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CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1130)

PROPOSED CAPITAL REORGANIZATION

The Directors proposed to implement the Capital Reorganization which will involve (i) the cancellation of paid up capital to the extent of HK\$0.049 on each of the 2,205,395,800 issued Shares, (ii) a reduction in the par value of each issued and unissued Share from HK\$0.05 to HK\$0.001 and (iii) the creation of an additional 294,000,000,000 authorized but unissued New Shares of HK\$0.001 each.

A circular containing, among others, further information on the Capital Reorganization and a notice to convene the AGM will be despatched to the Shareholders as soon as practicable.

CAPITAL REORGANIZATION

The Directors proposed to reorganize the capital of the Company in the following manner:

1. the capital of the Company shall be reduced from HK\$300,000,000 divided into 6,000,000,000 Shares of HK\$0.05 each to HK\$6,000,000 divided into 6,000,000,000 New Shares of HK\$0.001 each, by canceling paid-up capital to the extent of HK\$0.049 on each issued Share and by reducing the nominal value of all the issued and unissued Shares from HK\$0.05 to HK\$0.001; and
2. the authorized capital shall be increased to its former amount of HK\$300,000,000 by the creation of an additional 294,000,000,000 New Shares of HK\$0.001 each.

EFFECTS OF THE CAPITAL REORGANIZATION

As at the date of this announcement, the authorized share capital of the Company is HK\$300,000,000 divided into 6,000,000,000 Shares of HK\$0.05 each, of which 2,205,395,800 Shares are in issue and fully paid. After the Capital Reorganization becoming

effective, the authorized share capital of the Company will be HK\$300,000,000 divided into 300,000,000,000 New Shares of HK\$0.001 each, of which 2,205,395,800 New Shares will have been issued and fully paid.

On the assumption that no further Shares will be issued after the release of this announcement, a credit of HK\$108,064,394.20 will arise as a result of the Capital Reduction. Such credit will be transferred to a distributable reserve account and will be applied to set off the entire consolidated accumulated losses of the Company. As at 30 June 2011, the Company had consolidated accumulated losses of approximately HK\$12 million.

Other than the expenses to be incurred in relation to the Capital Reorganization, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders.

CONDITIONS FOR CAPITAL REORGANIZATION

The Capital Reorganization is conditional upon the following:

- (1) the passing of the necessary resolutions by the Shareholders to approve the Capital Reorganization at the AGM;
- (2) the Court making an order to confirm the Capital Reduction and compliance with any conditions the Court may impose; and
- (3) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares in issue following the Capital Reorganization taking effect.

The Capital Reorganization shall become effective upon registration of the Court order and other relevant documents with the Registrar of Companies of the Cayman Islands.

Listing Application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the New Shares to be in issue upon the Capital Reorganization taking effect.

EXPECTED TIMETABLE

Set out below is the expected timetable for the implementation of the Capital Reorganization:

Despatch of circular with notice of AGM	Friday, 28 October 2011
Latest time for lodging forms of proxy for AGM	9:30 a.m. Saturday, 26 November 2011
Date of AGM	9:30 a.m. on Monday, 28 November 2011

<i>The following events are conditional on the results of the AGM and the approval From the Court. It may take 2-3 months to fix the Court hearing date to which the Company has no control. The dates are therefore tentative.</i>	
Capital Reorganization becoming effective	Tuesday, 28 February 2012
First day for free exchange of existing share certificates for new share certificates (one day after the effective date due to time difference between Hong Kong and the Cayman Islands)	Wednesday, 29 February 2012
Last day for free exchange of existing share certificates for new share certificates	Thursday, 29 March 2011

FREE EXCHANGE OF SHARE CERTIFICATES

Subject to the Capital Reorganization becoming effective, Shareholders may during the prescribed period submit share certificates for existing Shares to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, in exchange, at the expense of the Company, for new share certificates for New Shares with new nominal value of HK\$0.001. Thereafter, certificates for existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for existing Shares cancelled or each new share certificate issued for New Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, certificates for existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for New Shares at any time.

REASONS FOR CAPITAL REORGANIZATION

As at 30 June 2011, the Company had consolidated accumulated losses of approximately HK\$12 million. It is expected that the accumulated losses of the Company will be eliminated after the Capital Reorganization. It will therefore facilitate any dividend payment by the Company as and when appropriate in the future. In addition, the Company is prohibited from issuing new shares at below their par value under the Company's articles of association and without Court approval under the Companies Law of the Cayman Islands. The reduced par value of the New Shares will give the Company greater flexibility in pricing any future issue of shares. Therefore the Directors consider that the Capital Reorganization is in the interests of the Company and the Shareholders as a whole.

GENERAL

The Capital Reorganization is subject to the Shareholders' approval at the AGM and no Shareholder is required to abstain from voting on the resolution in relation to the Capital Reorganization. A circular containing, among others, further information on the Capital Reorganization and a notice to convene the AGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, unless the context otherwise requires, the expressions below have the following meanings:

“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the capital of the Company from HK\$300,000,000 divided into 6,000,000,000 Shares of HK\$0.05 each to HK\$6,000,000 divided into 6,000,000,000 New Shares of HK\$0.001 each, to be effected by canceling paid-up capital to the extent of HK\$0.049 on each issued Share and by reducing the nominal value of each issued and unissued Share from HK\$0.05 to HK\$0.001
“Capital Reorganization”	the proposed capital reorganization of the Company comprising (i) the Capital Reduction and (ii) the creation of an additional 294,000,000,000 authorized but unissued New Shares
“Company”	China Environmental Resources Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Court”	the Grand Court of the Cayman Islands
“Director(s)”	the director(s) of the Company
“New Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company after the Capital Reorganization becoming effective
“AGM”	the annual general meeting of the Company to be convened for the purpose of, among others, considering, and if thought fit, approving the Capital Reorganization
“Group”	the Company and its subsidiaries
“HK\$”	the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company prior to the Capital Reorganization becoming effective
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
China Environmental Resources Group Limited
Kam Yuen
Chairman

Hong Kong, 14 October 2011

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