CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED
中 國 環 境 資 源 集 團 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1130)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2013

The board of directors (the "Board") of China Environmental Resources Group Limited (the "Company") announces the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2013 together with comparative figures for the year ended 30 June 2012.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
Turnover	3	**31,014**	28,838
Cost of sales		**(27,517)**	(23,871)
Gross profit		**3,497**	4,967
Other gains and losses	5	**(26,663)**	(282,432)
Other income	6	**2,567**	1,301
Selling and distribution expenses		**(11)**	(22)
Administrative and other operating expenses		**(27,183)**	(58,493)
Finance costs	7	**(11)**	(9)
Loss before tax		**(47,804)**	(334,688)
Income tax credit	8	**5,672**	64,945
Loss for the year	9	**(42,132)**	(269,743)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**14,918**	17,160
Total comprehensive loss for the year		**(27,214)**	(252,583)
Loss for the year attributable to:			
Owners of the Company		**(42,132)**	(269,834)
Non-controlling interests		**—**	91
		(42,132)	(269,743)
Total comprehensive loss attributable to:			
Owners of the Company		**(27,214)**	(252,674)
Non-controlling interests		**—**	91
		(27,214)	(252,583)
			Restated
Loss per share			
– Basic (cents per share)	10	**(32.94)**	(237.74)
– Diluted (cents per share)	10	**(32.94)**	(237.74)

Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		**2,186**	2,862
Biological assets		**750,671**	767,064
Goodwill		—	—
Intangible assets		**120,949**	130,536
Long-term prepayments		—	33,660
Deposit paid for acquisition of long term assets		—	12,000
Interest in an associate		—	—
		873,806	946,122
Current assets			
Inventories		**227**	335
Trade and other receivables	12	**24,804**	32,914
Cash and bank balances		**29,492**	724
		54,523	33,973
Current liabilities			
Trade and other payables	13	**11,759**	29,966
Purchase consideration payable		—	45,721
Amount due to a former director		**1,799**	—
Tax payable		**6,262**	2,759
Bank overdraft, unsecured		—	4
Obligations under finance lease		**46**	43
		19,866	78,493
Net current assets/(liabilities)		**34,657**	(44,520)
Total assets less current liabilities		**908,463**	901,602

	2013	2012
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**197,659**	207,910
Obligations under finance lease	**96**	142
Advance from a related party	—	4,842
	197,755	212,894
NET ASSETS	**710,708**	688,708
Capital and reserves		
Share capital	**3,654**	128,270
Reserves	**707,054**	560,438
TOTAL EQUITY	**710,708**	688,708

Notes

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

HKAS 1 (Amendments)	Presentation of Financial Statements
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 (Amendments)	Government Loan

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

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

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[1]
HKAS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities[2]
HKAS 36 (Amendments)	Impairment of Assets[2]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[2]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKFRS 10, HKFRS 11 and HKFRS12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[2]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]
HK(IFRIC) - Int 21	Levies[2]

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

2 Effective for annual periods beginning on or after 1 January 2014

3 Effective for annual periods beginning on or after 1 January 2015

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

3. TURNOVER

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

	2013	2012
	HK$'000	*HK$'000*
Sales of plantation materials	**2,704**	3,213
Sales of plantation products	**475**	318
Green technology income	**27,835**	25,307
	31,014	28,838

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The chief operating decision maker is the Company's executive directors.

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

(i) Sales of plantation materials

(ii) Sales of plantation products

(iii) Green technology income

(iv) Sales of environmental system

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

Information regarding the above segment is reported below.

(a) Segment revenues and results

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

For the year ended 30 June 2013

	Green technology income *HK$'000*	Sales of plantation materials *HK$'000*	Sales of environmental system *HK$'000*	Sales of plantation products *HK$'000*	Total *HK$'000*
Segment revenue:					
– External sales	27,835	2,704	—	475	31,014
Segment results before change in fair value of biological assets	21,234	16	—	(27,667)	(6,417)
Loss on change in fair value of biological assets less estimated point-of-sale costs	—	—	—	(31,416)	(31,416)
Segment results	21,234	16	—	(59,083)	(37,833)
Unallocated results					(9,960)
Finance costs					(11)
Loss before tax					(47,804)
Income tax credit					5,672
Loss for the year					(42,132)

For the year ended 30 June 2012

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

(b) Segment assets and liabilities

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

At 30 June 2013

	Green technology income	**Sales of plantation materials**	**Sales of environmental system**	**Sales of plantation products**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**2,910**	**334**	—	**871,620**	**874,864**
Unallocated corporate assets					**53,465**
Total assets					**928,329**
Segment liabilities	—	**867**	—	**935**	**1,802**
Unallocated corporate liabilities					**215,819**
Total liabilities					**217,621**

At 30 June 2012

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

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

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

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

(c) Other segment information

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

For the year ended 30 June 2013

	Green technology income *HK$'000*	**Sales of plantation materials** *HK$'000*	**Sales of environmental system** *HK$'000*	**Sales of plantation products** *HK$'000*	**Total** *HK$'000*
Other segment information:					
Depreciation of property, plant and equipment	**1**	—	—	—	**1**
Amortisation of intangible assets	—	**88**	—	**4,849**	**4,937**
Impairment of intangible assets	—	**350**	—	—	**350**
Unallocated depreciation of property, plant and equipment					**675**
Unallocated capital expenditure					—

For the year ended 30 June 2012

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

Geographical information

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

	Mainland China		Hong Kong		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**28,114**	18,046	**2,900**	10,792	**31,014**	28,838
Segment assets	**892,208**	975,840	**36,121**	4,255	**928,329**	980,095
Capital expenditure – property, plant and equipment	**—**	—	**—**	3,272	**—**	3,272

Information about major customers

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

Customer	**Details**	**2013**	2012
		HK$'000	*HK$'000*
A	Green technology income	**23,985**	14,515
B	Green technology income	**—**	10,792

5. OTHER GAINS AND LOSSES

	2013	2012
	HK$'000	*HK$'000*
Loss on changes in fair value of biological assets less estimated point-of-sale costs	**(31,416)**	(183,729)
Loss on disposal of subsidiaries	—	(4,479)
Changes in fair value of purchase consideration payable	**4,217**	6,740
Exchange gain/(loss), net	**2**	(119)
Impairment loss on goodwill	—	(36,281)
Impairment loss on intangible assets	**(350)**	(64,564)
Gain on transfer of intangible assets	**196**	—
Gain on disposal of interest in an associate	**156**	—
Reversal of impairment loss on interest in an associate	**532**	—
	(26,663)	(282,432)

6. OTHER INCOME

	2013	2012
	HK$'000	*HK$'000*
Consultancy fee income	**1,105**	—
Interest income	—	1
Rental Income	**1,400**	1,110
Others	**62**	190
	2,567	1,301

7. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Finance lease interest	**11**	8
Other finance charges	—	1
	11	9

8. INCOME TAX CREDIT

	2013	2012
	HK$'000	*HK$'000*
Current tax		
– Hong Kong	**3,503**	1,502
– PRC Enterprise Income Tax ("EIT")	—	101
Deferred tax		
– current year	**(9,175)**	(66,548)
Income tax credit	**(5,672)**	(64,945)

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

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for both years.

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

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

	2013	2012
	HK$'000	*HK$'000*
Loss before tax	**(47,804)**	(334,688)
Tax calculated at applicable PRC tax rate of 25% (2012: 25%)	**(11,951)**	(83,672)
Tax effect of expenses not deductible for tax purpose	**7,581**	24,389
Tax effect of income not taxable for tax purpose	**(1,794)**	(5,652)
Effect of different tax rates of group companies operating in jurisdictions other than PRC	**492**	(10)
Income tax credit	**(5,672)**	(64,945)

9. LOSS FOR THE YEAR

Loss for the year is arrived at after charging:

	2013	2012
	HK$'000	*HK$'000*
Staff costs including directors' emoluments	**4,597**	6,058
Depreciation of property, plant and equipment	**676**	506
Amortisation of intangible assets	**4,937**	17,897
Cost of inventories recognised as an expense	**3,019**	2,279
Auditor's remuneration	**780**	726
Operating leases charges on property rentals	**1,606**	1,713
Impairment loss on amounts due from ex-subsidiaries	—	4,189
Impairment loss on long-term prepayments	—	2,825
Equity-settled share-based payment expense	—	5,353

10. LOSS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	**(42,132)**	(269,834)

	2013	2012
	'000	*'000*
		(Restated)
Number of shares *(note)*		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	**127,894**	113,502

Note: The weighted average of ordinary shares for the purpose of calculating basic loss per share for both years have been retrospectively adjusted for the effect of share consolidation completed in March 2013.

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

11. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 30 June 2013 (2012: Nil).

12. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**3,007**	—
Prepayments, deposits and other receivables	**21,797**	32,914
	24,804	32,914

All trade and other receivables are neither past due nor impaired.

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

	2013	2012
	HK$'000	*HK$'000*
RMB	**850**	902

13. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**208**	—
Other payables and accruals	**11,551**	29,966
	11,759	29,966

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

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	—	—
31 - 90 days	—	—
91 - 180 days	**208**	—
Over 180 days	—	—
	208	—

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

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

	2013	2012
	HK$'000	*HK$'000*
RMB	**2,001**	21,016

14. EVENTS AFTER THE END OF REPORTING PERIOD

(a) Pursuant to the announcement dated 19 July 2013 and 23 July 2013, the Company entered into a memorandum of understanding ("MOU") with an independent third party in relation to a possible acquisition of 100% equity interest in a target company ("Possible Acquisition"). The target company has certain interests and rights in the piece and parcel of land located in the PRC via its subsidiary.

The MOU does not create legally binding obligations on both parties in relation to the Possible Acquisition but is legally binding as to exclusivity period which is of three months commencing on the date of the MOU within the period the Company has the exclusive right to negotiate with the vendor on the Possible Acquisition. The Possible Acquisition is subject to the satisfaction of due diligence result on the target group for further negotiation and entering into of a formal agreement ("Formal Agreement").

(b) Pursuant to the announcement dated 15 August 2013, the Company proposed an open offer of not less than 602,988,342 offer shares (assuming no subscription rights attaching to the outstanding share options are exercised on or before the record date) and not more than 607,773,342 offer shares (assuming full exercise of the subscription rights attaching to the outstanding share options on or before the record date) at a price of HK$0.27 per offer share, on the basis of thirty-three offer shares for every ten shares held on the record date.

The estimated net proceeds from the open offer will be not less than approximately HK$156.8 million but not more than HK$158.1 million. The net proceeds is intended to be applied as to approximately HK$150.0 million for financing the payment of refundable deposit of the Formal Agreement mentioned in note 14 (a) above in the event that the Formal Agreement is entered into. The deposit shall be treated as partial payment of the consideration of the Possible Acquisition subject to the terms of the Formal Agreement. If the entering into of the Formal Agreement does not proceed, the net proceeds will then be used for out suitable investment opportunities as and when identified by the Group. The remaining balance of net proceeds will be used as general working capital of the Group.

BUSINESS AND OPERATION REVIEW

The Group was listed in 1997 with business focuses on garment and property businesses in the People's Republic of China ("PRC"). Due to keen competition and rising cost of the garment and property businesses, the Group diversified into green business in late 2008 to maximize shareholders' return.

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

Most developed countries' economies remained sluggish and drastic turbulences in global financial markets clouded the economic development of PRC. Due to global climate change, the weather will become unpredictable. The Group expected to face extreme uncertainties and risks in its business activities.

During the financial year ended 30 June 2013, the PRC's economic growth has declined steadily since 2010 as a slump in global demand battered its exporters and PRC government's economic strategy of tightened lending and investment curbs. The PRC economy grew by 7.5% compared to Year 2012, down from 7.7% in the January to March period in 2013. The number of natural disasters occurring in China has been significantly increasing, with earthquakes occurring much more frequently than anticipated. China's Ministry of Civil Affairs reported that earthquakes ranging between M5.0 and M8.0 have occurred 21 times in the first six months of 2013, which is much higher than the annual earthquake predictions of the China Earthquake Networks Center.

With specific to the Group's operating Plantation Land of approximately 60,000 mu (Chinese Mu) in Shihezi City, Xinjiang Region, Xinjiang Region experienced series of natural disasters of earthquake, drought, flooding, windstorm, low-temperature freeze, ice storm affecting 1.75 million people and resulting in catastrophe-related economic losses of RMB 3.2 billion in 2012. The Shihezi City was further hit by the earthquakes with magnitude of Mw6.3 on 29 June 2012. In 2013, the southern and northern parts of Xinjiang Region experienced frequent occurrence of heavy rains, floods, landslides and other natural disasters.

Expecting extreme uncertainties and risks in its plantation business activities affected by worsening economic conditions and unstable natural factors, the Group continued its protective business approach during the financial year ended 30 June 2013. The protective business approach included tight credit control and pricing measures to corporate clients, trading of plantation materials, transfer the operating right of new plantation activities and protection of existing biological assets.

For the financial year ended 30 June 2013, turnover of the Group increased by 7.55% to HK$31,014,000 with gross profit of HK$3,497,000 (2012: turnover of HK$28,838,000 with gross profit of HK$4,967,000). Loss for the year amounted to HK$42,132,000 (2012: Loss of HK$269,743,000), including mainly the decrease of HK$31,416,000 in valuation of biological assets of which growth was affected by the shortage of underground water in the region. The Group considers that the decrease in valuation is non-cash in nature and will not have material adverse effect on the financial position of the Group.

Plantation Material

For the financial year ended 30 June 2013, the natural disasters affected the plantation activities of the Group's clients in the region. The sale of plantation materials decreased by 15.8% to HK$2,704,000 from HK$3,213,000 as compared to last year. Sale of plantation materials represented approximately 8.72% (2012: 11.14%) of the Group's total turnover.

Plantation Product

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

The Group engages in ecological plantation of timber resources, organic herbs and crops on the Plantation Land, within which approximately 30,000 Chinese mu of land has already been cultivated with poplar trees (the "Planted Land"). The remaining 30,000 Chinese mu of land has not been cultivated with trees and crops (the "Unplanted Land"). During the financial year ended 30 June 2012, the Group scaled down its original plan of herbal crops plantation of approximately 10,000 Chinese mu Unplanted Land to approximately 1,450 Chinese mu to contain the risks and uncertainties of the adverse impact on the newly grown saplings which are highly vulnerable to natural disasters.

Considering the risks and uncertainties involved with unprecedented varieties and scale of natural disasters in the world and in PRC, during the financial year ended 30 June 2013, the Group transfer the operating right of the "Unplanted Land" of 30,000 Chinese mu of land to avoid new plantation activities which are highly vulnerable to natural disasters.

The sale of plantation products was recorded at HK$475,000 with increase of 49.37% as compared to last year (2012: approximately HK$318,000), representing approximately 1.53% (2012: 1.1%) of the Group's total turnover.

For the annual audited financial year ended 30 June 2013, the growth and the volume of the biological assets was affected by the shortage of underground water in the region. The Group recorded the decrease by 2.14% to HK$750,671,000 from HK$767,064,000 in the fair value of the poplar trees biological assets. The Group considers that the decreases are non-cash in nature and will not have material adverse effect on the financial position of the Group.

Environmental System

In 2009, the Group developed the waste-to-value "O-Live Organic Waste Treatment System" ("O-Live System") which is an automatic machine utilizing high temperature microorganisms technology for environmental treatment of animal manures of livestock farms. Within 24 hours, O-Live System kills animal influenza and common disease bacteria and converts animal manures into raw materials for producing microbial organic fertilizer. The sale of the O-Live System was suspended pending the development of a more cost-effective, upgraded version of the product. For the financial year ended 30 June 2013, sales of environmental systems recorded no turnover and had no representation of the Group's total turnover (2012: nil sales).

Green Technology

On 28 January 2011, the Group completed the acquisition of the 100% equity interest in Bright Delight Group Limited ("Bright Delight"). The Vendor is a company principally engaged in research and development, project establishment, application and sale of green and environmental product, technology, service and related products for sustainable development.

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

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

During the "First Guaranteed Period", Bright Delight achieved a profit of HK$6,301,025 which was 18.8% of the "First Period Guaranteed Profit" of HK$33,500,000 for the First Guaranteed Period. As per supplementary agreement, cash consideration of HK$10 million had been waived by the Vendor and both parties agreed that 69,090,000 Consideration Shares (before share consolidation) which was 18.8% of original 367,500,000 Consideration Shares to be released to the Vendor on or before 30 June 2013.

During the "Second Guaranteed Period", Bright Delight achieved a profit of HK$19,373,515 which was 57.83% of the "Second Period Guaranteed Profit" of HK$33,500,000 for the Second Guaranteed Period. Both parties agreed that cash consideration of HK$5,783,000 (57.83% of original cash consideration of HK$10 million) and 212,525,250 Consideration Shares (before share consolidation) which was 57.83% of original 367,500,000 Consideration Shares to be released to the Vendor on or before 30 June 2013.

On 25 June 2013, the total of 2,816,152 Consideration Shares (after share consolidation) for both profit guarantees periods were released to the Vendor. On the same day, the remaining 4,533,848 Consideration Shares (after share consolidation) was successfully returned from the Vendor to the Group for the disposal in open market. As the returned Consideration Shares were originally issued in name of the Vendor, in order to save administrative and transaction cost, the Vendor offered to purchase the remaining 4,533,848 shares at HK$0.23 per share taking reference from the market closing price on 25 June 2013. The Group accepted the offer considering that trading prices remained stable during the period (the average trading price was HK$0.249 for last 20 trading days before 25 June 2013) and the sale of the consideration shares at the market closing price of 25 June 2013 represented no significant price deviation which may affect the interest of the Group. In addition, the market daily average trading volume for last 20 trading days before 25 June 2013 was only 167,440 shares. The sale of 4,533,848 shares in the market may tremendously increase share supply of which selling pressure may adversely affecting share prices to be transacted and then adversely affecting the interest of the Group from share sale.

The payment of Cash Consideration and the release of Consideration Share from the Group to the Vendor were completed before 30 June 2013. The payment of HK$1,042,785 for purchase of the returned Consideration Shares was received from the Vendor before 30 June 2013.

The green technology segment comprises the research and development, project establishment, application and sale of green and environmental product, technology, service and related products for sustainable development. The green technology segment commanded higher gross profit margin of 76.29% and contributed the major turnover and profit for the Group. For the financial year ended 30 June 2013, technology income recorded approximately HK$27,835,000 with gross profit HK$21,234,000 (2012: sales HK$25,307,000 and gross profit HK$20,882,000), representing approximately 89.75% (2012: 87.76%) of the Group's total turnover.

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

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

To maximize the return for shareholders, the Group will continue to edge on its green technology competence, forefront market experience, proactive business strategy and nationwide Chinese business network to continuously explore investment opportunity to diversify its business areas for higher return. On 19 July 2013, the Group entered into the MOU in relation to the possible acquisition on which the target company has certain interests and rights in the piece and parcel of land located in the PRC.

FINANCIAL REVIEW

For the year ended 30 June 2013, the Group recorded a consolidated turnover at approximately HK$31.01 million (2012: HK$28.84 million), representing an increase of 7.55% compared with the year ended 30 June 2012 (the "Previous Year"). The Group's gross profit decreased by 29.6% to approximately HK$3.49 million (2012: HK$4.97 million). The decrease in gross profit was mainly attributable to the increased cost of plantation activities.

The loss for the year significantly decreased to HK$42.13 million from Previous Year's loss of HK$269.74 million, mainly attributable to the HK$31.42 million loss on changes in fair value of biological assets and the plantation products segment loss of HK$27.67 million. Its basic and diluted loss per share for the year was HK32.94 cents (2012: restated basic and diluted loss per share at HK237.74 cents). After taking into account the loss on changes in fair value of biological assets of HK$31.42 million, gain on changes in fair value of purchase consideration payable of HK$4.22 million and exchange gain of HK$2,000, impairment loss on intangible assets of HK$350,000, gain on transfer of intangible assets of HK$196,000 and gain on disposal of interest in an associate of HK$156,000 and reversal of impairment loss on interest in an associate of HK$532,000, other losses significantly decreased to HK$26,663,000 from Previous Year's other loss of HK$282,432,000. Other income of HK$2,567,000 mainly included consultancy fee income of HK$1,105,000 and rental income of HK$1,400,000.

In calculating the Group's consolidated net loss, the administrative and other operating expenses of approximately HK$27.18 million (2012: approximately HK$58.49 million) included major items, such as staff costs of HK$4.6 million, depreciation of HK$676,000, amortisation of intangible assets of HK$4.94 million, cost of inventory of HK$3 million, auditor's remuneration of HK$780,000 and operating leases charge of HK$1.6 million.

Finance costs of HK$11,000 which was recorded for finance lease interest (2012: HK$9,000). Income tax credit was approximately HK$5.67 million (2012: HK$64.95 million) mainly due to deferred tax credit of HK$9.18 million for the current year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2013, the Group's cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, totally amounted to approximately HK$29.5 million (2012: HK$724,000). The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in China and did not use any financial instruments for hedging purpose.

As at 30 June 2013, the Group's current assets amounted to approximately HK$54.52 million and current liabilities amounted to approximately HK$19.87 million. The Group's net current assets, being its current assets minus its current liabilities, amounted to approximately HK$34.65 million. (2012: Net current liabilities of HK$44.52 million)

Gearing ratio, defined as total borrowings divided by the total equity as at 30 June 2013 was 0.02% (2012: 0.03%).

As at 30 June 2013, the capital commitment contracted but not provided for in the consolidated statement of financial position arrived at zero amount (2012: Nil).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2013, the Group did not have pledged assets to secure general banking facilities.

CAPITAL RAISING AND EXPENDITURE

On 3 April 2013, the Company placed 24,000,000 shares under the General Mandate at a price of HK$0.265 per share. The gross proceeds and net proceeds from the Placing were HK$6.36 million and HK$6.17 million, respectively.

On 19 June 2013, the Company placed 30,453,958 shares under the General Mandate at a price of HK$0.20 per shares. The gross proceeds and net proceeds from the Placing were HK$6.09 million and HK$5.76 million, respectively.

SHARE CAPITAL

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

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

The Company had got the Grand Court of Cayman Islands approval on the Capital Reorganization on 26 February 2013. The Capital Reorganization and Share Consolidation has become effective on 1 March 2013.

EMPLOYEES AND RETIREMENT BENEFIT SCHEME

The Group had approximately 28 employees in Hong Kong and the PRC as at 30 June 2013 (2012: 56). The Group implements remuneration policy, bonus and share options scheme to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintain and ensure high standards of corporate governance practice. The Company stresses the importance of maintaining the quality of the Board by ensuring that the Directors possess a wide range of expertise and the effective implementation of an accountability system, so as to ensure that business activities and decision making processes are regulated in a proper manner.

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rule Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 30 June 2013, except the followings.

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

During the year, Ms. Kam Yuen acted as an Executive Director and the Chief Executive Officer of the Company (the "Chief Executive Officer") until 20 November 2012. On 21 November 2012, Ms. Kam Yuen resigned as an Executive Director and the Chief Executive Officer and Mr. Zhou Hongbo, an Executive Director and the Chairman of the Board, was appointed as the Chief Executive Officer. Thereafter, Mr. Zhou Hongbo assumes both roles. The Board believes that the vesting of the roles of Chairman of the Board and Chief Executive Officer in the same person can provide the Group with strong and consistent leadership and allow 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 present structure is considered to be appropriate under the circumstances of the Company.

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

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

The Company had appointed an independent professional company to carry out a review on the corporate governance and the internal control system of the Group, which was completed after the financial year end. The Board has considered the review report and the findings therein and agreed to implement the recommendations.

Code provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend the annual general meeting.

Mr. Zhou Hongbo, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 21 November 2012 due to his official duties. The Directors present at the annual general meeting elected Mr. Leung Kwong Choi, an Executive Director, as chairman of the annual general meeting.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's codes of conduct regarding Directors' securities transactions. Having made specific enquiry with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the year ended 30 June 2013.

AUDIT COMMITTEE

The Audit Committee of the Company (the "Audit Committee") is composed of three independent non-executive directors. It reports directly to the Board and reviews matters within the scope of audit, such as financial statements and internal controls. The written terms of reference which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The Audit Committee has reviewed and discussed with the external auditors the auditing and financial reporting matters including the annual consolidated results of the Group for the year ended 30 June 2013.

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

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

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

Hong Kong, 25 September 2013

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Zhou Hongbo (Chairman and Chief Executive Officer), Mr. Kwok Wai, Wilfred and Mr. Leung Kwong Choi; and three independent non-executive Directors, namely Mr. Wong Kwai Sang, Mr. Christopher David Thomas and Mr. Chan Ka Yin.