



**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

A central image showing a small green plant with several leaves growing out of a circular ripple in water. The water is light blue and white, with several green leaves floating around the ripple. The background is a light blue gradient.

**2012-2013**  
*Interim Report*

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Mr. Zhou Hongbo  
(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, REMUNERATION COMMITTEE AND NOMINATION 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**

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

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

Computershare Hong Kong Investor  
Services Limited  
17M Floor  
Hopewell Centre  
183 Queen's Road East  
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 Hongkong and Shanghai Banking  
Corporation Limited  
The Bank of East Asia, Limited

## **HONG KONG STOCK CODE**

1130

## **SINGAPORE TRADING SYMBOL**

CHENV400:SP

## **WEBSITE**

<http://www.greencer.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 2012 together with the comparative figures for the corresponding period in 2011. 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 2012

		Unaudited Six months ended 31 December	
Notes	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	
Turnover	3	13,204	12,456
Cost of sales		<b>(16,042)</b>	(9,244)
Gross (loss)/profit		<b>(2,838)</b>	3,212
(Loss)/gain from changes in fair value of biological assets less estimated point-of-sale costs	11	<b>(11,440)</b>	41,017
Loss on disposal of subsidiaries		—	(8,701)
Other gains and losses	4	<b>1,351</b>	882
Distribution costs		<b>(10)</b>	(19)
Administrative and other operating expenses		<b>(11,766)</b>	(26,285)
Finance costs	6	<b>(6)</b>	(4)
(Loss)/profit before income tax credit/(expense)	5	<b>(24,709)</b>	10,102
Income tax credit/(expense)	7	<b>1,701</b>	(9,398)
(Loss)/profit for the period		<b>(23,008)</b>	704
Other comprehensive income, after tax			
Exchange differences on translating foreign operations	9	<b>1,727</b>	13,103
Total comprehensive (loss)/income for the period		<b>(21,281)</b>	13,807



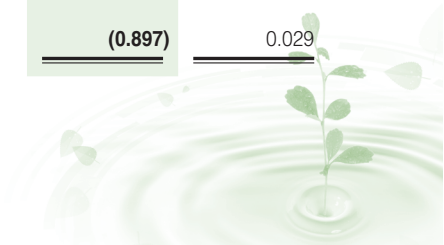
## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 31 December 2012

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
<i>Notes</i>	<b>2012</b>	2011	
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>	
(Loss)/profit attributable to:			
– Owners of the Company	<b>(23,008)</b>	614	
– Non-controlling interest	—	90	
	<b><u>(23,008)</u></b>	<u>704</u>	
Total comprehensive (loss)/income attributable to:			
– Owners of the Company	<b>(21,281)</b>	13,717	
– Non-controlling interest	—	90	
	<b><u>(21,281)</u></b>	<u>13,807</u>	

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
<i>Notes</i>	<b>2012</b>	2011	
	<b><i>HK Cent</i></b>	<b><i>HK Cent</i></b>	
(Loss)/earnings per share			
– Basic	<b>(0.897)</b>	0.029	
– Diluted	<b>(0.897)</b>	0.029	

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>31 December</b>	30 June
	<i>Notes</i>	<b>2012</b>	2012
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>			
Biological assets	11	<b>757,390</b>	767,064
Property, plant and equipment	12	<b>2,526</b>	2,862
Intangible assets	13	<b>128,026</b>	130,536
Long-term prepayments	14	<b>16,830</b>	33,660
Deposit paid for acquisition of long-term assets	15	<b>12,000</b>	12,000
Goodwill	16	—	—
Interest in an associate	17	—	—
		<hr/>	<hr/>
Total non-current assets		<b>916,772</b>	946,122
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current assets</b>			
Inventories	18	<b>225</b>	335
Trade and other receivables	19	<b>33,288</b>	32,914
Cash and bank balances	20	<b>2,970</b>	724
		<hr/>	<hr/>
Total current assets		<b>36,483</b>	33,973
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<b>Total assets</b>		<b>953,255</b>	980,095
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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2012

	Notes	Unaudited As at 31 December 2012 HK\$'000	Audited As at 30 June 2012 HK\$'000
<b>Current liabilities</b>			
Trade and other payables	21	30,975	29,966
Purchase consideration payable		45,721	45,721
Tax payable		4,546	2,759
Bank overdraft, unsecured		—	4
Obligations under finance lease	22	44	43
Total current liabilities		<u>81,286</u>	<u>78,493</u>
<b>Net current liabilities</b>		<u>(44,803)</u>	<u>(44,520)</u>
<b>Total assets less current liabilities</b>		<u>871,969</u>	<u>901,602</u>
<b>Non-current liabilities</b>			
Advance from a related party	23	—	4,842
Deferred tax liabilities		204,422	207,910
Obligations under finance lease	22	120	142
Total non-current liabilities		<u>204,542</u>	<u>212,894</u>
<b>Net assets</b>		<u>667,427</u>	<u>688,708</u>
<b>Capital and reserves</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	24	128,270	128,270
Reserves		539,157	560,438
<b>Total equity</b>		<u>667,427</u>	<u>688,708</u>





## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

Equity attributable to owners of the Company (Unaudited)											
	Share capital	Share premium	Shares held by escrow agent for settlement of acquisition consideration	Capital reserve	Employee share-based compensation reserve	Statutory surplus reserve	Foreign exchange revaluation reserve	Accumulated losses	Total	(Unaudited) Non-controlling interests	(Unaudited) Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 July 2011	108,526	747,330	(35,721)	76	31,475	5,407	60,659	(12,082)	905,670	4,251	909,921
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)
Balance at 31 December 2011	128,270	759,395	(35,721)	76	29,841	5,407	73,613	(5,685)	955,196	1,396	956,592
<b>Balance at 1 July 2012</b>	<b>128,270</b>	<b>759,395</b>	<b>(35,721)</b>	<b>76</b>	<b>16,382</b>	<b>5,407</b>	<b>77,573</b>	<b>(262,674)</b>	<b>688,706</b>	<b>—</b>	<b>688,708</b>
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	1,727	(23,008)	(21,281)	—	(21,281)
<b>Balance at 31 December 2012</b>	<b>128,270</b>	<b>759,395</b>	<b>(35,721)</b>	<b>76</b>	<b>16,382</b>	<b>5,407</b>	<b>79,300</b>	<b>(285,682)</b>	<b>667,427</b>	<b>—</b>	<b>667,427</b>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2012

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	<b>2,421</b>	(28,120)
Net cash used in investing activities	<b>(105)</b>	(5,567)
Net cash (used in)/generated from financing activities	<b>(27)</b>	30,806
Net increase/(decrease) in cash and cash equivalents	<b>2,289</b>	(2,881)
Effect of exchange rate changes on cash and cash equivalents	<b>(39)</b>	(125)
Cash and cash equivalents at 1 July	<b>720</b>	3,743
Cash and cash equivalents at 31 December	<b>2,970</b>	737



## **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 financial statements for the year ended 30 June 2012.

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 2012.

In the current period, the Group has applied the following new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the current accounting period.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The adoption of the above new or 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 Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective.

HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle <sup>1</sup>
HKAS 19 (2011)	Employee Benefits <sup>1</sup>
HKAS 27 (2011)	Separate financial statements <sup>1</sup>
HKAS 28 (2011)	Investments in associates and joint ventures <sup>1</sup>
HKAS 32 (Amendments)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities <sup>2</sup>
HKFRS 7 (Amendments)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities <sup>1</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HK(IFRIC)–Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Changes effective for annual periods beginning on or after 1 January 2013

<sup>2</sup> Changes effective for annual periods beginning on or after 1 January 2014

<sup>3</sup> Changes effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new or revised HKFRSs. So far, the Group considers the adoption of these new or revised HKFRSs does not have significant impact on the Group's results of operations and financial position.



## 2. SEGMENT INFORMATION

For management purpose the Group is currently organised into four operating divisions – green 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 2012

	Green 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 customers	<u>12,746</u>	<u>212</u>	<u>246</u>	—	<u>13,204</u>
Reportable segment profit/(loss) before change in fair value of biological assets	10,113	(21)	(20,339)	—	(10,247)
Loss from change in fair value of biological assets less estimated point-of-sale costs	—	—	(11,440)	—	(11,440)
Reportable segment profit/(loss)	<u>10,113</u>	<u>(21)</u>	<u>(31,779)</u>	—	(21,687)
Unallocated results					(4,367)
Interest and other unallocated income					1,351
Finance costs					(6)
Loss before income tax credit					(24,709)
Income tax credit					1,701
Loss for the period					<u>(23,008)</u>



## 2. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

For the six months period ended 31 December 2011

	Green 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 customers	<u>9,250</u>	<u>2,889</u>	<u>317</u>	<u>—</u>	<u>12,456</u>
Reportable segment profit/(loss) before change in fair value of biological assets	7,849	365	(19,298)	—	(11,084)
Gain from change in fair value of biological assets less estimated point-of-sale costs	<u>—</u>	<u>—</u>	<u>41,017</u>	<u>—</u>	<u>41,017</u>
Reportable segment profit	<u>7,849</u>	<u>365</u>	<u>21,719</u>	<u>—</u>	<u>29,933</u>
Unallocated results					(20,709)
Interest and other unallocated income					882
Finance costs					<u>(4)</u>
Profit before income tax expense					10,102
Income tax expense					<u>(9,398)</u>
Profit for the period					<u>704</u>



### 3. TURNOVER

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<i>HK\$'000</i>
Green technology income	<b>12,746</b>	9,250
Sales of plantation materials	<b>212</b>	2,889
Sales of plantation products	<b>246</b>	317
	<b>13,204</b>	12,456

### 4. OTHER GAINS AND LOSSES

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<i>HK\$'000</i>
Gain on disposal of interest in an associate	<b>156</b>	—
Reversal of impairment loss on investment in an associate	<b>532</b>	—
Sundry income	<b>663</b>	882
	<b>1,351</b>	882



## 5. (LOSS)/PROFIT BEFORE INCOME TAX CREDIT/(EXPENSE)

(Loss)/profit before income tax credit/(expense) is arrived at after charging/(crediting):

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<i>HK\$'000</i>
Staff costs, including directors' emoluments		
– Salaries, wages and other benefits	<b>2,349</b>	3,716
– Contributions to defined contribution retirement plans	<b>11</b>	15
– Share-based payment expenses (equity settled)	—	5,353
Depreciation of property, plant and equipment	<b>336</b>	169
Amortisation of intangible assets	<b>2,510</b>	9,002
Loss on disposal of subsidiaries	—	8,701
Fair value loss/(gain) on biological assets	<b>11,440</b>	(41,017)
Cost of inventories sold	<b>394</b>	2,061
	<b>394</b>	2,061

## 6. FINANCE COSTS

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<i>HK\$'000</i>
Finance lease interest	<b>6</b>	2
Other finance charges	—	2
	<b>6</b>	4





## 7. INCOME TAX (CREDIT)/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>2012</b>	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
– Hong Kong	<b>1,787</b>	1,295
– PRC Enterprise Income Tax (“EIT”)	—	100
Deferred tax		
– current year	<b>(3,488)</b>	8,003
Income tax (credit)/expense	<b>(1,701)</b>	9,398

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 both periods.

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 2012 (2011: 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>					
		2012			2011		
		Tax			Tax		
	Before tax	(expenses)/	Net-of-tax	Before tax	(expenses)/	Net-of-tax	
	amount	benefit	amount	amount	benefit	amount	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Exchange differences							
on translating							
foreign operations	<u>1,727</u>	—	<u>1,727</u>	<u>13,103</u>	—	<u>13,103</u>	



## 10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$23,008,000 (six months ended 31 December 2011: profit of HK\$614,000) and the weighted average of 2,565,396,000 ordinary shares (six months ended 31 December 2011: 2,123,296,000 ordinary shares) of HK\$0.05 each in issue during the period.

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

<b>(Loss)/earnings</b>	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	<b>(23,008)</b>	614
<b>Number of share</b>	<b>2012</b>	2011
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	<b>2,565,396</b>	2,123,296

No diluted (loss)/earnings per share have been presented for both periods 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)/earnings per share for both periods.



## 11. BIOLOGICAL ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
At beginning of the period/year	<b>767,064</b>	933,542
Loss on changes in fair value less estimated point-of-sale costs	<b>(11,440)</b>	(183,729)
Exchange realignment	<b>1,766</b>	17,251
At end of the period/year	<b><u>757,390</u></b>	<u>767,064</u>

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

The Group's standing timber volume as at 31 December 2012 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 2012, the Group has not acquired any property, plant and equipment (six months ended 31 December 2011: HK\$3,268,000) and did not dispose of any property, plant and equipment (six months ended 31 December 2011: property, plant and equipment of net book value of HK\$403,000 was disposed).

## 13. INTANGIBLE ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At beginning of the period/year	<b>307,975</b>	309,517
Disposal	<b>(771)</b>	(1,542)
	<hr/>	<hr/>
At end of the period/year	<b>307,204</b>	307,975
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<b>Accumulated amortisation and impairment</b>		
At beginning of the period/year	<b>(177,439)</b>	(96,520)
Amortisation for the period/year	<b>(2,510)</b>	(17,897)
Impairment loss recognised during the period/year	—	(64,564)
Written back on disposal	<b>771</b>	1,542
	<hr/>	<hr/>
At end of the period/year	<b>(179,178)</b>	(177,439)
	<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>128,026</b>	130,536
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**14. LONG-TERM PREPAYMENTS**

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Prepayments of subcontracting fees	<b>48,408</b>	65,981
Less: current portion of long-term prepayments	<b>(31,578)</b>	(29,496)
Impairment loss on long-term prepayments	—	(2,825)
	<hr/>	<hr/>
	<b>16,830</b>	33,660
	<hr/> <hr/>	<hr/> <hr/>



## 15. DEPOSIT PAID FOR ACQUISITION OF LONG-TERM ASSETS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Deposit paid for acquisition of a business	<b>12,000</b>	12,000
	<b>12,000</b>	12,000

Pursuant 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 plantation business in the PRC ("Forest Acquisition").

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

Pursuant to the announcements dated 6 January 2012, 12 March 2012, 12 June 2012 and 7 December 2012 respectively, additional time is required for collection of information from the target company to complete the due diligence review and fulfill various conditions contemplated in the S&P agreement. As at 31 December 2012, the completion of the acquisition is therefore postponed pending the above outstanding matters.



## 16. GOODWILL

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
At the beginning of the period/year	<b>92,002</b>	145,675
Disposal of subsidiaries	—	(53,673)
	<hr/>	<hr/>
At the end of the period/year	<b>92,002</b>	92,002
	<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>(92,002)</b>	(109,394)
Impairment loss recognised during the period/year	—	(36,281)
Written back on disposal of subsidiaries	—	53,673
	<hr/>	<hr/>
At the end of the period/year	<b>(92,002)</b>	(92,002)
	<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	—	—
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>





## 17. INTEREST IN AN ASSOCIATE

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
At the beginning of the period/year	—	—
Reversal of impairment loss on investment in an associate	<b>532</b>	—
Disposal	<b>(532)</b>	—
	<hr/>	<hr/>
At the end of the period/year	<u>—</u>	<u>—</u>

*Note:*

On 8 October 2012, the Group completed the disposal of its 38% equity interest in an associate at a consideration of RMB570,000.

## 18. INVENTORIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Organic fertiliser		
– Raw material	<b>59</b>	59
– Finished goods	<b>166</b>	276
	<hr/>	<hr/>
	<b>225</b>	335
	<u>225</u>	<u>335</u>



## 19. TRADE AND OTHER RECEIVABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Prepayments, deposits and other receivables	<b>33,288</b>	32,914
	<b>33,288</b>	32,914

Trade and other 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.

## 20. 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>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Cash at banks and in hand	<b>2,970</b>	724
Bank overdrafts, unsecured	—	(4)
	<b>2,970</b>	720



## 21. TRADE AND OTHER PAYABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>84</b>	—
Other payables and accruals	<b>30,891</b>	29,966
	<b>30,975</b>	29,966

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

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

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Current or less than 1 month	—	—
1 to 3 months	—	—
More than 3 months but within 6 months	<b>84</b>	—
Over 6 months	—	—
	<b>84</b>	—



## 22. OBLIGATION UNDER FINANCE LEASE

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
Wholly repayable within five years		
Obligation under finance lease	<b>164</b>	185
Less: Amount due within one year included under current liabilities	<b>(44)</b>	(43)
	<b>120</b>	142

Obligation under finance lease is repayable within the following periods:

	<b>Present value</b>		<b>Minimum payment</b>	
	<b>Unaudited</b>	Audited	<b>Unaudited</b>	Audited
	<b>As at</b>	As at	<b>As at</b>	As at
	<b>31 December</b>	30 June	<b>31 December</b>	30 June
	<b>2012</b>	2012	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Within one year	<b>44</b>	43	<b>54</b>	54
In the second year	<b>47</b>	46	<b>54</b>	54
In the third to fifth years	<b>73</b>	96	<b>76</b>	103
	<b>164</b>	185	<b>184</b>	211
Finance charges			<b>(20)</b>	(26)
			<b>164</b>	185

Interest is charged on the outstanding balance of finance lease at the rate of 6.47% per annum (30 June 2012: 6.47%). The finance lease is secured by a motor vehicle of the Group.

## 23. OTHER FINANCIAL LIABILITIES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2012</b>	2012
	<b>HK\$'000</b>	HK\$'000
<b>Non-current</b>		
Advance from a related party (note)	—	4,842
	<u>          </u>	<u>          </u>

Note:

The advance from a related party was unsecured and non-interest bearing.

## 24. SHARE CAPITAL

	<b>Unaudited</b>		Audited	
	<b>As at 31 December 2012</b>		As at 30 June 2012	
	<b>Number of</b>		Number of	
	<b>shares</b>		shares	
	<b>'000</b>	<b>HK\$'000</b>	<b>'000</b>	<b>HK\$'000</b>
<b>Ordinary shares of HK\$0.05 each</b>				
Authorised				
At beginning and end of the period/year	<u>6,000,000</u>	<u>300,000</u>	<u>6,000,000</u>	<u>300,000</u>
Issued and fully paid				
At beginning of the period/year	<u>2,565,396</u>	<u>128,270</u>	2,170,518	108,526
Placement of new shares	—	—	360,000	18,000
Exercise of share options	—	—	34,878	1,744
At end of the period/year	<u>2,565,396</u>	<u>128,270</u>	<u>2,565,396</u>	<u>128,270</u>



## 25. DISPOSAL OF SUBSIDIARIES

During the six months ended 31 December 2012, the Group did not dispose of any subsidiaries.

*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.



## 25. DISPOSAL OF SUBSIDIARIES (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						Total
	New Ally Holdings Limited	Decade Holdings Limited	Energy Ally Investments Limited	Ally Goal Limited	State Chance Limited	Skygain Limited	
	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.

## 26. SHARE BASED PAYMENT

### Share option scheme

No option has granted during the six months period ended 31 December 2012.

On 20 July 2011 and 18 August 2011, the Company granted a 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		Audited	
	As at 31 December 2012		As at 30 June 2012	
	Weighted	Number	Weighted	Number
	average	of options	average	of options
	exercise price		exercise price	
	HK\$	'000	HK\$	'000
Outstanding at the beginning of the period/ year		104,352		178,576
Granted during the period/ year	—	—	0.12	155,758
Exercised during the period/ year	—	—	0.12	(34,878)
Lapsed during the period/ year	0.585	(72,212)	0.28	(195,104)
Exercisable at the end of the period/ year		<u>32,140</u>		<u>104,352</u>





## 26. SHARE BASED PAYMENT (Continued)

### Share option scheme (Continued)

The following information is relevant in the determination of the fair value of options existed during the period/year 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	Binomial	Binomial	Binomial
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\$0.375*	HK\$0.435*	HK\$0.585*
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%

\* The number and exercise price of the options have been adjusted for presentation purpose to reflect the five-to-one share consolidation effective on 17 January 2011.



## 27. RELATED PARTY TRANSACTIONS

### (a) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in note 23 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	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Short term employee benefits	<u>1,560</u>	<u>2,580</u>



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

As announced on 20 February 2013, the Group entered into a termination agreement in relation to the Forest Acquisition detailed in note 15 to the interim condensed consolidated financial statements. The related deposits of HK\$12,000,000 was returned to the Group upon signing of the termination agreement. Neither the Group nor the vendor shall have any further obligations or liabilities towards the other nor any claims against the other in connection with the S&P agreement.

## **29. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's presentation.

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

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 26 February 2013.



## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2012 (six months ended 31 December 2011: 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.

Most developed countries' economies continued to remain sluggish. Drastic turbulences in global financial markets will still 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 2012 was similar to those in the six months ended 31 December 2011. Natural disasters in China in 2012 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 2012. Against this backdrop, the Company had adopted the protective business approach included tighter credit control measures, trading of plantation materials and products, scaling down of plantation activities, scaling up protection of biological assets, suspension of sales of environmental system of loss and disposal of inactive subsidiaries and some subsidiaries which require considerable capital intensive investments.



For the six months ended 31 December 2012, turnover of the Group increased by 6.01% to HK\$13,204,000 (2011: HK\$12,456,000) and gross loss of HK\$2,838,000 (2011: gross profit of HK\$3,212,000) was recorded. Loss for the six months ended 31 December 2012 arrived at HK\$23,008,000 as compared to profit of HK\$704,000 of corresponding period of last year.

Loss attribution to shareholders for the six months ended 31 December 2012 was recorded at HK\$23,008,000 as compared to profit of HK\$614,000 of corresponding period of last year. Basic and diluted loss per share was HK\$0.897 cents (2011: basic and diluted earnings per share were HK\$0.029 cents). Loss from changes in fair value of biological assets was HK\$11.44 million mainly resulted from decrease in volume affected by the shortage of underground water in the Shihezi City, Xinjiang Region, the PRC (2011: Gain of HK\$41 million). Finance costs for the six months ended 31 December 2012 rose to approximately HK\$6,000 (2011: HK\$4,000). Administrative and other operating expenses from operations for the six months ended 31 December 2012 decreased to approximately HK\$11,766,000 (2011: HK\$26,285,000). It included major items such as amortization of intangible assets of approximately HK\$2.51 million, salaries and director emoluments of HK\$2.35million, rent for plantation land of HK\$3.09 million, rent of HK\$1.02 million, legal and professional fee and consultancy fee of HK\$1.08 million and others of HK\$1.72 million. Income tax credit was recorded at HK\$1.7 million (2011: income tax expense of HK\$9.4 million). Exchange differences on translating foreign operations was recorded at HK\$1.73 million (2011: HK\$13.1 million).

### **Plantation Material**

For the six months period ended 31 December 2012, the sale of plantation materials decreased by 92.66% to HK\$212,000 from HK\$2,889,000 as compared to corresponding period of last year, attributable to most local customers being affected by natural hazards in Xinjiang Region. Sale of plantation materials represented approximately 1.61% of the Group's total turnover for the six months ended 31 December 2012.



## Plantation Product

In 2008, the group acquired the 30 years operating right of the Plantation Land of approximately 60,000 mu (Chinese Mu) in Shihezi City, Xinjiang Region, the PRC which 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 at Zone D has already been cultivated with poplar trees (the "Planted Land"). The remaining 30,000 Chinese mu of land at Zones A, B and C has not been cultivated with trees and crops (the "Unplanted Land") within which the development, including, amongst others, the construction of infrastructure such as the building of roads, construction of water pipes and power supply connections of the approximately 10,000 Chinese mu of land has been completed and available for new plantation with the remaining approximately 20,000 Chinese mu of land has not yet completed.

Considering the risks and uncertainties involved with unprecedented varieties and scale of natural disasters in the world and in PRC, 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 for organic herbal crops of Chinese wolfberry. The revised plantation plan decreased the risks and uncertainties of the adverse impact on the newly grown saplings which are highly vulnerable to natural disasters and availed more resources for protection of the Group's existing poplar trees assets on the Plantation Land Zone D to weather natural disasters.

During 2012, Xinjiang Region experienced series of natural disasters of earthquake, drought, flooding, windstorm, low-temperature freeze and ice storm. Under the protective strategy, the Group's herbal crops and biological assets in the Plantation Land had weathered the windstorm from west of Siberia in April 2012 and the Shihezi City earthquakes in June 2012 with magnitude of Mw6.3. The Group managed to shelter the biological assets from material damages by natural disasters but the normal growth rates of the plantation products were unavoidably affected. As at 31 December 2012, the volume of the poplar tree biological assets recorded the decrease of 1.49% from that of 30 June 2012 mainly due to the shortage of underground water in the region. Considering the risks and uncertainties involved with high frequency of natural disasters in the region, the Group is negotiating with independent third party for disposal of the operating rights of the Unplanted Land at Zones A, B and C of which new plantation activities being highly vulnerable to natural disasters and to avail resources for other business development.



The trading business of plantation products recorded turnover of HK\$246,000 with decrease of 22.40% as compared to corresponding period of last year (2011: approximately HK\$317,000). For the six months ended 31 December 2012, sales of plantation products represented approximately 1.86% of the Group's total turnover.

### **Environmental System**

Towards the end of the financial year ended 30 June 2012, the sale of the O-Live Environmental System was suspended pending the development of a more cost-effective, upgraded version of the product. For the six months ended 31 December 2012, sales of environmental systems recorded no turnover and had no representation of the Group's total turnover (2011: Nil).

### **Green Technology**

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 79.34% and contributed the major turnover and profit for the Group. For the six months ended 31 December 2012, technology income recorded approximately HK\$12,746,000 (2011: HK\$9,250,000), representing approximately 96.53% 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. 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 slowing PRC economic growth 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.

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.

## SHARE CAPITAL

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 "Stock Exchange"), 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 (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 shall be consolidated into one consolidated share of HK\$0.02 each (the "Share Consolidation"). The Board proposed 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 has been informed that the hearing date for the approval of the Capital Reorganization from the Grand Court of Cayman Islands will be on 26 February 2013. It is expected that the Capital Reorganization and Share Consolidation will become effective on 1 March 2013.

Shareholders of the Company are advised to refer to the tentative timetable for the implementation of the Capital Reorganization, Share Consolidation and change board lot size as set out in the announcement of the Company dated 14 February 2013.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2012, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$2,970,000 (30 June 2012: approximately HK\$724,000). As at 31 December 2012, the Group's current assets amounted to approximately HK\$36.48 million and current liabilities amounted to approximately HK\$81.29 million. The Group's net current liabilities, being its current assets minus its current liabilities, amounted to approximately HK\$44.80 million (30 June 2012: HK\$44.52 million). Included in the current liabilities, there were purchase consideration payables of HK\$45.72 million of which payment will be subject to the achievement of profit guarantee. The major shareholder of the Group made available an unsecured and interest-free revolving loan facility totaling HK\$20 million to the Group till 30 September 2013 for standby basis.

Gearing ratio, defined as total borrowings divided by the total equity, was 0.02% as at 31 December 2012 (30 June 2012: 0.02%).

As at 31 December 2012, the capital commitment contracted but not provided for in the condensed consolidated statement of financial position arrived at zero amount (30 June 2012: Nil).

## **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 2012. 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 2012, there was no charge on the Group's assets (30 June 2012: Nil).

## **CAPITAL RAISING AND EXPENDITURE**

There was no capital raising and expenditure during the six months ended 31 December 2012.

## **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 2012.

## **HUMAN RESOURCES AND REMUNERATION POLICY**

The Group had approximately 22 employees in Hong Kong and the PRC as at 31 December 2012. 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 2012, none of the Company's directors, chief executive or their respective associates had any personal, family, corporate and other interests or short positions 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules.



## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons 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 2012
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Choy Ping Fai	Beneficial owner	304,104,000	—	304,104,000	11.85%
				(Note 2)	
Capital Master International Limited	Beneficial owner	304,104,000	—	304,104,000	11.85%
				(Note 2)	
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 2012.
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 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, and/or providing benefits to the participant and to provide the participant with the opportunity to acquire a personal stake in the Group and to build common objectives of the Group and the participant for the betterment of business and profitability of the Group and its shareholders as a whole.

The movements in the share options under the Share Option Scheme during the six months ended 31 December 2012 are as follows:

Name of category of participant	Date of grant	Exercise period	Exercise price per share <i>HK\$</i>	Number of share options				
				At 1 July 2012	Granted during the period	Exercised during the period	Lapsed during the period	At 31 December 2012
Directors								
Ms. Kam Yuen ( <i>Note</i> )	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	7,000,000	—	—	(7,000,000)	—
	26/5/2010	26/5/2010 - 5/5/2013	0.3750	3,140,000	—	—	—	3,140,000
	20/7/2011	20/7/2011 - 19/7/2014	0.1346	11,000,000	—	—	—	11,000,000
	18/8/2011	18/8/2011 - 17/8/2014	0.1126	18,000,000	—	—	—	18,000,000
Subtotal				39,140,000	—	—	(7,000,000)	32,140,000
Total				104,352,000	—	—	(72,212,000)	32,140,000

*Note:* Ms Kam Yuen resigned as director of the Company on 21 November, 2012.



## **PURCHASE, SALE AND REDEMPTION OF SHARES**

For the six months ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

## **CORPORATE GOVERNANCE**

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 of the Company 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 Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules for the six months ended 31 December 2012, except the following.

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

During the period, Ms. Kam Yuen acted as an executive director and the Chief Executive Officer of the Company until 20 November 2012. On 21 November 2012, Ms. Kam Yuen resigned as an executive director and the Chief Executive Officer of the Company and Mr. Zhou Hongbo, an executive director and the Chairman of the Board, was appointed as the Chief Executive Officer of the Company. Thereafter, he 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 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 present structure is considered to be appropriate under the circumstances of the Company.

Code provision A.2.7 of the CG Code stipulates that the chairman of the board of directors should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the period, there was no meeting held between the Chairman of the Board and independent non-executive directors of the Company and such meeting will be arranged as soon as practicable.



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 has, 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 has appointed an independent professional company to carry out review on the corporate governance and the internal control system of the Group, but until now, the review has not been completed.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors 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 official duties. The directors of the Company present at the annual general meeting elected Mr. Leung Kwong Choi, an executive director of the Company, to take the chair of the annual general meeting.

## **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 2012.



## **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 Listing Rules. The audit committee of the Company has reviewed the unaudited interim financial results for the six months ended 31 December 2012. The audit committee of the Company 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 of the Company comprises three independent non-executive directors of the Company, namely Mr. Cheung Ngai Lam (Chairman), Mr. Wong Kwai Sang and Mr. Christopher David Thomas.

By Order of the Board

**China Environmental Resources Group Limited**

**Zhou Hongbo**

*Chairman*

Hong Kong, 26 February 2013

