



Interim Report 2010-2011



**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



## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Ms. Kam Yuen  
(Chairman and Chief Executive Officer)  
Mr. Kwok Wai, Wilfred  
Mr. Leung Kwong Choi

#### **Independent Non-Executive Directors**

Mr. Cheung Ngai Lam  
Mr. Wong Kwai Sang  
Mr. Christopher David Thomas

### **AUDIT AND REMUNERATION COMMITTEES**

Mr. Cheung Ngai Lam (Chairman)  
Mr. Wong Kwai Sang  
Mr. Christopher David Thomas

### **COMPANY SECRETARY**

Mr. Lo Tai On

### **AUDITORS**

Zhonglei (HK) CPA Company Limited

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Rooms 2003-06  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong  
Tel: +852 3904 3300  
Fax: +852 3904 3303

### **REGISTERED OFFICE**

Ugland House  
South Church Street, P.O. Box 309  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor  
Services Limited  
17M Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
Fort Street, P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

### **PRINCIPAL BANKERS**

Agricultural Bank of China  
Industrial and Commercial Bank of China  
Hang Seng Bank Limited  
The Bank of East Asia, Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### **HONG KONG STOCK CODE**

1130

### **SINGAPORE TRADING SYMBOL**

CHENV400:SP

### **WEBSITE**

<http://www.cergreen.com>

## FINANCIAL RESULTS

The board of directors (the “Board”) of China Environmental Resources Group 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 2010 together with the comparative figures for the corresponding period in 2009. 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 2010

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
<i>Notes</i>	<b>2010</b>	2009	
	<b>HK\$'000</b>	HK\$'000	
		(Restated)	
<b>Continuing operations</b>			
Turnover	3	<b>219,632</b>	167,760
Cost of sales		<b>(173,486)</b>	(103,833)
Gross profit		<b>46,146</b>	63,927
Gain from changes in fair value of biological assets less estimated point-of-sale costs	11	<b>63,194</b>	66,470
Gain on disposal of subsidiaries	24	<b>33,957</b>	—
Other gains and losses	4	<b>816</b>	8
Distribution costs		<b>(139)</b>	(7,177)
Administrative and other operating expenses		<b>(31,804)</b>	(22,677)
Finance costs	6	<b>(4,403)</b>	(6,365)
Profit before income tax expense	5(a)	<b>107,767</b>	94,186
Income tax expense	7	<b>(26,339)</b>	(17,587)
Profit for the period from continuing operations		<b>81,428</b>	76,599
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	5(b)	—	(1,191)
<b>Profit for the period</b>		<b>81,428</b>	75,408

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** *(Continued)*

For the six months ended 31 December 2010

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
Notes	<b>2010</b>	2009	
	<b>HK\$'000</b>	<i>HK\$'000</i>	
		(Restated)	
<b>Other comprehensive income, after tax</b>			
Exchange differences on translating foreign operations	9	—	1,402
<b>Total comprehensive income for the period</b>		<b>81,428</b>	76,810
<b>Profit/(loss) attributable to:</b>			
– Owners of the Company		<b>81,452</b>	75,408
– Non-controlling interests		<b>(24)</b>	—
		<b>81,428</b>	75,408
<b>Total comprehensive income attributable to:</b>			
– Owners of the Company		<b>81,452</b>	76,810
– Non-controlling interests		<b>(24)</b>	—
		<b>81,428</b>	76,810

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** *(Continued)*

For the six months ended 31 December 2010

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
<i>Notes</i>	<b>2010</b>	2009	
	<b>HK\$</b>	<i>HK\$</i>	
		(Restated)	
Earnings per share (cents) from continuing and discontinued operations	10		
– Basic		<b>0.921</b>	1.179
		<u><u>0.921</u></u>	<u><u>1.179</u></u>
– Diluted		<b>0.897</b>	1.077
		<u><u>0.897</u></u>	<u><u>1.077</u></u>
Earnings per share (cents) from continuing operations	10		
– Basic		<b>0.921</b>	1.197
		<u><u>0.921</u></u>	<u><u>1.197</u></u>
– Diluted		<b>0.897</b>	1.093
		<u><u>0.897</u></u>	<u><u>1.093</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	Unaudited As at 31 December 2010 HK\$'000	Audited As at 30 June 2010 HK\$'000
<b>Non-current assets</b>			
Biological assets	11	835,712	785,556
Property, plant and equipment	12	2,226	1,455
Construction in progress	13	42,918	28,173
Intangible assets	14	285,963	296,558
Goodwill	15	101,946	36,281
Total non-current assets		1,268,765	1,148,023
<b>Current assets</b>			
Inventories	16	11,637	11,549
Trade and other receivables	17	170,660	100,822
Amount due from a director		—	9
Cash and cash equivalents	18	11,804	18,375
Assets classified as held for sale		—	19,239
Total current assets		194,101	149,994
<b>Total assets</b>		<b>1,462,866</b>	<b>1,298,017</b>
<b>Current liabilities</b>			
Trade and other payables	19	117,943	59,836
Amount due to a related party	20	11,118	738
Tax payable		43,245	28,839
Liabilities classified as held for sale		—	50,196
Total current liabilities		172,306	139,609
<b>Net current assets</b>		<b>21,795</b>	<b>10,385</b>
<b>Total assets less current liabilities</b>		<b>1,290,560</b>	<b>1,158,408</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*

As at 31 December 2010

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
	<i>Notes</i>	<b>31 December</b>	30 June
		<b>2010</b>	2010
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current liabilities</b>			
Advance from a related party	20	<b>15,231</b>	—
Convertible notes	21	<b>47,543</b>	75,379
Deferred tax liabilities		<b>283,692</b>	271,770
Total non-current liabilities		<b>346,466</b>	347,149
Total liabilities		<b>518,772</b>	486,758
<b>TOTAL NET ASSETS</b>		<b>944,094</b>	811,259
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	22	<b>94,656</b>	87,464
Non-controlling interests		<b>465</b>	489
Reserves		<b>848,973</b>	723,306
<b>TOTAL EQUITY</b>		<b>944,094</b>	811,259



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010

	Unaudited										
	Share capital	Share premium	Employee share-based compensation reserve	Convertible notes equity reserve	Statutory surplus reserve fund	Foreign exchange revaluation reserve	Capital reserve	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 July 2009</b>	62,404	408,563	—	13,473	5,402	11,414	—	(30,452)	470,804	—	470,804
Total comprehensive income for the period	—	—	—	—	—	1,402	—	75,408	76,810	—	76,810
Transfer between reserves	—	—	—	—	612	—	—	(612)	—	—	—
Employee share option benefit	—	—	11,505	—	—	—	—	—	11,505	—	11,505
Conversion of convertible notes	9,375	57,137	—	(6,218)	—	—	—	—	60,294	—	60,294
<b>Balance at 31 December 2009</b>	<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>	<u>—</u>	<u>619,413</u>
<b>Balance at 1 July 2010</b>	<u>87,464</u>	<u>623,761</u>	<u>37,795</u>	<u>7,254</u>	<u>5,402</u>	<u>11,414</u>	<u>30</u>	<u>37,650</u>	<u>810,770</u>	<u>489</u>	<u>811,259</u>
Total comprehensive income for the period	—	—	—	—	—	—	—	81,452	81,452	(24)	81,428
Transfer between reserves	—	—	(4,385)	—	—	—	—	4,385	—	—	—
Issue of new shares	2,000	11,200	—	—	—	—	—	—	13,200	—	13,200
Exercise of share options	774	7,149	(1,935)	—	—	—	—	—	5,988	—	5,988
Conversion of convertible notes	4,418	30,730	—	(2,929)	—	—	—	—	32,219	—	32,219
<b>Balance at 31 December 2010</b>	<u>94,656</u>	<u>672,840</u>	<u>31,475</u>	<u>4,325</u>	<u>5,402</u>	<u>11,414</u>	<u>30</u>	<u>123,487</u>	<u>943,629</u>	<u>465</u>	<u>944,094</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the six months ended 31 December 2010*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities, including discontinued operations	<b>3,355</b>	1,372
Net cash used in investing activities, including discontinued operations	<b>(30,314)</b>	(4,501)
Net cash generated from financing activities, including discontinued operations	<b>20,388</b>	—
Net decrease in cash and cash equivalents	<b>(6,571)</b>	(3,129)
Effect of exchange rate changes on cash and cash equivalents	—	15
Cash and cash equivalents at 1 July	<b>18,375</b>	9,518
Cash and cash equivalents at 31 December	<b>11,804</b>	6,404

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

These unaudited condensed consolidated financial statements should be read in conjunction with the 2009/10 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 2010.

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 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 32 (Amendments)	Classification of Rights Issues
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HK (IFRIC) - Int19	Extinguishing Financial Liabilities with Equity Instruments

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.

## 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.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>2</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>3</sup> 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 four operating divisions – provision of technical services, sales of organic fertilisers, sales of plantation products and sales of environmental systems.

During the period ended 31 December 2009, the operations in apparel manufacturing, property development and rental were abandoned and were presented as discontinued operations.

2. SEGMENT INFORMATION (Continued)

Business segments

For the six months period ended 31 December 2010

	Continuing operations				Discontinued operations			Consolidated HK\$'000
	Technical service income HK\$'000	Sales of organic fertilisers HK\$'000	Sales of plantation products HK\$'000	Sales of environmental systems HK\$'000	Property Development HK\$'000	Apparel manufacturing HK\$'000	Property rental HK\$'000	
Revenue from external customer	13,500	162,154	15,633	28,345	—	—	—	219,632
Unallocated revenue	—	—	—	—	—	—	—	—
Inter-segment revenue	—	—	—	—	—	—	—	—
Reportable segment revenue	<u>13,500</u>	<u>162,154</u>	<u>15,633</u>	<u>28,345</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>219,632</u>
Reportable segment profit before change in fair value of biological assets	12,912	18,376	2,516	10,351	—	—	—	44,155
Gain from change in fair value of biological assets less estimated point-of-sale costs	—	—	63,194	—	—	—	—	63,194
Reportable segment profit	<u>12,912</u>	<u>18,376</u>	<u>65,710</u>	<u>10,351</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>107,349</u>
Unallocated result								(29,952)
Interest and other unallocated income								34,773
Finance costs								(4,403)
Profit before income tax expense								107,767
Income tax expense								(26,339)
Profit for the period								<u>81,428</u>

2. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the six months period ended 31 December 2009 (Restated)

	Continuing operations				Discontinued operations			Consolidated HK\$'000
	Technical service income HK\$'000	Sales of organic fertilisers HK\$'000	Sales of plantation products HK\$'000	Sales of environmental systems HK\$'000	Property development HK\$'000	Apparel manu- facturing HK\$'000	Property rental HK\$'000	
Revenue from external customer	2,352	116,642	23,182	25,584	4,100	—	—	171,860
Unallocated revenue	—	—	—	—	—	—	—	—
Inter-segment revenue	—	—	—	—	—	—	—	—
Reportable segment revenue	<u>2,352</u>	<u>116,642</u>	<u>23,182</u>	<u>25,584</u>	<u>4,100</u>	<u>—</u>	<u>—</u>	<u>171,860</u>
Reportable segment profit/(loss) before change in fair value of biological assets	1,872	34,416	—	18,030	(782)	(409)	—	53,127
Gain from change in fair value of biological assets less estimated point-of-sale costs	—	—	66,470	—	—	—	—	66,470
Reportable segment profit/(loss)	<u>1,872</u>	<u>34,416</u>	<u>66,470</u>	<u>18,030</u>	<u>(782)</u>	<u>(409)</u>	<u>—</u>	<u>119,597</u>
Unallocated result								(20,245)
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>

### 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 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	
2010	2009	2010	2009	2010	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Restated)		(Restated)			
Continuing operations						
Sales of organic fertilisers	162,154	116,642	—	—	162,154	116,642
Sales of plantation products	15,633	23,182	—	—	15,633	23,182
Sales of environmental systems	28,345	25,584	—	—	28,345	25,584
Technical services income	13,500	2,352	—	—	13,500	2,352
Discontinued operations						
Property development	—	—	—	4,100	—	4,100
Manufacturing, retailing and distribution of apparel	—	—	—	—	—	—
Rental income	—	—	—	—	—	—
	<b>219,632</b>	167,760	<b>—</b>	4,100	<b>219,632</b>	171,860

4. OTHER GAINS AND LOSSES

Unaudited  
Six months ended 31 December

	Continuing operations		Discontinued operations		Consolidated	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest income	14	7	—	—	14	7
Exchange gains, net	—	1	—	—	—	1
Sundry income	802	—	—	—	802	—
	<b>816</b>	8	<b>—</b>	<b>—</b>	<b>816</b>	8



5. PROFIT BEFORE INCOME TAX EXPENSE

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

	Unaudited					
	Six months ended 31 December					
	Continuing operations		Discontinued operations		Consolidated	
2010	2009	2010	2009	2010	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Restated)		(Restated)			
Staff costs, including directors' emoluments						
– Salaries, wages and other benefits	2,271	2,851	—	1,325	2,271	4,176
– Contributions to defined contribution retirement plans	17	10	—	15	17	25
– Share based payment expenses (equity settled)	—	11,505	—	—	—	11,505
Depreciation of property, plant and equipment	141	84	—	—	141	84
Amortisation of intangible assets	11,595	2,523	—	—	11,595	2,523
Gain on disposal of subsidiaries	(33,957)	—	—	—	(33,957)	—
Fair value gain on biological assets	(63,194)	(66,470)	—	—	(63,194)	(66,470)
Cost of inventories sold	173,486	103,833	—	4,005	173,486	107,838
Imputed interest on convertible notes	4,382	6,351	—	—	4,382	6,351

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

**(b) Discontinued operations**

In May 2009, the Group entered into sales agreements to dispose certain assets in the operations in manufacturing, retailing and distributing of apparel and property development and rental. On 26 November 2010, the Group completed the disposal of entire issued share capital of Benefun (BVI) Limited and its subsidiaries in the operation of apparel manufacturing, property development and rental, at a total consideration of HK\$3,000,000.

These three operations were presented in the financial statements as discontinued operations.

5. PROFIT 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 condensed 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:

	Unaudited Six months ended 31 December	
	2010 HK\$'000	2009 HK\$'000 (Restated)
Turnover (Note 3)	—	4,100
Cost of sales	—	(4,005)
	<hr/>	<hr/>
Gross profit	—	95
Administrative and other operating expenses	—	(1,286)
	<hr/>	<hr/>
Loss before income tax expense	—	(1,191)
Income tax expense	—	—
	<hr/>	<hr/>
Loss for the period	—	(1,191)
	<hr/> <hr/>	<hr/> <hr/>
Operating cash flows	—	(353)
Investing cash flows	—	—
Financing cash flows	—	—
	<hr/>	<hr/>
Total net cash flows	—	(353)
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

		Unaudited Six months ended 31 December					
		Continuing operations		Discontinued operations		Consolidated	
		2010	2009	2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Imputed interests on convertible notes		4,382	6,351	—	—	4,382	6,351
Other finance charges		21	14	—	—	21	14
		<b>4,403</b>	6,365	—	—	<b>4,403</b>	6,365

## 7. INCOME TAX EXPENSE

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

	Unaudited					
	Six months ended					
	31 December					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax						
– Hong Kong	—	7,264	—	—	—	7,264
– PRC Enterprise Income Tax ("EIT")	<b>14,416</b>	132	—	—	<b>14,416</b>	132
Deferred tax						
– current year	<b>11,923</b>	10,191	—	—	<b>11,923</b>	10,191
Income tax expense	<b>26,339</b>	17,587	—	—	<b>26,339</b>	17,587

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.

No Hong Kong profits tax is provided as there is no estimated assessable profit for the period (2009: provided at the rate of 16.5%). Under the Law of the People's Republic of China on Enterprise Income Tax, the EIT is calculated at the rate of 25%.

**8. DIVIDENDS**

No interim dividend has been declared in respect of the interim period ended 31 December 2010 (2009: Nil).

**9. OTHER COMPREHENSIVE INCOME**

Tax effects relating to the component of other comprehensive income

	<b>Unaudited</b>					
	<b>Six months ended</b>					
	<b>31 December</b>					
	2010			2009		
	Tax			Tax		
	Before tax (expenses)/ amount	Benefit	Net-of-tax amount	Before tax (expenses)/ amount	Benefit	Net-of-tax amount
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange differences on translating foreign operations	—	—	—	1,402	—	1,402
	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,402</u>	<u>—</u>	<u>1,402</u>

## 10. EARNINGS

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of HK\$81,452,000 (six months ended 31 December 2009: HK\$75,408,000) and the weighted average of 8,840,170,000 ordinary shares (six months ended 31 December 2009: 6,398,327,000 ordinary shares) of HK\$0.01 each in issue during the period.

### For continuing and discontinued operations

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

Earnings	Unaudited Six months ended 31 December	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> <i>(Restated)</i>
Earnings for the purposes of basic earnings per share	<u>81,452</u>	<u>75,408</u>
Effect of dilutive potential ordinary shares		
Interest on convertible notes, net of tax	<u>3,659</u>	<u>5,303</u>
Earnings for the purposes of diluted earnings per share	<u>85,111</u>	<u>80,711</u>

10. EARNINGS (Continued)

For continuing and discontinued operations (Continued)

	2010 '000	2009 '000
<b>Number of share</b>		
Weighted average number of ordinary shares for the purposes of basis earnings per share	<b>8,840,170</b>	6,398,327
Effect of dilutive potential ordinary shares: – convertible notes and share options	<b>651,950</b>	1,093,750
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>9,492,120</b>	7,492,077



10. EARNINGS (Continued)

For continuing operations

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
		<i>(Restated)</i>
Earnings figures are calculated as follows:		
Profit for the period attributable to equity holders of the parent	<b>81,452</b>	75,408
Less: Loss for the period from discontinued operations	—	(1,191)
Earnings for the purposes of basic earnings per share from continuing operations	<b>81,452</b>	76,599
Effect of dilutive potential ordinary shares		
Interest on convertible notes, net of tax	<b>3,659</b>	5,303
Earnings for the purposes of diluted earnings per share from continuing operations	<b>85,111</b>	81,902

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

11. BIOLOGICAL ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
At beginning of the period/year	<b>785,556</b>	676,123
Harvested timber transferred to inventories and sold	<b>(13,038)</b>	(42,174)
Gain from changes in fair value less estimated point-of-sale costs	<b>63,194</b>	151,607
	<hr/>	<hr/>
At end of the period/year	<b>835,712</b>	785,556
	<hr/> <hr/>	<hr/> <hr/>

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 2010 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 2010, the Group had no material disposal of property, plant and equipment (six months ended 31 December 2009: Nil).

In addition, the Group acquired property, plant and equipment approximately HK\$912,000 during the period (six months ended 31 December 2009: HK\$104,000).

## **13. MOVEMENTS IN CONSTRUCTION IN PROGRESS**

During the six months ended 31 December 2010, the Group spent approximately HK\$14,745,000 (six months ended 31 December 2009: HK\$4,400,000) in respect of construction in progress.

## 14. INTANGIBLE ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At beginning of the period/year	<b>309,517</b>	147,958
Acquisition through business combination (note 23)	<b>1,000</b>	161,559
	<hr/>	<hr/>
At end of the period/year	<b>310,517</b>	309,517
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated amortisation and impairment</b>		
At beginning of the period/ year	<b>(12,959)</b>	(3,064)
Amortisation for the period/year	<b>(11,595)</b>	(9,895)
	<hr/>	<hr/>
At end of the period/year	<b>(24,554)</b>	(12,959)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net carrying amount</b>		
At end of the period/year	<b>285,963</b>	296,558
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 15. GOODWILL

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At beginning of the period/year	<b>36,281</b>	—
Arising on acquisition of subsidiaries during the period/year (note 23)	<b>65,665</b>	36,281
	<hr/>	<hr/>
At end of the period/year	<b>101,946</b>	36,281
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

16. INVENTORIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Organic fertilisers – Raw material	<b>7,758</b>	7,670
Environmental systems	<b>3,879</b>	3,879
	<hr/>	<hr/>
	<b>11,637</b>	11,549
	<hr/> <hr/>	<hr/> <hr/>

17. TRADE AND OTHER RECEIVABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Trade debtors	<b>148,545</b>	111,966
Prepayments, deposits and other receivables	<b>22,115</b>	18,902
	<hr/>	<hr/>
	<b>170,660</b>	130,868
Less: Impairment loss on trade and other receivables	<b>—</b>	(30,046)
	<hr/>	<hr/>
	<b>170,660</b>	100,822
	<hr/> <hr/>	<hr/> <hr/>

17. TRADE AND OTHER RECEIVABLES (Continued)

Trade and the receivables are expected to be recovered within one year. Their fair values approximate to 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:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current	<b>97,566</b>	36,465
Less than 1 month past due	<b>7,619</b>	340
1 to 3 months past due	<b>43,360</b>	8,114
More than 3 months but		
less than 12 months past due	—	37,001
More than 12 months past due	—	—
	<hr/>	<hr/>
	<b>148,545</b>	81,920
	<hr/> <hr/>	<hr/> <hr/>

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

## 18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Cash at banks and in hand	<b>10,181</b>	18,365
Pledged bank deposits	<b>5,009</b>	5,000
	<hr/>	<hr/>
	<b>15,190</b>	23,365
Bank overdraft	<b>(3,386)</b>	(4,990)
	<hr/>	<hr/>
	<b>11,804</b>	18,375
	<hr/> <hr/>	<hr/> <hr/>

Pledged bank deposits represent deposits pledged bank secure banking facilities granted to the Group. Deposits amounting to approximately HK\$5,009,000 (30 June 2010: HK\$5,000,000) have been pledged to secure bank overdrafts.

19. TRADE AND OTHER PAYABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Trade creditors	<b>15,307</b>	4,857
Other payables and accrued liabilities	<b>102,636</b>	54,979
	<hr/>	<hr/>
	<b>117,943</b>	59,836
	<hr/> <hr/>	<hr/> <hr/>

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

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

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current or less than 1 month	<b>1,152</b>	2,080
1 to 3 months	<b>8,914</b>	—
More than 3 months but within 6 months	<b>393</b>	—
Over 6 months	<b>4,848</b>	2,777
	<hr/>	<hr/>
	<b>15,307</b>	4,857
	<hr/> <hr/>	<hr/> <hr/>



## 20. OTHER FINANCIAL LIABILITIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Non-current</b>		
Advance from a related party (note a)	<b>15,231</b>	—
	<u>          </u>	<u>          </u>
<b>Current</b>		
Amount due to a related party (note b)	<b>11,118</b>	738
	<u>          </u>	<u>          </u>

Note:

- (a) the advance from a related party is unsecured and interest-free. In the opinion of the directors, the amount will not be called for repayment within the next twelve months and the fair value of this financial liability approximate its corresponding carrying amount at the end of reporting period.
- (b) the amount due to a related party is unsecured, interest-free and have no fixed repayment terms.

## 21. 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. Convertible notes with principal amount of HK\$270 million were exercised during the year ended 30 June 2009 and the remaining of HK\$130 million (the "Security Convertible Notes") held by Blackpool Stadium Limited (the "Vendor") was put under security to the Company for permanence of the profit guarantee and the Vendor undertakes and covenants not to exercise the conversion rights attaching to the Security Convertible Notes up to the expiry of the profit guarantee period. 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.

21. CONVERTIBLE NOTES (Continued)

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:

	<b>Nominal value</b>	<b>Liability component</b>	<b>Equity reserve component</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 July 2009	130,000	124,910	13,473	138,383
Imputed interests expense	—	10,926	—	10,926
Conversion of convertible notes	(60,000)	(60,457)	(6,219)	(66,676)
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at 30 June 2010	70,000	75,379	7,254	82,633
Imputed interests expenses (Note 6)	—	4,382	—	4,382
Conversion of convertible notes	(28,275)	(32,218)	(2,929)	(35,147)
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at				
31 December 2010	41,725	47,543	4,325	51,868
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (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 ended 30 June 2010 until the profit guarantee conditions are met. Upon fulfillment of profit guarantee conditions, convertible notes with principal amount of HK\$60 million and HK\$28 million were converted during the year ended 30 June 2010 and during the period ended 31 December 2010 respectively.

22. SHARE CAPITAL

	Unaudited		Audited	
	As at 31 December 2010		As at 30 June 2010	
	<i>Number of Shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each				
Authorised				
At beginning of the period/year	10,000,000,000	100,000	10,000,000,000	100,000
Increase in authorised share capital (note a)	20,000,000,000	200,000	—	—
At end of the period/year	<u>30,000,000,000</u>	<u>300,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid				
At beginning of the period/year	8,746,379,000	87,464	6,240,379,000	62,404
Conversion of convertible notes (note b)	441,800,000	4,418	937,500,000	9,375
Issue of new shares (note b)	200,000,000	2,000	1,425,000,000	14,250
Exercise of share options (note b)	77,460,000	774	143,500,000	1,435
At end of the period/year	<u>9,465,639,000</u>	<u>94,656</u>	<u>8,746,379,000</u>	<u>87,464</u>

Note:

- (a) Pursuant to the ordinary resolution passed at the annual general meeting of the Company held on 6 December 2010, the authorised share capital of the Company was increased from 10,000,000,000 shares to 30,000,000,000 shares.
- (b) All the shares issued during the six months ended 31 December 2010 rank pari passu with the existing shares of the Company in all respects.

**23. ACQUISITIONS DURING THE PERIOD**

Pursuant to the announcements dated 11 June 2010, 30 September 2010, 13 October 2010, the Group completed the acquisition of entire issued share capital of Ally Goal Limited ("Ally Goal"), for a total consideration of HK\$70,400,000 which are satisfied by cash of HK\$20,000,000 and 700,000,000 consideration shares at the price of HK\$0.072. Cash of HK\$20,000,000 were paid and 200,000,000 consideration shares of HK\$0.072 were issued to the vendor during the period, the balance of 500,000,000 consideration shares shall be issued to the vendor upon Ally Goal's achievement of the relevant profit guarantees during the relevant profit guarantee periods.

23. ACQUISITIONS DURING THE PERIOD (Continued)

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill at date of acquisition are as follows:

	Pre-acquisition Carrying amount <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value (Provisional) <i>HK\$'000</i>
<b>Assets and liabilities acquired</b>			
Property, plant and equipment	11	—	11
Intangible assets	2	998	1,000
Other receivables	860	—	860
Cash and cash equivalent	2,317	—	2,317
Amount due to a related party	(653)	—	(653)
	<hr/>	<hr/>	<hr/>
<b>Net identifiable assets and liabilities</b>	2,537	998	3,535
Goodwill arising on acquisition			65,665
			<hr/>
			69,200
<b>Total consideration satisfied by:</b>			
Cash paid			20,000
Ordinary shares issued at fair value of HK\$0.066			13,200
Ordinary shares at a price of HK\$0.072 (contingent consideration included in other payables)			36,000
			<hr/>
			69,200
			<hr/>
Purchase consideration settled in cash			(20,000)
Cash and cash equivalent acquired			2,317
			<hr/>
Net cash outflow arising on acquisition			17,683
			<hr/> <hr/>

24. DISPOSAL OF SUBSIDIARY DURING THE PERIOD

On 26 November 2010, the Group completed the disposal of entire issued share capital of Benefun (BVI) Limited and its subsidiaries at a total consideration of HK\$3,000,000.

The net assets of Benefun (BVI) Limited and its subsidiaries at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	387
Trade and other receivables	16,807
Cash and cash equivalent	2,045
Trade and other payables	(50,196)
	<hr/>
	(30,957)
Gain on disposal of subsidiaries	33,957
	<hr/>
Total consideration	3,000
	<hr/> <hr/>
Satisfied by:	
Cash	3,000
	<hr/> <hr/>

## 25. SHARE BASED PAYMENT

### Share option scheme

The number of share options are as follows:

	Unaudited		Audited	
	As at 31 December 2010		As at 30 June 2010	
	Weighted	Number	Weighted	Number
	average	options	average	options
	exercise price		exercise price	
	HK\$	'000	HK\$	'000
Outstanding at the beginning of the period/ year		1,075,740		—
Granted during the period/ year		—	0.10	1,265,640
Exercised during the period/ year	0.08	(77,460)	0.09	(143,500)
Cancelled during the period/ year	0.12	(105,400)	0.12	(46,400)
		<u>          </u>		<u>          </u>
Exercisable at the end of the period/ year		892,880		1,075,740
		<u>          </u>		<u>          </u>

**25. 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	Share options granted on		
	26 May 2010	19 January 2010	7 August 2009
	Binominal	Binominal	Binominal
Fair value of the measurement date	HK\$0.0237	HK\$0.0303	HK\$0.0416
Weighted average price at grant date	HK\$0.067	HK\$0.081	HK\$0.109
Exercise price	HK\$0.075	HK\$0.087	HK\$0.117
Weighted average of contractual life	3 years	3 years	3 years
Expected volatility	65.43%	68.86%	71.26%
Risk free rate	0.97%	0.98%	1.16%

**26. CAPITAL COMMITMENTS**

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

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2010</b>	2010
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>69,218</b>	18,284



## 27. RELATED PARTY TRANSACTIONS

### (a) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in note 20 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 are as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Short term employee benefits	<b>1,380</b>	17,650

## **28. EVENTS AFTER THE END OF REPORTING PERIOD**

- (a) Pursuant to the announcement dated 4 December 2010, the Company entered into a conditional acquisition agreement with the vendor in relation to the conditional acquisition of 100% equity interest of Bright Delight Group Limited at a total consideration of HK\$67,040,000, of which HK\$47,040,000 shall be satisfied by the issue of 735,000,000 consideration shares at the price of HK\$0.064 per consideration share while the balance of HK\$20,000,000 shall be payable in cash in two equal instalments upon the fulfillment of the guarantee profits during the guarantee periods. On 28 January 2011, all the conditions precedent have been completed and the Company allotted and issued all consideration shares under escrow and to be available to the vendor upon the fulfillment of the guarantee profits during the guarantee periods.
- (b) At the Extraordinary General Meeting held on 14 January 2011, an ordinary resolution regarding the share consolidation of every five (5) issued and unissued shares of HK\$0.01 each in the capital of the Company into one (1) consolidated share of HK\$0.05 each was duly passed by the shareholders by way of poll.

Pursuant to the terms of the relevant Share Option Scheme and the Convertible Notes agreements, the exercise price and the conversion price of the respective Share Options and the Convertible Notes were adjusted upon the share consolidation becoming effective.

## **29. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 25 February 2011.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2010 (six months ended 31 December 2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATION

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 recorded 11-year average net loss of HKD29.8 million (July 1997 – June 2008). To maximize shareholders' return, the Group diversified into green business in late 2008.

During the six months ended 31 December 2010, the Group had disposed all subsidiaries which have been principally engaged in the apparel manufacturing business, renting business and property development business. The disposal recorded a net gain of HK\$33,957,000 for the Group and enables the Group to realize the value of the apparel manufacturing and property development and rental businesses and to concentrate its resources on cultivating the profitable green business in the PRC.

The Group is positioned to be the leading green business enterprise providing comprehensive green solutions. The Group is currently engaged in the business of research, development and application of technologies and solutions, manufacture, sale and distribution of products, materials, systems and services for green market segments including the environmental markets, agricultural markets, organic markets and green medical markets in the PRC market and overseas.

The Group's green business development has been driving by internal resources and achieves milestone growth in terms of sales turnover, corporate return, product variety, business complexity and counter-parties diversities. For the six months ended 31 December 2010, turnover of the Group amounted to HK\$219,632,000 (2009: HK\$167,760,000), increased by 30.9% as compared to corresponding period of last year.

Since the beginning of the second half year 2010, China's agricultural sector encountered continuous natural disasters, including a prolonged droughts and snowstorms in northern China and series of flooding in southern China. These natural disasters had unavoidably affected the production of the agricultural operators. The Group took the opportunity to offer significant discounts for its organic fertilizer to widen its market shares and to deepen the long term amicable relationship with its corporate clients. The special discount strategy was temporary to accommodate the adverse factors from natural disasters but it trimmed down the Group's gross profit to HK\$46,146,000 (2009: HK\$63,927,000), with the decrease of 27.8% as compared to corresponding period of last year.

Profit attribution to shareholders for the six months ended 31 December 2010 increased by 8.01% to HK\$81,452,000 (2009: HK\$75,408,000).

### *Fertilizer Products*

For the six months ended 31 December, 2010, sales of fertilizer products recorded approximately HK\$162,154,000 (2009: HK\$116,642,000), representing approximately 73.83% of the Group's total turnover.

### *Plantation Products*

For the six months ended 31 December, 2010, sales of plantation products recorded approximately HK\$15,633,000 (2009: HK\$23,182,000), representing approximately 7.12% of the Group's total turnover.

### *Environmental Systems*

For the six months ended 31 December, 2010, sales of environmental systems recorded approximately HK\$28,345,000 (2009: HK\$25,584,000), representing approximately 12.90% of the Group's total turnover.

### *Technology Services*

For the six months ended 31 December, 2010, sales from technical services income recorded approximately HK\$13,500,000 (2009: HK\$2,352,000), representing approximately 6.15% of the Group's total turnover.

Earnings per share from continuing operations was HK0.921 cents (2009: HK1.197 cents).

Finance costs for the six months ended 31 December 2010 amounted to approximately HK\$4.4 million represented non-cash imputed interest expenses on convertibles notes.

Administrative and other operating expenses from continued operations for the six months ended 31 December 2010 amounted to approximately HK\$31.8 million (2009: HK\$22.68 million). It included major items such as other taxes of approximately HK\$11 million, amortization of land concession right of approximately HK\$2.5 million and amortization of technology patents of approximately HK\$9 million. The increase in administrative and other operating expenses was commensurate with the growth of the Group's green business and related activities.

### 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 placed strategic importance on the "Three Rural Issues" and spent aggregate amount approximately RMB2,910.7 billion.

The upcoming <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. On 8 December 2010, the Ministry of Agriculture announced, during the Twelfth Five-Year Plan, that national policy will continue to favor agricultural sector and to encourage foreign enterprises to invest in high value added agricultural modernization and related infrastructural establishments. Apart from the agricultural sector, Chinese government would also commit to environmental improvements for energy saving and low-carbon economy.

Regarding environmental sector, the Group's O-Live System provides economical and environmental solution of the organic waste produced and discharged by the livestock farms, and can kill most common harmful bacteria within 24 hours. The Group's O-Pure System provides economical and environmental solution for urban sewage, agricultural and industrial wastewater with the treated output surpassing the highest national standard of <<GB18918-2002>> First Level Class A.

Regarding agricultural sector, the Group's "Tian Mi Mi" organic fertilizer offers effective, economical and sustainable solution for curing the chemically contaminated soil, increasing crops yield and cultivating organic food. In January 2011, the Group's Tian Mi Mi organic fertilizer product was awarded the 2010 Number One brand in the industry of organic fertilizer market.

Regarding the green medical sector, according to the National Bureau of Statistics, the industry of medicine had achieved sales revenue of RMB1,070 billion in the first eleven months of 2010, with the growth rate of 27.48%. With the development trends of population aging and urbanization, the Group believes that the development trends of Chinese medicine and herbal medicine would remain robust in the future several years.

Having based on the above sectors blessed by China' prioritized policies, the Group is confident in capitalizing the green business opportunities stimulated by supportive government policies and booming green markets and to create more value to the shareholders.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$11.8 million (30 June 2010: approximately HK\$18.4 million).

The Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' funds, was approximately 5.39% (30 June 2010: approximately 9.91%).

As at 31 December 2010, net current assets was HK\$21,795,000 (30 June 2010: HK\$10,385,000) and the current ratio was approximately 1.13 (30 June 2010: 1.07).

As at 31 December 2010, the capital commitment of approximately HK\$69.2 million were contracted but not provided for in the condensed consolidated statement of financial position, of which approximately HK\$22.7 million, HK\$34.0 million and HK\$12.5 million were related to the establishment of production centre for organic fertilizers respectively in No. 73 Regiment, Shufu County and Tecon Group of Xinjiang Uygur Autonomous Region.

### 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 2010. 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.

### CHARGE ON THE GROUP'S ASSETS

As at 31 December 2010, the Group pledged bank deposits of HK\$5 million to secure general banking facilities (30 June 2010: HK\$5 million).

### CAPITAL RAISING AND EXPENDITURE

During the six months ended 31 December 2010, 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**

There has been no material change in the Group's contingent liabilities since its last published annual report for the year ended 30 June 2010.

### **HUMAN RESOURCES AND REMUNERATION POLICY**

The Group had approximately 82 employees in Hong Kong and the PRC as at 31 December 2010. The Group implements remuneration policy, bonus and share options scheme to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions held by each director and chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations, if any, (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

### Long positions in shares and underlying shares of the Company

Name of Directors	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31 December 2010 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Ms. Kam Yuen	Deemed interest and beneficial owner	1,520,520,000	180,000,000	1,700,520,000 <i>(Note 2)</i>	17.97%
Mr. Leung Kwong Choi	Beneficial owner	—	62,400,000	62,400,000 <i>(Note 3)</i>	0.66%
Mr. Kwok Wai, Wilfred	Beneficial owner	—	62,400,000	62,400,000 <i>(Note 3)</i>	0.66%
Mr. Cheung Ngai Lam	Beneficial owner	—	21,260,000	21,260,000 <i>(Note 3)</i>	0.22%



*Notes:*

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 9,465,639,000 shares as at 31 December 2010.
2. This represents 180,000,000 share options granted to Ms. Kam Yuen pursuant to the Company's share option scheme and interest in 1,520,520,000 shares held by Capital Master International Limited ("Capital Master"). The entire issued share capital of Capital Master is beneficially owned by Mr. Choi Ping Fai, the spouse of Ms. Kam Yuen. Accordingly, Mr. Kam Yuen is deemed to have interests in the shares and underlying shares.
3. The relevant interests are share options granted pursuant to the Company's share option scheme adopted on 16 December 2005.

Save as disclosed above, as at 31 December 2010, none of the Company's directors, chief executive or their respective associates had any other personal, family, corporate and other interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons, other than a director of the Company, were interested or had short positions in more than 5% of the shares and underlying shares of the Company or its subsidiaries according to the register required to be kept under section 336 of the SFO in the respective amounts as follows:

### Long positions in shares and underlying shares of the Company

Name of Shareholders	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 31 December 2010 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Choy Ping Fai	Beneficial owner	1,520,520,000	—	1,520,520,000 <i>(Note 2)</i>	16.06%
Capital Master International Limited	Beneficial owner	1,520,520,000	—	1,520,520,000 <i>(Note 2)</i>	16.06%
Edmond de Rothschild Asset Management	Fund Manager	527,000,000	—	527,000,000	5.57%
The Cathay Investment Fund, Limited	Beneficial owner	1,319,600,000	—	1,319,600,000 <i>(Note 3)</i>	13.94%

*Notes:*

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 9,465,639,000 shares as at 31 December 2010.
2. This represents 1,520,520,000 shares held by Capital Master. The entire issued share capital of Capital Master is beneficially owned by Mr. Choy Ping Fai. Accordingly, Mr. Choy Ping Fai is deemed to have interests in the shares.

## SHARE OPTION SCHEME

The existing share option scheme of the Company was approved on 16 December 2005 (“Share Option Scheme”). The purpose of the Share Option Scheme is to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, and/or providing benefits to the participant and to provide the participant with the opportunity to acquire a personal stake in the Group and to build common objectives of the Group and the participant for the betterment of business and profitability of the Group and its shareholders as a whole.

The movements in the share options under the Share Option Scheme during the six months ended 31 December 2010 are as follows:

For the six months ended				Number of share options					
31 December 2010				Exercise price per share	At 1 July 2010	Granted during the period	Exercised during the period	Lapsed during the period	At 31 December 2010
Name of category of participant	Date of grant	Exercise period							
Directors									
Ms. Kam Yuen	7/8/2009	7/8/2009 – 6/8/2012	0.117	180,000,000	—	—	—	180,000,000	
Mr. Leung Kwong Choi	7/8/2009	7/8/2009 – 6/8/2012	0.117	62,400,000	—	—	—	62,400,000	
Mr. Kwok Wai, Wilfred	7/8/2009	7/8/2009 – 6/8/2012	0.117	62,400,000	—	—	—	62,400,000	
Mr. Cheung Ngai Lam	7/8/2009	7/8/2009 – 6/8/2012	0.117	21,260,000	—	—	—	21,260,000	
Subtotal				326,060,000	—	—	—	326,060,000	
Employees and others (Note b)									
In aggregate	7/8/2009	7/8/2009 – 6/8/2012	0.117	175,400,000	—	—	(105,400,000)	70,000,000	
	19/1/2010	19/1/2010 – 18/1/2013	0.087	210,500,000	—	(15,000,000)	—	195,500,000	
	26/5/2010	26/5/2010 – 25/5/2013	0.075	363,780,000	—	(62,460,000)	—	301,320,000	
				749,680,000	—	(77,460,000)	(105,400,000)	566,820,000	
Total				1,075,740,000	—	(77,460,000)	(105,400,000)	892,880,000	
Weighted average exercise price (HK\$) before the dates of exercise									
				—	—	0.08	—	—	

### PURCHASE, SALE AND REDEMPTION OF SHARES

For the six months ended 31 December, 2010, 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 CG Code") as set out in the Appendix 14 of the Listing Rules. In the opinion of the directors, the Company has met the code provisions of the CG Code during the six months ended 31 December 2010 except the following.

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

Ms. Kam Yuen, an executive director of the Company, was appointed chief executive officer of the Company on 4 June, 2009 and was appointed as chairman of the Board on 14 May, 2010. She currently assumes both roles. The Board believes that the vesting of the roles of chairman of the Board and chief executive officer of the Company in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The Board also believes that the Company already has a strong corporate governance structure and as such the present structure is considered to be appropriate under the circumstances.

### COMPLIANCE OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 2010.

### AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. It has formulated its written terms of reference in accordance with the provisions set out in the CG Code. The audit committee has reviewed the unaudited interim financial results for the six months ended 31 December 2010. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Cheung Ngai Lam, Mr. Wong Kwai Sang and Mr. Christopher David Thomas.

On behalf of the Board

**China Environmental Resources Group Limited**

**Kam Yuen**

*Chairman*

Hong Kong, 25 February 2011