



Interim Report 2011-2012



**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. Leung Kwong Choi  
Mr. Kwok Wai, Wilfred

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

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

### **AUDIT COMMITTEE AND REMUNERATION COMMITTEE**

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

### **COMPANY SECRETARY**

Mr. Lo Tai On

### **AUDITORS**

Lau & Au Yeung C.P.A. Limited

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

2/F  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

### **REGISTERED OFFICE**

P.O. Box 309  
Ugland House, South Church Street  
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  
Wanchai  
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**

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.greencor.com](http://www.greencor.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 2011 together with the comparative figures for the corresponding period in 2010. 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 2011*

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
	<i>Notes</i>	<b>2011</b>	2010
		<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>12,456</b>	219,632
Cost of sales		<b>(9,244)</b>	(173,486)
Gross profit		<b>3,212</b>	46,146
Gain from changes in fair value of biological assets less estimated point-of-sale costs	11	<b>41,017</b>	63,194
(Loss)/Gain on disposal of subsidiaries		<b>(8,701)</b>	33,957
Other gains and losses	4	<b>882</b>	816
Distribution costs		<b>(19)</b>	(139)
Administrative and other operating expenses		<b>(26,285)</b>	(31,804)
Finance costs	6	<b>(4)</b>	(4,403)
Profit before income tax expense	5	<b>10,102</b>	107,767
Income tax expense	7	<b>(9,398)</b>	(26,339)
Profit for the period		<b>704</b>	81,428
Other comprehensive income, after tax			
Exchange differences on translating foreign operations	9	<b>13,103</b>	—
Total comprehensive income for the period		<b>13,807</b>	81,428

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

For the six months ended 31 December 2011

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
<i>Notes</i>	<b>2011</b>	2010
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit attributable to:		
– Owners of the Company	<b>614</b>	81,452
– Non-controlling interest	<b>90</b>	(24)
	<b>704</b>	81,428
	<b>704</b>	81,428
Total comprehensive income attributable to:		
– Owners of the Company	<b>13,717</b>	81,452
– Non-controlling interest	<b>90</b>	(24)
	<b>13,807</b>	81,428
	<b>13,807</b>	81,428

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

*For the six months ended 31 December 2011*

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
	<i>Notes</i>	<b>2011</b>	2010
		<b><i>HK Cent</i></b>	<i>HK Cent</i>
Earnings per share	10		
– Basic		<b>0.029</b>	0.921
		<hr/> <hr/>	<hr/> <hr/>
– Diluted		<b>0.029</b>	0.897
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	Unaudited As at 31 December 2011 HK\$'000	Audited As at 30 June 2011 HK\$'000
<b>Non-current assets</b>			
Biological assets	11	987,698	933,542
Property, plant and equipment	12	5,639	2,906
Prepaid lease payment		1,044	1,041
Construction in progress	13	815	763
Intangible assets	14	203,995	212,997
Long-term prepayment	18	58,653	73,206
Deposit paid for acquisition of long term assets	15	12,000	—
Goodwill	16	36,281	36,281
Interest in an associate		—	—
Total non-current assets		1,306,125	1,260,736
<b>Current assets</b>			
Inventories	17	1,019	1,787
Trade and other receivables	18	34,083	19,702
Amount due from non-controlling interest		—	1,911
Cash and bank balances	19	737	3,743
Total current assets		35,839	27,143
<b>Total assets</b>		1,341,964	1,287,879
<b>Current liabilities</b>			
Trade and other payable	20	42,126	36,546
Purchase consideration payable		52,461	52,461
Amount due to a related party	22	—	101
Tax payable		2,653	2,877
Obligation under finance lease	21	42	—
Total current liabilities		97,282	91,985
<b>Net current liabilities</b>		(61,443)	(64,842)
<b>Total assets less current liabilities</b>		1,244,682	1,195,894

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

As at 31 December 2011

	<i>Notes</i>	<b>Unaudited As at 31 December 2011 HK\$'000</b>	Audited As at 30 June 2011 HK\$'000
<b>Non-current liabilities</b>			
Advance from a related party	22	5,467	11,515
Deferred tax liabilities		282,461	274,458
Obligation under finance lease	21	162	—
Total non-current liabilities		<u>288,090</u>	285,973
Total liabilities		<u>385,372</u>	377,958
Total net assets		<u>956,592</u>	909,921
<b>Capital and reserves</b>			
Share capital	23	128,270	108,526
Reserves		826,926	797,144
<b>Equity attributable to owners of the Company</b>		<u>955,196</u>	905,670
Non-controlling interest		1,396	4,251
<b>Total equity</b>		<u>956,592</u>	909,921

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Unaudited											
	Share capital	Share premium	Shares held by escrow agent for settlement of consideration	Employee share-based compensation reserve	Convertible notes equity reserve	Statutory surplus reserve fund	Foreign exchange revaluation reserve	Capital reserve	Retained earnings/ (Accumulated losses)	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	HK\$'000
<b>Balance at 1 July 2010</b>	87,464	623,761	—	37,795	7,254	5,402	11,414	30	37,650	810,770	489	811,259
Total comprehensive income for the period	—	—	—	—	—	—	—	—	61,452	61,452	(24)	61,428
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>—</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>
<b>Balance at 1 July 2011</b>	<b>108,526</b>	<b>747,330</b>	<b>(35,721)</b>	<b>31,475</b>	<b>—</b>	<b>5,407</b>	<b>60,659</b>	<b>76</b>	<b>(12,082)</b>	<b>905,670</b>	<b>4,251</b>	<b>909,921</b>
Total comprehensive income for the period	—	—	—	—	—	—	13,103	—	614	13,717	90	13,807
Transfer between reserves	—	—	—	(5,783)	—	—	—	—	5,783	—	—	—
Recognition of equity-settled share-based payments	—	—	—	5,353	—	—	—	—	—	5,353	—	5,353
Placement of new shares	18,000	8,280	—	—	—	—	—	—	—	26,280	—	26,280
Exercise of share option	1,744	3,785	—	(1,204)	—	—	—	—	—	4,325	—	4,325
Disposal of subsidiaries	—	—	—	—	—	—	(149)	—	—	(149)	(2,945)	(3,094)
<b>Balance at 31 December 2011</b>	<u><b>128,270</b></u>	<u><b>759,395</b></u>	<u><b>(35,721)</b></u>	<u><b>29,841</b></u>	<u><b>—</b></u>	<u><b>5,407</b></u>	<u><b>73,613</b></u>	<u><b>76</b></u>	<u><b>(5,685)</b></u>	<u><b>955,196</b></u>	<u><b>1,386</b></u>	<u><b>956,582</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the six months ended 31 December 2011*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Net cash (used in)/generated from operating activities	<b>(28,120)</b>	3,355
Net cash used in investing activities	<b>(5,567)</b>	(30,314)
Net cash generated from financing activities	<b>30,806</b>	20,388
Net decrease in cash and cash equivalents	<b>(2,881)</b>	(6,571)
Effect of exchange rate changes on cash and cash equivalents	<b>(125)</b>	—
Cash and cash equivalents at 1 July	<b>3,743</b>	18,375
Cash and cash equivalents at 31 December	<b>737</b>	11,804

## **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 2010/2011 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 2011.

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

Amendments to HKFRSs	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets
Amendments to HK (IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement

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.

HKFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>1</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax - Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK (IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2014.

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 – technology income, sales of plantation materials, sales of plantation products and sales of environmental systems.

### Business segments

For the six months period ended 31 December 2011

	Technology income HK\$'000	Sales of plantation materials HK\$'000	Sales of plantation products HK\$'000	Sales of environmental systems HK\$'000	Consolidated HK\$'000
Revenue from external customers	9,250	2,889	317	—	12,456
Reportable segment profit/(loss) before change in fair value of biological assets	7,849	365	(10,296)	—	(2,082)
Gain from change in fair value of biological assets less estimated point-of-sale costs	—	—	41,017	—	41,017
Reportable segment profit	7,849	365	30,721	—	38,935
Unallocated results					(29,711)
Interest and other unallocated income					882
Finance costs					(4)
Profit before income tax expense					10,102
Income tax expense					(9,398)
Profit for the period					704

**2. SEGMENT INFORMATION** *(Continued)*

**Business segments** *(Continued)*

*For the six months period ended 31 December 2010*

	Technology income <i>HK\$'000</i>	Sales of plantation materials <i>HK\$'000</i>	Sales of plantation products <i>HK\$'000</i>	Sales of environmental systems <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customer	13,500	162,154	15,633	28,345	219,632
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	12,912	18,376	65,710	10,351	107,349
Unallocated results					(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					81,428

### 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:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Sales of plantation materials	<b>2,889</b>	162,154
Sales of plantation products	<b>317</b>	15,633
Sales of environmental systems	—	28,345
Technology income	<b>9,250</b>	13,500
	<b>12,456</b>	219,632

### 4. OTHER GAINS AND LOSSES

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest income	—	14
Sundry income	<b>882</b>	802
	<b>882</b>	816

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	Unaudited Six months ended 31 December	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Staff costs, including directors' emoluments		
– Salaries, wages and other benefits	<b>3,716</b>	2,271
– Contributions to defined contribution retirement plans	<b>15</b>	17
– Share-based payment expenses (equity settled)	<b>5,353</b>	—
Depreciation of property, plant and equipment	<b>169</b>	141
Amortisation of intangible assets	<b>9,002</b>	11,595
Loss/(Gain) on disposal of subsidiaries	<b>8,701</b>	(33,957)
Fair value gain on biological assets	<b>(41,017)</b>	(63,194)
Cost of inventories sold	<b>9,244</b>	173,486
Imputed interest on convertible notes	<b>—</b>	4,382
	<b>=====</b>	<b>=====</b>

6. FINANCE COSTS

	Unaudited Six months ended 31 December	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Imputed interests on convertible notes	—	4,382
Other finance charges	<u>4</u>	<u>21</u>
	<u>4</u>	<u>4,403</u>

## 7. INCOME TAX EXPENSE

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Current tax		
– Hong Kong	<b>1,295</b>	—
– PRC Enterprise Income Tax (“EIT”)	<b>100</b>	14,416
Deferred tax		
– current year	<b>8,003</b>	11,923
Income tax expense	<b>9,398</b>	26,339

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

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the period (2010: nil).

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.

**8. DIVIDEND**

No interim dividend has been declared in respect of the interim period ended 31 December 2011 (2010: 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>					
	2011			2010		
	Tax			Tax		
	Before tax (expenses)/ amount	Net-of-tax Benefit amount	Before tax (expenses)/ amount	Net-of-tax Benefit amount	Net-of-tax amount	
	<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	<u>13,103</u>	<u>—</u>	<u>13,103</u>	<u>—</u>	<u>—</u>	<u>—</u>

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of HK\$614,000 (six months ended 31 December 2010: HK\$81,452,000) and the weighted average of 2,123,296,000 ordinary shares (six months ended 31 December 2010: 8,840,170,000 ordinary shares) of HK\$0.05 each in issue during the period.

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	
	2011 HK\$'000	2010 HK\$'000
Earnings for the purposes of basic earnings per share	<u>614</u>	<u>81,452</u>
Effect of dilutive potential ordinary shares		
Interest on convertible notes, net of tax	<u>—</u>	<u>3,659</u>
Earnings for the purposes of diluted earnings per share	<u>614</u>	<u>85,111</u>

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

10. EARNINGS PER SHARE (Continued)

<b>Number of share (note)</b>	<b>2011</b> <b>'000</b>	2010 '000 <i>(Restated)</i>
Weighted average number of ordinary shares for the purposes of basis earnings per share	<b>2,123,296</b>	1,768,034
Effect of dilutive potential ordinary shares: – convertible notes and share options	<u>—</u>	<u>130,390</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>2,123,296</b></u>	<u>1,898,424</u>

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

11. BIOLOGICAL ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
At beginning of the period/year	<b>933,542</b>	785,556
Harvested timber transferred to inventories and sold	—	(13,038)
Gain from changes in fair value less estimated point-of-sale costs	<b>41,017</b>	112,314
Exchange realignment	<b>13,139</b>	48,710
	<hr/>	<hr/>
At end of the period/year	<b>987,698</b>	933,542
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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 2011 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 2011, the Group acquired property, plant and equipment approximately HK\$3,268,000 (six months ended 31 December 2010: HK\$912,000).

The carrying amount of property, plant and equipment that were disposed of are approximately HK\$403,000 (six months ended 31 December 2010: Nil).

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

During the six months ended 31 December 2011, the Group spent approximately HK\$15,000 (six months ended 31 December 2010: HK\$14,745,000) 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>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At beginning of the period/year	<b>309,517</b>	309,517
Acquisition through business combination	—	1,000
Disposal	—	(1,000)
	<hr/>	<hr/>
At end of the period/year	<b>309,517</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>(96,520)</b>	(12,959)
Amortisation for the period/year	<b>(9,002)</b>	(23,195)
Impairment loss recognised during the period/year	—	(60,366)
	<hr/>	<hr/>
At end of the period/year	<b>(105,522)</b>	(96,520)
	<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>203,995</b>	212,997
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

15. DEPOSIT PAID FOR LONG-TERM ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Deposit paid for acquisition of a business	<b>12,000</b>	—
	<hr/>	<hr/>
	<b>12,000</b>	—
	<hr/> <hr/>	<hr/> <hr/>

Puruant to announcements dated 18 November 2011 and 7 December 2011, the group entered into a memorandum of understanding ("MOU") and a sale and purchase agreement ("S&P agreement") with an independent third party respectively, for acquisition of 100% equity interest in a target group of companies involved in the forest planation business in the PRC ("Forest Acquisition").

The consideration for the forest acquisition was HK\$180,000,000. The Group paid an initial deposits of HK\$2,000,000 and HK\$10,000,000 in cash upon signing the MOU and S&P agreement respectively. The remaining amount will be settled by way of issue of promissory note to the vendor.

As at 31 December 2011, the group paid deposits of HK\$12,000,000.

16. GOODWILL

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At the beginning of the period/year	<b>145,675</b>	36,281
Acquisition on acquisition of subsidiaries	—	109,394
Elimination on disposal of subsidiaries	<b>(53,673)</b>	—
	<hr/>	<hr/>
At the end of the period/year	<b>92,002</b>	145,675
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated impairment losses</b>		
At the beginning of the period/year	<b>(109,394)</b>	—
Impairment loss recognized during the period/year	—	(109,394)
Elimination on disposal of subsidiaries	<b>53,673</b>	—
	<hr/>	<hr/>
At the end of the period/year	<b>(55,721)</b>	(109,394)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Carrying values</b>		
At the end of the period/year	<b>36,281</b>	36,281
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

17. INVENTORIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Organic fertiliser		
– Raw material	<b>1,019</b>	967
– Finished goods	—	820
	<hr/>	<hr/>
	<b>1,019</b>	1,787
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18. TRADE AND OTHER RECEIVABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>1,536</b>	664
Prepayments, deposits and other receivables	<b>91,200</b>	92,244
Less: Impairment loss on trade and other receivables	<b>—</b>	—
	<b>92,736</b>	92,908
Less: Long-term prepayment	<b>(58,653)</b>	(73,206)
	<b>34,083</b>	19,702

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.

18. TRADE AND OTHER RECEIVABLES (Continued)

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>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Current	<b>1,536</b>	664
Less than 1 month past due	—	—
1 to 3 months past due	—	—
More than 3 months but		
less than 12 months past due	—	—
More than 12 months past due	—	—
	<hr/>	<hr/>
	<b>1,536</b>	664
	<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.

## 19. CASH AND BANK BALANCES

Cash and bank balances include the following components:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Cash at banks and in hand	<b>737</b>	3,743
	<u>          </u>	<u>          </u>

## 20. TRADE AND OTHER PAYABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>139</b>	70
Other payables and accruals	<b>41,987</b>	36,476
	<u>          </u>	<u>          </u>
	<b>42,126</b>	36,546
	<u>          </u>	<u>          </u>

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.

20. TRADE AND OTHER PAYABLES (Continued)

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Current or less than 1 month	<b>58</b>	70
1 to 3 months	<b>81</b>	—
More than 3 months but within 6 months	<b>—</b>	—
Over 6 months	<b>—</b>	—
	<hr/>	<hr/>
	<b>139</b>	70
	<hr/> <hr/>	<hr/> <hr/>

21. OBLIGATION UNDER FINANCE LEASE

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Wholly repayable within five years		
Obligation under finance lease	<b>204</b>	—
Less: Amount due within one year included under current liabilities	<b>(42)</b>	—
	<hr/>	<hr/>
	<b>162</b>	—
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**21. OBLIGATION UNDER FINANCE LEASE** *(Continued)*

Obligation under finance lease is repayable within the following periods:

	Present value		Minimum payment	
	Unaudited As at 31 December 2011 HK'000	Audited As at 30 June 2011 HK\$'000	Unaudited As at 31 December 2011 HK'000	Audited As at 30 June 2011 HK\$'000
Within one year	42	—	54	—
In the second year	44	—	54	—
In the third to fifth years	118	—	127	—
	<b>204</b>	—	<b>235</b>	—
Finance charges			(31)	—
			<b>204</b>	—

Interest is charged on the outstanding balance of finance lease at the rate of 2.75% per annum (30 June 2011: Nil). The finance lease is secured by a motor vehicle of the group.

22. OTHER FINANCIAL LIABILITIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
<b>Non-current</b>		
Advance from a related party (note a)	<b>5,467</b>	11,515
	<u>          </u>	<u>          </u>
<b>Current</b>		
Amount due to a related party (note b)	—	101
	<u>          </u>	<u>          </u>

Notes:

- (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.

23. SHARE CAPITAL

	Unaudited		Audited	
	As at 31 December 2011		As at 30 June 2011	
	<i>Number of shares</i>		<i>Number of shares</i>	
	'000	HK\$'000	'000	HK\$'000
<b>Ordinary shares of HK\$0.05 each</b>				
Authorised				
At beginning of the period/year	<b>6,000,000</b>	<b>300,000</b>	10,000,000	100,000
Increase in authorised share capital (note a)	—	—	20,000,000	200,000
Consolidation of shares (note c)	—	—	(24,000,000)	—
At end of the period/year	<b>6,000,000</b>	<b>300,000</b>	6,000,000	300,000
Issued and fully paid				
At beginning of the period/year	<b>2,170,518</b>	<b>108,526</b>	8,746,379	87,464
Conversion of convertible notes (note b)	—	—	572,190	10,937
Issue of new shares of acquisition of subsidiaries (note b)	—	—	347,000	9,350
Placement of new shares (note b)	<b>360,000</b>	<b>18,000</b>	—	—
Exercise of share options (note b)	<b>34,878</b>	<b>1,744</b>	77,460	775
Consolidation of shares	—	—	(7,572,511)	—
At end of the period/year	<b>2,565,396</b>	<b>128,270</b>	2,170,518	108,526

Notes:

- (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 HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each to HK\$300,000,000 divided into 30,000,000,000 shares of HK\$0.01 each.
- (b) All the shares issued during the six months ended 31 December 2011 rank pari passu with the existing shares of the Company in all respects.
- (c) Pursuant to an ordinary resolution passed at an extraordinary general meeting in 14 January 2011, every five issued and unissued shares of HK\$0.01 each were consolidated into one consolidated share of HK\$0.05 each.

**23. SHARE CAPITAL** *(Continued)*

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

## **24. DISPOSAL OF SUBSIDIARY DURING THE PERIOD**

*For the six months period ended 31 December 2011*

On 25 November 2011, the Group completed respectively, the disposal of entire issued share capital of:

- (a) New Ally Holdings Limited and its subsidiaries at a consideration of HK\$100,000;
- (b) Advance Decade Holdings Limited and its subsidiaries at a consideration of HK\$100,000;
- (c) Energy Ally Investments Limited and its subsidiaries at a consideration of HK\$100,000;
- (d) Ally Goal Limited and its subsidiaries at a consideration of HK\$100,000; and
- (e) State Chance Limited and its subsidiaries at a consideration of HK\$100,000.

On 21 December 2011, the Group completed the disposal of entire issued share capital of Skygain Limited and its subsidiaries at a consideration of HK\$200,000.

24. DISPOSAL OF SUBSIDIARY DURING THE PERIOD (Continued)

For the six months period ended 31 December 2011 (Continued)

The respective net assets of above subsidiaries at the date of disposal were as follows:

	Advance						
	New Ally Holdings Limited	Decade Holdings Limited	Energy Ally Investments Limited	Ally Goal Limited	State Chance Limited	Skygain Limited	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	387	—	—	12	4	—	403
Trade and other receivables	148	200	1,911	3,112	17,652	—	23,023
Cash and bank balances	1,785	800	84	114	—	—	2,783
Trade and other payables	—	(21)	—	(1,582)	(12,112)	—	(13,715)
	<u>2,320</u>	<u>979</u>	<u>1,995</u>	<u>1,656</u>	<u>5,544</u>	<u>—</u>	<u>12,494</u>
Non controlling interest	(993)	—	(1,952)	—	—	—	(2,945)
Exchange reserve	5	1	—	(154)	—	—	(148)
	<u>1,332</u>	<u>980</u>	<u>43</u>	<u>1,502</u>	<u>5,544</u>	<u>—</u>	<u>9,401</u>
Gain/(loss) on disposal	(1,232)	(880)	57	(1,402)	(5,444)	200	(8,701)
Total consideration	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>200</u>	<u>700</u>
Satisfied by:							
Cash	100	100	100	100	100	—	500
Other receivables (note)	—	—	—	—	—	200	200
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>200</u>	<u>700</u>
Net cash inflow/(outflow) arising on disposal of subsidiaries:							
Cash consideration	100	100	100	100	100	—	500
Cash and bank balances disposed of	(1,785)	(800)	(84)	(114)	—	—	(2,783)
	<u>(1,685)</u>	<u>(700)</u>	<u>16</u>	<u>(14)</u>	<u>100</u>	<u>—</u>	<u>(2,283)</u>

Note: The amount was unsecured, interest free and receivable within the next twelve months after the end of the reporting period.

**24. DISPOSAL OF SUBSIDIARY DURING THE PERIOD** *(Continued)*

*For the six months period ended 31 December 2010*

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:

	<b>HK\$'000</b>
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

On 20 July 2011 and 18 August 2011, the Company granted in total 71,000,000 share options and 84,758,000 share options to 9 consultants at an exercise price of HK\$0.1346 per share and HK\$0.1126 per share respectively under the share option scheme.

The movement in share options are as follows:

	Unaudited As at 31 December 2011		Audited As at 30 June 2011	
	Weighted average exercise price HK\$	Number options '000	Weighted average exercise price HK\$	Number options '000
Outstanding at the beginning of the period/ year		178,576		215,148
Granted during the period/ year	0.12	155,758	—	—
Exercised during the period/ year	0.12	(34,878)	0.39	(15,492)
Cancelled during the period/ year	0.41	(43,512)	0.59	(21,080)
		<hr/>		<hr/>
Exercisable at the end of the period/ year		255,944		178,576
		<hr/> <hr/>		<hr/> <hr/>

**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				
	18 August	20 July	26 May	19 January	7 August
	2011	2011	2010	2010	2009
	Black-Scholes	Black-Scholes	Binominal	Binominal	Binominal
Fair value of the measurement date	HK\$0.033	HK\$0.036	HK\$0.0237	HK\$0.0303	HK\$0.0416
Weighted average price at grant date	HK\$0.1110	HK\$0.1250	HK\$0.067	HK\$0.081	HK\$0.109
Exercise price	HK\$0.1126	HK\$0.1346	HK\$0.075	HK\$0.087	HK\$0.117
Weighted average of contractual life	3 Years	3 Years	3 Years	3 Years	3 Years
Expected volatility	64.22%	65.87%	65.43%	68.86%	71.26%
Risk free rate	0.14%	0.2%	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>2011</b>	2011
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	—	28,821
	<u>          </u>	<u>          </u>

## 27. RELATED PARTY TRANSACTIONS

### (a) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in note 22 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:

	Unaudited Six months ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Short term employee benefits	<u>2,580</u>	<u>1,380</u>

## 28. EVENTS AFTER THE END OF REPORTING PERIOD

On 16 February 2012, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent agreed to procure, on a best effort basis, not less than six independent Placees to subscribe in cash for the Convertible Notes of an aggregate principal amount of HK\$20 million at coupon rate of 1.5% per annum, due on the first anniversary of the Issue Date, convertible into Shares at the initial Conversion Price of HK\$0.10 per Share (subject to adjustments).

Assuming full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.10 per Share, a total of 200,000,000 Conversion Shares will be issued by the Company, representing (i) approximately 7.8% of the Company's existing issued share capital; and (ii) approximately 7.23% of the Company's issued share capital as enlarged by the issue of the Conversion Shares. The Conversion Shares will be issued under the General Mandate.

## 29. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 14 March 2012.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2011 (six months ended 31 December 2010: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATION

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

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

The prevailing environment under which the Group operated for the six months ended 31 December 2011 was very different from those in the six months ended 31 December 2010. Natural disasters in China in 2011 had created considerable pressure in the agricultural sector in which the Group operates as would have been apparent from the annual report of the Company for the year ended 30 June 2011. These adverse conditions coupled with continued impact of global economic crisis had not ameliorated in the six months ended 31 December 2011 and China had continued to be plagued by natural disasters. The reinsurer Swiss Re estimated that 2011 was the year with the highest global catastrophe-related economic losses in history, at USD 350 billion as compared to USD226 billion in 2010. The reinsurer Munich Re estimated that 2011 global catastrophe-related economic losses was USD380 billion and the increase in frequency of climate related catastrophe was caused by the global climate change. On 23 December 2011, the Ministry of Civil Affairs of the PRC announced that in 2011, the natural disasters in China affected 0.44 billion people and damaged agricultural crops area of 41,485,000 hectares and resulted in catastrophe-related economic losses of RMB311.03 billion.

Against this backdrop, the Company had revisited its business approach which had resulted in the substantial decrease in net profit compared to the six months ended 31 December 2010 but not, when compared with the performance of the Group during the second half of the financial year ended 30 June 2011. The business approach included tighter credit control measures to corporate clients in the plantation materials, suspension of sales of environmental system of loss and disposal of inactive subsidiaries and some subsidiaries which require considerable capital-intensive investments.

The Group managed to turnaround the business to achieve net profit of HK\$704,000 for the six months period ended 31 December 2011 from the loss of HK\$54,484,000 for the financial year ended 30 June 2011. However, as compared to corresponding period last year, the six months period ended 31 December 2011 recorded substantial decrease in the Group's turnover and the net profit.

For the six months ended 31 December 2011, turnover of the Group decreased by 94.33% to HK\$12,456,000 (2010: HK\$219,632,000) and gross profit decreased by 93.04% to HK\$3,212,000 (2010: HK\$46,146,000). Profit for the six months ended 31 December 2011 decreased by 99.14% to HK\$704,000 as compared to HK\$81,428,000 of corresponding period of last year.

### **Plantation Material**

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

During the second half of 2011, the corporate customers who were adversely affected throughout the calendar year 2011 by the natural disasters had sought terms including extended credit period and deep discount in pricing which, if accepted by the Group would have led to losses. Instead the Group focused mainly on customers that mainly purchase on a "cash on delivery" basis and which afforded the Group a higher profit margin of 12.63% against the gross loss margin of 3.07% recorded in the financial year ended 30 June 2011, albeit a considerably lower turnover.

Whilst the gross profit for the six months ended 31 December 2011 for this business segment was considerably lower than in corresponding period of last year, it in fact represented a substantial improvement over the results for the second half of the financial year ended 30 June 2011 ("January to June 2011") which saw the whole segment recording a loss. For the six months period ended 31 December 2011, the sale of plantation materials decreased by 98.22% to HK\$2,889,000 from HK\$162,154,000 as compared to corresponding period of last year. Sale of plantation materials represented approximately 23.19% 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 profit guarantees of HK\$60 million and HK\$70 million for the financial years ended 30 June 2009 and 30 June 2010 respectively given under the terms of the acquisition was achieved. In addition, the valuation of biological assets of standing trees on the Plantation Land increased by 54.9% from RMB530,000,000 (approximately HK\$602,663,000) as at 30 June 2008 (as disclosed in independent valuation report set out in the circular dated 30 September 2008) to HK\$933,542,000 as at 30 June 2011.

The Group engages in ecological plantation of timber resources, organic herbs and crops on the Plantation. During 2011, 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.

The natural disasters affected the growth rate of plantation products and resulted in decrease of segment profit through a decrease in sales volume and a lower gain from change in fair value of biological assets. Whilst the sales turnover for the six months ended 31 December 2011 for this business segment was considerably lower than that in corresponding period of last year, sales turnover had in fact improved slightly over the results for January to June 2011. The sale of plantation products was thus recorded at HK\$317,000 with decrease of 97.97 % as compared to corresponding period of last year (2010: approximately HK\$15,633,000). For the six months ended 31 December 2011, sales of plantation products represented approximately 2.54% of the Group's total turnover.

### Environmental System

In 2009, the Group successfully developed the waste-to-value "O-Live Organic Waste Treatment System" ("O-Live System") which is an automatic machine utilizing high temperature micro-organisms technology for environmental treatment of animal manures of livestock farms. Within 24 hours, O-Live System kills animal influenza and common disease bacteria and converts animal manures into raw materials for producing microbial organic fertilizer.

Towards the end of the financial year ended 30 June 2011, the sale of the 2009 O-Live System was suspended pending the development of a more cost-effective, upgraded version of the product. Contrary to expectations, the Group was not able to come up with a more cost-effective new model for sale in the six months ended 31 December 2011, as was originally contemplated. Whilst no sales turnover and net profit in the six months ended 31 December 2011 for this business segment were recorded as compared to that of corresponding period of last year, the Company had in effect stopped continued losses in this segment recorded by the Group in January to June 2011. For the six months ended 31 December 2011, sales of environmental systems recorded no turnover and had no representation of the Group's total turnover (2010: approximately HK\$28,345,000).

### Green Technology

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

The 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 84.85% and contributed the major turnover and profit for the Group. For the six months ended 31 December 2011, technology income recorded approximately HK\$9,250,000 (2010: HK\$13,500,000), representing approximately 74.26% of the Group's total turnover.

### Green Medical Application

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

During the financial year ended 30 June 2011, Ally Goal's wholly owned PRC subsidiary had signed the agreement with Research Institute of Chinese Medical Mathematical Engineering of Dongguan Guangzhou Chinese Medicine University (東莞廣州中醫藥大學中醫藥數理工程研究院) for research and development and promotion of anti-hand, foot and mouth disease (抗手足口病) product.

During the six months period ended 31 December 2011, research, development and commercialization of the product in Dongguan Songshan Lake National High-tech Industrial Development Zone (東莞松山湖高新技術產業開發區) was not expected to materialize to contribute in the results of the Company. In order to save resources to weather the uncertainties and risks and to avail resources for other business development, the Group streamlined the green medical application sector and disposed the Ally Goal at HK\$100,000 and to release the Group from the liability of issue of consideration shares upon Ally Goal's achievement of the profit guarantees.

During the six months ended 31 December 2011, the Group had further disposed some inactive subsidiaries and some subsidiaries which require intensive capital for project establishments. The disposal recorded a net loss of approximately HK\$8,701,000 for the Group and reduced the Group's capital commitments to zero amount (30 June 2011: capital commitments at approximately HK\$28,821,000) on projects that will take time to mature and contribute in the results of the Company. The disposal enables the Group to concentrate its resources on weathering the uncertainties and risks in the business environment and to avail resources for other business development. To maximize the return for shareholders, the Group will continue to edge on its green technology competence, forefront market experience and nationwide Chinese business network to continuously explore investment opportunity to diversify its business areas for higher return.

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For the six months ended 31 December 2011, turnover of the Group amounted to HK\$12,456,000 (2010: HK\$219,632,000), decreased by 94.33% as compared to corresponding period of last year. The Group's gross profit arrived at HK\$3,212,000 with the decrease of 93.04% as compared to corresponding period of last year (2010: HK\$46,146,000). The gross profit margin improved to 25.79% from 21.01% as compared to corresponding period of last year.

Profit attribution to shareholders for the six months ended 31 December 2011 decreased by 99.25% to HK\$614,000 as compared to HK\$81,452,000 of corresponding period of last year. During the six months period ended 31 December 2011, the Group managed to turnaround to the profit of HK\$614,000 from annual loss of HK\$54,484,000 for the financial year ended 30 June 2011.

Basic and diluted earnings per share was HK\$0.029 cents (2010: basic and diluted earnings per share were HK\$0.921 cents and HK\$0.897 cents respectively). Finance costs for the six months ended 31 December 2011 dropped to approximately HK\$4,000 (2010: HK\$4.4 million which mainly represented imputed interest expenses on convertibles notes).

Administrative and other operating expenses from operations for the six months ended 31 December 2011 amounted to approximately HK\$26,285,000 (2010: HK\$31,804,000). It included major items such as amortization of intangible assets of approximately HK\$9 million, share based payment of HK\$5.35 million, salaries and director emoluments of HK\$3.72 million, rent for plantation land of HK\$3.03 million, legal and professional fee and consultancy fee of HK\$1.5 million, commission and agency fee of HK\$0.75 million and others of HK\$2.94 million.

Income tax expense decreased to HK\$9.4 million (2010: HK\$26.34 million). Exchange differences on translating foreign operations was recorded at HK\$13.1 million (2010: Nil).

## PROSPECTS

China has a population of approximately 1.3 billion, which is accounted for 22% of the world's population. In contrast, the cultivable land in China is only 1.826 billion Chinese mu, which is accounted for 7% of world's total cultivable land. In the past five years, the PRC Government continuously placed strategic importance on the "Three Rural Issues" and spent aggregate amount of approximately RMB2,910.7 billion in the agricultural sector.

The <Twelfth Five-Year Plan for National Economic and Social Development>, formulating the next phase of economic growth for 2011-2015, reiterated the modernization of agriculture and accelerated establishment of modern agricultural village. Regarding environmental aspect, the

average growth rate of energy consumption were approximate 10% per annum for last five years. The Chinese government would continue to commit to environmental improvements for energy saving and low-carbon economy. The <Twelfth Five-Year Plan for National Economic and Social Development> targeted to achieve 16% decrease in energy consumption of production by 2015 as compared to 2010.

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

Under these circumstances, the Group will continue to exercise tight credit control in plantation materials business, adjusting plantation operation to local conditions in plantation product business, upgrading the environmental system to restore profitability and to devote more resources to technology income segment which commands higher profit margin with less capital-intensive investment. Having considered the extreme risks and uncertainties in plantation and agricultural areas, the Group will weigh toward development of technology income segment. With contracts on hand, the Group will further utilize its intangible assets of technology patents to achieve increasing sales turnover and profit from the segment of technology income in the first half of 2012. The intangible assets value of HK\$71,431,000 of technology patent in general fertilizer application in relation to business of plantation material and technology income segment will be re-valued by professional valuer to consider any impairment to be made in the coming annual audited financial year ended 30 June 2012.

The Group has been operating 60,000 mu plantation land in Xinjiang Region which experienced series of natural disasters of earthquake, drought, flooding, windstorm, low temperature freeze, ice storm during 2011. The Group will adjust its investment, operation and plantation in the plantation land to local conditions including but not limited to climatic conditions, occurrence of natural disasters, economic conditions, political stability, social unrest, market demand, product growth cycle as well as change of costing. The intangible assets value of HK\$132,564,000 comprising the operating rights for the use and the operation of the plantation land in relation to business of plantation product will be re-valued by professional valuer to consider any impairment to be made in the coming annual audited financial year ended 30 June 2012.

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To minimize the operating risk and to maximize the return for shareholders, the Group will edge on its technology competence, forefront market experience and nationwide Chinese business network to continuously explore new investment opportunity to diversify its business areas for higher return.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$737,000 (30 June 2011: approximately HK\$3.743 million).

As at 31 December 2011, the Group's current assets amounted to approximately HK\$35.84 million and current liabilities amounted to approximately HK\$97.28 million. The Group's net current liabilities, being its current assets minus its current liabilities, amounted to approximately HK\$61.44 million (30 June 2011: HK\$64.84 million). Included in the current liabilities, there were purchase consideration payables of HK\$52.46 million. The payment of purchase consideration will be subject to the achievement of profit guarantee and HK\$42.46 million in form of Consideration Shares and HK\$10 million in form of cash. The major shareholder of the Group made available an unsecured and interest-free revolving loan facility totaling HK\$30 million to the Group till 31 March 2013 for standby basis.

Gearing ratio, defined as total borrowings divided by the total equity as at 31 December 2011 was 0.02% to the Group as at 31 December 2011 (30 June 2011: Nil).

As at 31 December 2011, the capital commitment contracted but not provided for in the condensed consolidated statement of financial position arrived at zero amount (30 June 2011: approximately HK\$28.82 million).

### 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 2011. 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 2011, there was no charge on the Group's assets (30 June 2011: Nil).

### CAPITAL RAISING AND EXPENDITURE

During the six months ended 31 December 2011, the Group carried out equity fund raising activities in addition to the exercise of share options. Pursuant to the announcement dated 18 November 2011, the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to place, on a best effort basis, to not less than six independent Placers for up to 360,000,000 new Shares at a price of HK\$0.073 per Placing Share, for and on behalf of the Company. On 25 November 2011, the Placement was completed and the Company allotted and issued 360,000,000 Placing Shares. The net proceeds from the Placing of approximately HK\$25.41 million will be used for financing the Acquisition and/or general working capital.

### 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 2011.

### HUMAN RESOURCES AND REMUNERATION POLICY

The Group had approximately 36 employees in Hong Kong and the PRC as at 31 December 2011. 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' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions held by each director and chief executive of the Company and their associates in 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 (the "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 2011 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Ms. Kam Yuen	Beneficial owner	304,104,000	36,000,000	340,104,000 <i>(Note 2)</i>	13.26%
Mr. Leung Kwong Choi	Beneficial owner	—	12,480,000	12,480,000 <i>(Note 3)</i>	0.49%
Mr. Kwok Wai, Wilfred	Beneficial owner	—	12,480,000	12,480,000 <i>(Note 3)</i>	0.49%
Mr. Cheung Ngai Lam	Beneficial owner	—	4,252,000	4,252,200 <i>(Note 3)</i>	0.17%

*Notes:*

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 2,565,395,800 shares as at 31 December 2011.
2. This represents 36,000,000 share options granted to Ms. Kam Yuen and spouse interest in 304,104,000 shares held by Capital Master International Limited, the entire issued share capital of which was beneficially owned by Mr. Choi Ping Fai.
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 2011, 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 2011, the following persons, other than a director of the Company, were interested or had short positions in more than 5% of shares and underlying shares of the Company or its subsidiaries according to the register required to be kept under Section 336 of the SFO 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 2011 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Choy Ping Fai	Beneficial owner	304,104,000	—	304,104,000 <i>(Note 2)</i>	11.85%
Capital Master International Limited	Beneficial owner	304,104,000	—	304,104,000 <i>(Note 2)</i>	11.85%
The Cathay Investment Fund, Limited	Beneficial owner	263,920,000	—	263,920,000	10.29%

*Notes:*

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 2,565,395,800 shares as at 31 December 2011.
2. These include 304,104,000 shares held by Capital Master International Limited. The entire issued share capital of Capital Master International Limited 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.

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The movements in the share options under the Share Option Scheme during the six months ended 31 December 2011 are as follows:

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				At 31 December 2011
				At 1 July 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Directors								
Ms. Kam Yuen	7/8/2009	7/8/2009 - 6/8/2012	0.5850	36,000,000	—	—	—	36,000,000
Mr. Leung Kwong Choi	7/8/2009	7/8/2009 - 6/8/2012	0.5850	12,480,000	—	—	—	12,480,000
Mr. Kwok Wai, Wilfred	7/8/2009	7/8/2009 - 6/8/2012	0.5850	12,480,000	—	—	—	12,480,000
Mr. Cheung Ngai Lam	7/8/2009	7/8/2009 - 6/8/2012	0.5850	4,252,000	—	—	—	4,252,000
Subtotal				65,212,000	—	—	—	65,212,000
Employees and others								
In aggregate	7/8/2009	7/8/2009 - 6/8/2012	0.5850	14,000,000	—	—	(7,000,000)	7,000,000
	19/1/2010	19/1/2010 - 18/1/2013	0.4350	39,100,000	—	—	—	39,100,000
	26/5/2010	26/5/2010 - 5/5/2013	0.3750	60,264,000	—	—	(36,512,000)	23,752,000
	20/7/2011	20/7/2011 - 19/7/2014	0.1346	—	71,000,000	(18,000,000)	—	53,000,000
	18/8/2011	18/8/2011 - 17/8/2014	0.1126	—	84,758,000	(16,878,000)	—	67,880,000
Subtotal				113,364,000	155,758,000	(34,878,000)	(43,512,000)	190,732,000
Total				178,576,000	155,758,000	(34,878,000)	(43,512,000)	255,944,000

Notes:

1. The closing price before the options granted on 20 July 2011 was HK\$0.124.
2. The closing price before the options granted on 18 August 2011 was HK\$0.108.
3. The weighted average closing price before options were exercised was HK\$0.116.

## PURCHASE, SALE AND REDEMPTION OF SHARES

For the six months ended 31 December 2011, 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 of the Company, the Company has met the code provisions of the CG Code during the six months ended 31 December 2011 except the following.

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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, was appointed as chief executive officer on 4 June 2009 and was appointed as chairman on 14 May 2010. Therefore, she currently assumes both roles. The Board believes that the vesting of the roles of chairman and chief executive officer 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.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Having made specific enquiry, all 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 2011.

### 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 2011. The audit committee will also be reviewing the scope for a more comprehensive independent annual internal control review that is to be carried out this financial year to ensure that the Group has the necessary checks and controls in place to ensure key legal and regulatory compliance. 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, 14 March 2012