchange rate.

The fair values of the liability component and the equity reserve component were determined at the issuance of the convertible notes. The fair value of the liability component, included in non-current financial liabilities, was calculated using a market interest rate for an equivalent non-convertible notes. The residual amount, representing the value of the equity reserve component, is included in shareholders' equity.

The movements of the liability component and equity reserve component of the convertible notes are as follows:

	Nominal value	Liability component	Equity reserve component	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Issue of convertible notes	400,000	358,544	41,456	400,000
Imputed interests expense	—	8,383	—	8,383
Conversion of convertible notes	(270,000)	(242,017)	(27,983)	(270,000)
Carrying amount at 30 June 2008	130,000	124,910	13,473	138,383
Imputed interests expenses (Note 5)	—	6,351	—	6,351
Conversion of convertible notes	(60,000)	(60,294)	(6,218)	(66,512)
Carrying amount at 31 December 2009	<u>70,000</u>	<u>70,967</u>	<u>7,255</u>	<u>78,222</u>

19. CONVERTIBLE NOTES *(Continued)*

- (a) Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 11.723% per annum to the liability component. The basis of the effective interest rate is determined by the director with reference to the market discount rate.
- (b) The holder of the convertible notes, Blackpool Stadium Limited, agrees to put the convertible notes with the principal amount of HK\$130 million as security to the Company and undertakes not to exercise the conversion rights attached to the convertible notes during the first profit guarantee period ended 30 June 2009 and/or the second profit guarantee period ending 30 June 2010. The first profit guarantee was met and convertibles notes with nominal value of HK\$60 million were released and converted during the period.

20. SHARE CAPITAL

	Unaudited		Audited	
	As at 31 December 2009		As at 30 June 2008	
	<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>HK\$'000</i>	<i>shares</i>	<i>HK\$'000</i>
Authorised				
Ordinary shares of \$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid				
At beginning of the period/year	6,240,379,000	62,404	1,955,029,000	19,550
Issue of new shares	937,500,000	9,375	4,285,350,000	42,854
At end of the period/year	7,177,879,000	71,779	6,240,379,000	62,404

21. SHARE BASED PAYMENT

Share option scheme

On 7 August 2009, the Company granted in total 547,860,000 share options to 6 directors and employees at an exercise price of HK\$0.117 per share under the share option scheme. All these share options are exercisable on or after 7 August 2009 and will be expired on 6 August 2012.

The number of share options are as follows:

	Unaudited As at 31 December 2009		Audited As at 30 June 2009	
	Weighted average exercise price HK\$	Number options '000	Weighted average exercise price HK\$	Number options '000
Outstanding at the beginning of the period/year		—		66,600
Grant during the period/year	0.117	547,860		—
Exercised during the period/year		—	0.0804	(66,600)
Cancelled during the period/year		—		—
		<hr/>		<hr/>
Exercisable at the end of the period/year		547,860		—
		<hr/> <hr/>		<hr/> <hr/>

21. SHARE BASED PAYMENT (Continued)

Share option scheme (Continued)

The following information is relevant in the determination of the fair value of options granted during the period under the equity settled share based remuneration schemes operated by the Group.

Option pricing model used	Black-Scholes
Fair value of the measurement date	HK\$0.02
Weighted average price at grant date	HK\$0.09
Exercise price	HK\$0.117
Weighted average of contractual life	3 years
Expected volatility	85%
Risk free rate	0.62%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years.

22. CAPITAL COMMITMENTS

The Group's capital commitments outstanding at the balance sheet date not provided for in the interim financial statements were as follows:

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2009	2009
	HK\$'000	HK\$'000
Acquisition of land use rights and property development costs:		
Contracted for	<u>—</u>	<u>25,773</u>

23. LITIGATIONS

The progress of the litigations “Hero Rich case” and “China Magic case” which were disclosed in the 2008/09 annual financial statements are as follows:

The Company had acted in accordance with the outcome of the legal proceedings to register the transfer of 234,375,000 shares and 486,750,000 shares in the Company from Hero Rich International Limited and China Magic Enterprises Limited to HKSCC Nominees Limited respectively.

Hero Rich had discontinued the action against Concerned Directors with no order as to cost.

As at 31 December 2009, the Company has no material or significant outstanding litigations.

24. EVENTS AFTER THE BALANCE SHEET DATE

At a Board meeting of the Company held on 19 January 2010, an aggregate of 354,000,000 share options were granted to the employees and consultants of the Company at an exercise price of HK\$0.087.

At the Extraordinary General Meeting held on 9 March 2010, an ordinary resolution regarding the allotment and issue of 1,425,000,000 new shares of the Company (“Consideration Shares”), being partial consideration for the acquisition of the Patents from The Cathay Investment Fund, Limited (“Cathay”), was duly passed by the shareholders by way of poll.

At a Board meeting of the Company held on 23 March 2010, the allotment and issue of Consideration Shares to Cathay was approved.

25. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 18 to the interim condensed consolidated financial statements.

(b) Compensation of key management personnel of the Group

An analysis of the compensation of key management personnel of the Group is as follows:

	Unaudited Six months ended 31 December	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Short term employee benefits	<u>17,650</u>	<u>1,330</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2009 (six months ended 31 December 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

For the six months ended 31 December, 2009, turnover of the Group amounted to HK\$171,860,000 (six months ended 31 December 2008: HK\$74,786,000), increased by 129.80% as compared to the corresponding period last year.

Fertilizer Products

For the six months ended 31 December, 2009, sales of fertilizer products recorded approximately HK\$116,642,000 (2008: Nil), representing approximately 67.87% of the Group's total turnover.

Plantation Products

For the six months ended 31 December, 2009, sales of plantation products recorded approximately HK\$23,182,000 (2008: Nil), representing approximately 13.49% of the Group's total turnover.

Environmental Machines

For the six months ended 31 December, 2009, sales of environmental machines recorded approximately HK\$25,584,000 (2008: Nil), representing approximately 14.89% of the Group's total turnover.

Property Development

For the six months ended 31 December, 2009, sales from property development recorded approximately HK\$4,100,000 (2008: HK\$70,595,000), representing approximately 2.39% of the of the Group's total turnover.

PROSPECT

The PRC has a population of approximately 1.3 billion and cultivable land of 1.98 billion acre (1.5 acre per capita), that means 7% of the cultivable land of the world is feeding 22% of the world population. According to forecasts by the Population Division, Department of Economic and Social Affairs of the United Nations, the PRC population will be more than 1.45 billion by 2030. The PRC State Council suggested in “the Summary of the Ninth-Five Plan on national economic and social development and the future targets for 2010 (國民經濟和社會發展 “九五” 計劃和 2010 年遠景目標綱要)” to “support the production technology demonstration and fertilizer technology demonstration of compound fertilizers, specialized fertilizers, biological fertilizers and organic fertilizers with technological characteristics and features”.

Food supply and quality are crucial to the political and economic stability of the PRC, and fertilizer products affect the supply and quality of food and crop to a great extent. The promulgation of “No. 1 Central Document” (“一號中央文件”) in early 2010 clearly manifested the PRC central government’s strategic intention to place solving food problems in agriculture as its utmost priority. The PRC government continues to increase its support to agriculture related areas, and the encouragement in the development of agriculture-related areas continued to grow, establishing a good development trend for the industry.

The Group is principally engaged in the agricultural business of plantation, research and development of plantation related technologies, manufacture, sale and distribution of plantation products and materials. According to China Agricultural Net, the amount of commercialized organic fertilizer recorded a 4-fold increase to 11 million tons in 2007 from 2.6 million in 2002. Eyeing on the prospering organic fertilizer sector, the Group established self-operated production bases to utilize the organic raw materials to serve increasing orders and to enhance operating profit.

Being visionary to secure stable and economical source of organic raw materials, the Group proactively successfully developed the waste-to-value “O-Live Organic Waste Treatment System” (“O-Live System”). The O-Live System 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.

Looking ahead, the interactive forces of the continuing PRC governmental support, increasing mix of organic and chemical fertilizer to enhance soil productivity, rising consumers' aspiration for food quality and booming demand for environmentally-friendly products have created a most favourable market environment for the Group's business. The Group is confident that by capitalizing on its experiences and strengths of a diverse customer base, advance niche technology, and nationwide corporate rebranding underway since 2009, it will outperform the counterparts and keep on enlarging its business territories and maximise returns for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Gross profit amounted to HK\$64,022,000 (for the six months ended 31 December 2008: HK\$17,768,000), increased by 260.31% as compared to the corresponding period last year. Profit attributable to the Company's owners for the six months ended 31 December 2009 was HK\$75,408,000 an increase of HK\$76,156,000 compared to a loss attributable of HK\$748,000 as compared to the corresponding period last year.

As at 31 December 2009 and 31 December 2008, the Group has no borrowings (save and except for convertible notes liabilities), and the Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' funds, was approximately 10.28%.

As at 31 December, 2009, the total assets of the Group was HK\$1,004,057,000 increased by approximately 13.21% as compared to that as at 30 June 2009. Earnings per share from continuing operations amounted to HK\$1.185 cents (six months ended 31 December 2008: losses per share amounted to HK\$0.006 cents). The Group's net current assets amounted to HK\$16,075,000 and a current ratio of approximately 1.16 (30 June 2009: 0.75).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group conducted most of its business in Renminbi and Hong Kong dollars for the six months period ended 31 December 2009 and therefore did not have significant exposure to foreign exchange fluctuations. The Group did not enter into any financial instruments for hedging purposes.

CHARGE ON THE GROUP'S ASSETS

The Group did not have any pledged assets as at 31 December 2009 and 2008 to secure general banking facilities.

CAPITAL RAISING AND EXPENDITURE

During the six months ended 31 December 2009, the Group did not carry out any equity fund raising activities except for the conversion of convertible notes and exercise of share options.

CONTINGENT LIABILITIES

At 31 December 2009, the Group did not have any material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2009, the Group had 52 employees in Hong Kong and the PRC. Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. Remuneration includes monthly salaries, discretionary bonuses, retirement benefits under the Mandatory Provident Fund Scheme, and other benefits such as medical scheme.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the six months ended 31 December, 2009, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The Company has adopted all the code provisions in the Code on Corporate Governance Practice ("the Code") as set out in the Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). In the opinion of the Directors, the Company has met the code provisions of the Code during the six months ended 31 December 2009.

COMPLIANCE OF THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules and all of the directors of the Company confirmed that they have complied with the required standards set out in the Model Code for the six months ended 31 December 2009.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 31 December 2009.

On behalf of the Board

China Environmental Resources Group Limited

Kam Yuen

Chief Executive Officer and Executive Director

Hong Kong, 23 March 2010

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