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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser immediately.

If you have sold or transferred all your securities in China Environmental Resources Group Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)**

**PROPOSALS FOR**  
**(1) RE-ELECTION OF RETIRING DIRECTORS**  
**(2) GENERAL MANDATES TO ISSUE SECURITIES**  
**AND TO REPURCHASE SHARES**  
**(3) RENEWAL OF SCHEME MANDATE LIMIT**  
**(4) CAPITAL REORGANIZATION**  
**AND**  
**(5) NOTICE OF ANNUAL GENERAL MEETING**

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The notice convening an annual general meeting of China Environmental Resources Group Limited (the “Company”) to be held at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 28 November 2011 at 9:30 a.m. is set out on pages 18 to 22 of this circular.

Whether or not you are able to attend the annual general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at 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, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the annual general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the annual general meeting or any adjournment thereof should you so wish.

28 October 2011

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“AGM”	the annual general meeting of the Company to be held at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 28 November 2011 at 9:30 a.m.;
“AGM Notice”	the notice convening the AGM as set out in Appendix III to this circular;
“Articles of Association”	the articles of association of the Company;
“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 (Stock code: 1130);
“Court”	the Grand Court of the Cayman Islands;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Issuance Mandate”	as defined in paragraph 3(a) of the Letter from the Board in this circular;
“Latest Practicable Date”	21 October 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information included herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

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## DEFINITIONS

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“New Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company after the Capital Reorganization becoming effective;
“PRC”	the People’s Republic of China;
“Repurchase Mandate”	as defined in paragraph 3(b) of the Letter from the Board in this circular;
“Scheme Mandate Limit”	the maximum number of Shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company, which shall not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Share Option Scheme or of the renewal of such limit;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company;
“Share Option Scheme”	the share option scheme adopted by the Company on 16 December 2005 for an option period of ten years from the date of adoption;
“Shareholder(s)”	registered holder(s) of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers; and
“%”	per cent.

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## EXPECTED TIME TABLE

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Set out below is an indicative timetable for the implementation of the Capital Reorganization. The timetable is subject to the results of the AGM, the decision of the Court and other changes. The Company will notify the Shareholders of any significant changes to the expected timetable by way of announcement(s) as and when appropriate.

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

*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.*

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 2012

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LETTER FROM THE BOARD

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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)**

***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

***Registered office:***

Ugland House

P.O. Box 309

Grand Cayman

KY1-1104

Cayman Islands

***Head office and***

***principal place of business:***

Rooms 2003-06

Shui On Centre

6-8 Harbour Road

Wanchai

Hong Kong

28 October 2011

*To the Shareholders*

Dear Sir or Madam,

**PROPOSALS FOR**  
**(1) RE-ELECTION OF RETIRING DIRECTORS**  
**(2) GENERAL MANDATES TO ISSUE SECURITIES**  
**AND TO REPURCHASE SHARES**  
**(3) RENEWAL OF SCHEME MANDATE LIMIT**  
**(4) CAPITAL REORGANIZATION**  
**AND**  
**(5) NOTICE OF ANNUAL GENERAL MEETING**

**1. INTRODUCTION**

The purpose of this circular is to provide you with the information regarding resolutions to be proposed at the AGM relating to (i) re-election of retiring Directors, (ii) the granting to the Directors

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## LETTER FROM THE BOARD

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of the Issuance Mandate and Repurchase Mandate, (iii) the renewal of the Scheme Mandate Limit, (iv) the Capital Reorganization, and (v) a notice to convene the AGM to approve, among other things, the re-election of retiring Directors, the grant of the Issuance Mandate and Repurchase Mandate, the renewal of the Scheme Mandate Limit and the Capital Reorganization.

### 2. RE-ELECTION OF RETIRING DIRECTORS

Pursuant to the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring Director shall be eligible for re-election. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

In accordance with the Articles of Association, Ms. Kam Yuen and Mr. Christopher David Thomas will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Pursuant to Rule 13.74 of the Listing Rules, a listed issuer shall disclose the details required under Rule 13.51(2) of the Listing Rules of any directors proposed to be re-elected or proposed new director in the notice or accompanying circular to its shareholders of the relevant general meeting, if such re-election or appointment is subject to shareholders' approval at that relevant general meeting. A brief biographical details of the retiring Directors proposed to be re-elected are set out in Appendix I to this circular.

### 3. GENERAL MANDATE TO ISSUE SECURITIES AND TO REPURCHASE SHARES

At the annual general meeting of the Company held on 6 December 2010, ordinary resolution was passed for the granting of general mandate to the Directors, inter alia, to allot, issue or otherwise deal with Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at that date (the "**Existing Issuance Mandate**").

The Existing Issuance Mandate will lapse upon the conclusion of the AGM. The Directors consider that the Existing Issuance Mandate and Repurchase Mandate increase the flexibility in the Company's affairs and are in the interests of the Shareholders, and should continue to be adopted by the Company.

It will therefore be proposed at the forthcoming AGM to approve the granting of new general mandates to the Directors to exercise the power of the Company:

- (a) to allot, issue and deal with new Shares and to make or grant offers, agreements and options, including warrants to subscribe for Shares and other rights of subscription for or conversion into Shares, of an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution ("**Issuance Mandate**"); and

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## LETTER FROM THE BOARD

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- (b) to repurchase Shares on the Stock Exchange of an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution (“**Repurchase Mandate**”).

Assuming that there is no further issuance, allotment of and dealing in new Shares from the Latest Practicable Date to the date of AGM, a maximum of 441,079,160 new Shares, representing 20% of the aggregate nominal amount of the issued share capital of the Company, shall be allotted, issued and dealt with under the Issuance Mandate.

The Issuance Mandate and Repurchase Mandate will continue in force until the conclusion of the next annual general meeting of the Company held after the AGM or any earlier date as referred to in ordinary resolutions 4 and 5 set out in the AGM Notice. Resolutions authorising the extension of the Issuance Mandate to include the aggregate nominal amount of Shares repurchased (if any) under the Repurchase Mandate will be proposed as ordinary resolution 6 set out in the AGM Notice. With reference to the Issuance Mandate and Repurchase Mandate, the Directors wish to state that they have no immediate plan to issue any Shares or repurchase any Shares pursuant thereto.

An explanatory statement containing the particulars required by the Listing Rules to enable the Shareholders to make an informed decision on whether to vote for or against the resolution to approve the granting of the Repurchase Mandate is set out in Appendix II to this circular.

#### 4. RENEWAL OF SCHEME MANDATE LIMIT

##### Background

The Share Option Scheme was adopted by the Shareholders at the annual general meeting of the Company held on 16 December 2005.

Under the Share Option Scheme, among other things:

- (i) the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other share option scheme of the Group (excluding options lapsed in accordance with the terms of the Share Option Scheme) must not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme (the “**Scheme Mandate Limit**”); and
- (ii) the overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the share capital of the Company issue from time to time.

The Company may renew the Scheme Mandate Limit at any time subject to approval of the Shareholders in a general meeting. However, the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of approval of the limit. Options previously granted under the Share Option Scheme and any other share option scheme of the Group (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit.

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## LETTER FROM THE BOARD

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The existing Scheme Mandate Limit is 180,476,780 Shares, being 10% of the Shares in issue as at the date of the annual general meeting of the Company held on 6 December 2010. As at the Latest Practicable Date, there were 299,456,000 options granted under the Share Option Scheme which remained outstanding.

<b>Date</b>		<b>Scheme Mandate Limit</b> <i>(Note 1)</i>	<b>Number of Options</b> <i>(Note 1)</i>
16 December 2005	Scheme adoption date	26,638,400	
10 January 2006	Options granted		13,320,000
6 December 2006	Annual general meeting	1,248,075,800	
12 December 2008	Annual general meeting	109,573,780	
22 May 2009	Options exercised		(10,120,000)
8 June 2009	Options exercised		(3,200,000)
7 August 2009	Options granted		109,572,000
7 December 2009	Annual general meeting	143,557,580	
19 January 2010	Options granted		70,800,000
14 April 2010	Options exercised		(7,000,000)
16 April 2010	Options exercised		(11,000,000)
23 April 2010	Options exercised		(10,700,000)
14 May 2010	Options lapsed		(9,280,000)
26 May 2010	Options granted		72,756,000
31 July 2010	Options lapsed		(11,880,000)
2 August 2010	Options exercised		(12,492,000)
24 November 2010	Options exercised		(3,000,000)
6 December 2010	Annual general meeting	180,476,780	
7 December 2010	Options lapsed		(9,200,000)
20 July 2011	Options granted		71,000,000
26 July 2011	Options exercised		(18,000,000)
18 August 2011	Options granted		84,758,000
25 August 2011	Options exercised		(16,878,000)
<b>Summary</b>			
Total options granted			422,206,000
Total options exercised			(92,390,000)
Total options lapsed			<u>(30,360,000)</u>
Total options outstanding			<u>299,456,000</u>

*Note 1: Every 5 issued and unissued shares of HK\$0.01 each of the Company were consolidated into one share of HK\$0.05 each on 17 January 2011. All the Scheme Mandate Limit and options above before 17 January 2011 have been adjusted for the consolidation of shares.*

*Note 2: The number of Shares which may be issued upon exercise of all outstanding options granted is 299,456,000 and the proposed Scheme Mandate Limit is 220,539,580 which does not exceed 661,618,740, being 30% of the Shares in issue as at the Latest Practicable Date.*

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## LETTER FROM THE BOARD

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In respect of the grant of options on 19 January 2010, 26 May 2010, 20 July 2011 and 18 August 2011, the grantees were employees, consultants and/or professional advisers to the Group providing consultancy services on management, marketing, operation, company secretarial work, legal matters, administrative matters and building construction. The grantees are eligible participants under the Share Option Scheme and are independent third parties not connected with the Company or its connected persons (as defined under the Listing Rules). The purpose of granting the options were to provide incentives or rewards to the grantees without the extra cash burden on the Company. In view of the intended long term relationship, it also provided the grantees with the opportunity to acquire a personal stake in the Group to build up a common objective for the betterment of the business of the Group. The Directors consider that such grant of options were in the interest of the Company and the Shareholders as a whole.

The Directors consider that it is in the interests of the Group to renew the Scheme Mandate Limit to maintain the flexibility of the Group to provide incentives or reward to qualified participants under the Share Option Scheme for their contributions to the Group. On the basis of 2,205,395,800 Shares in issue as at the Latest Practicable Date, the Scheme Mandate Limit shall be renewed to 220,539,580 Shares, representing 10% of the Shares in issue as at the date of the AGM approving the renewed Scheme Mandate Limit.

### Conditions

As required by the Share Option Scheme and the Listing Rules, an ordinary resolution, as special business, will be proposed to the Shareholders at the AGM to approve the renewal of the Scheme Mandate Limit in the terms as set out in resolution 7 of the AGM Notice.

The adoption of the renewed Scheme Mandate Limit of the Share Option Scheme is conditional upon:

- (a) the approval of the Shareholders at the AGM; and
- (b) the Stock Exchange granting the approval of the listing of, and permission to deal in, such number of the Shares representing 10% of the Shares in issue as at the date of the AGM which may fall to be allotted and issued pursuant to the exercise of any options granted under the renewed Scheme Mandate Limit.

### Application for Listing

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options granted under the Share Option Scheme under the renewed Scheme Mandate Limit.

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## LETTER FROM THE BOARD

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### 5. 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 Latest Practicable Date, 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 Latest Practicable Date, 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 special 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.

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## LETTER FROM THE BOARD

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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.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

### **Expected Timetable**

The expected timetable for the implementation of the Capital Reorganization is set out on page 3 of this circular.

### **Free exchange of share certificates**

The new share certificates will be in the colour of brown in order to distinguish them from the existing share certificates which are orange in colour. 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 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.

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## LETTER FROM THE BOARD

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### 6. ANNUAL GENERAL MEETING

The AGM Notice is set out in Appendix III to this circular. At the AGM, ordinary resolutions will be proposed to approve, inter alia, the re-election of retiring Directors, the granting of the Issuance Mandate and the Repurchase Mandate, the extension of the Issuance Mandate and the renewal of Scheme Mandate Limit and a special resolution will be proposed to approve the Capital Reorganization.

A form of proxy is enclosed with this circular for use at the AGM. Whether or not you are able to attend this meeting, you are requested to complete and return the enclosed form of proxy to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

### 7. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote at the AGM pursuant to the Articles of Association and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### 8. RECOMMENDATION

The Directors consider that the proposed ordinary resolutions for approval of the re-election of retiring Directors, the grant of Issuance Mandate and Repurchase Mandate, the extension of the Issuance Mandate and the renewal of Scheme Mandate Limit and the proposed special resolution for approval of the Capital Reorganization are each in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of the relevant resolutions to be proposed at the AGM.

### 9. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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## LETTER FROM THE BOARD

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### 10. GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices in this circular.

Yours faithfully,  
By Order of the Board  
**China Environmental Resources Group Limited**  
**Kam Yuen**  
*Chairman*

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## APPENDIX I DETAILS OF RETIRING DIRECTORS PROPOSED TO BE RE-ELECTED

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The biographical details of the Directors who will retire from office by rotation at the AGM and, being eligible, will offer themselves for re-election are as follows:-

1. **Ms. Kam Yuen**, aged 42, was appointed as an Executive Director and a Chief Executive Officer on 4 June 2009 and also was appointed as a Chairman on 14 May, 2010.

Ms. Kam was graduated in 1991 from the University of Hong Kong with a Bachelor Degree in Social Sciences (Economics) and subsequently received her MBA from the Hong Kong University of Science & Technology. She is also a holder of Bachelor of Laws (LLB) with the Manchester Metropolitan University and a Chartered Financial Analyst.

Ms. Kam has over 17 years working experience in selling and relationships management in various financial institutions such as Credit Suisse, Rabobank and Standard Chartered Bank. Having served the managerial positions in China market, Ms. Kam develops sophisticated management experiences and acquires extensive connections in China.

Ms. Kam's spouse is a director of certain subsidiaries of the Company. Save as disclosed herein, Ms. Kam is and was not connected with any directors, senior management or substantial or controlling shareholders of the Company.

Ms. Kam is also the director of certain subsidiaries of the Company. Save as disclosed above, Ms. Kam does not hold any other positions in the Company or any subsidiary of the Company and did not hold any directorships in any listed public companies in the last three years.

Ms. Kam has not been appointed for a specific term but shall be subject to the relevant provisions of retirement and re-election at the general meeting of the Company in accordance with the Articles of Association. Pursuant to a letter of appointment entered between the Company and Ms. Kam, Ms. Kam is entitled to a director's fee of HK\$2,160,000 per annum which is determined with reference to her duties and responsibilities with the Company, the Company's performance and the prevailing market situation and subject to the approval of the Shareholders at the annual general meeting of the Company.

As at the Latest Practicable Date, Ms. Kam had deemed interest in 304,104,000 Shares and 36,000,000 options which represents Ms. Kam's entitlement to subscribe for 36,000,000 Shares under the Share Option Scheme in the Company within the meaning of Part XV of the SFO.

Save as disclosed above, the Board is not aware of any other information to be disclosed pursuant to the requirement of the Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there is no other matters that needs to be brought to the attention of the Shareholders.

2. **Mr. Christopher David Thomas**, aged 33, was appointed as an Independent Non-executive Director on 4 May 2009. He is also a member of the audit committee and the remuneration committee of the Company.

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## APPENDIX I DETAILS OF RETIRING DIRECTORS PROPOSED TO BE RE-ELECTED

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Mr. Thomas graduated from Johns Hopkins University School of Advanced International Studies with a Master Degree in International Relations — Concentration in International Finance and Asian Studies. Mr. Thomas joined Deutsche Bank in 2001 to serve as an Analyst in Telecommunication Investment Banking. From 2002 to 2004, Mr. Thomas worked as an Analyst in Media and Technology Mergers and Acquisitions for Signal Hill Capital Group LLC, the boutique investment bank founded by former Global Head of Telecommunications at Deutsche Banc Alex. Brown, Inc.

Mr. Thomas is currently a Regional Vice President (North America Division) of Snowland Tibetan Medicine Company which is a leading Tibetan medicine company in the herbal medicine market. Mr. Thomas has over 6 years experience in clientele development, sales and marketing to nationwide distributors and individual customers.

Save as disclosed above, Mr. Thomas did not hold any directorship in any listed public companies in the last three years and does not hold any position in the Company or any subsidiary of the Company.

Pursuant to a letter of appointment entered into between the Company and Mr. Thomas, the Company appointed Mr. Thomas for a term of three years until 3 May 2012 and he will subject to the retirement and re-election at annual general meeting of the Company in accordance with the Articles of Association. Mr. Thomas is entitled to a director's fee of HK\$60,000 per annum which is determined with reference to his duties and responsibilities with the Company, the Company's performance and the prevailing market situation and subject to the approval of the Shareholders at the annual general meeting of the Company.

Save as disclosed above, Mr. Thomas is and was not connected with any directors, senior management or substantial or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr. Thomas does not have any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, the Board is not aware of any other information to be disclosed pursuant to the requirement of the Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there is no other matters that needs to be brought to the attention of the Shareholders.

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## **APPENDIX II      EXPLANATORY STATEMENT AS TO REPURCHASE MANDATE**

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This appendix includes an explanatory statement required by the Stock Exchange to be presented to the Shareholders concerning the Repurchase Mandate proposed to be granted to the Directors.

### **1.    LISTING RULES FOR REPURCHASES OF SHARES**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their shares on the Stock Exchange subject to certain restrictions.

The Listing Rules provide that all proposed repurchases of shares by a company with a primary listing on the Stock Exchange must be approved by shareholders in advance by an ordinary resolution at a general meeting, either by way of a general mandate or by a specific approval of a particular transaction and that the shares to be repurchased must be fully paid up.

### **2.    FUNDING AND IMPACT OF REPURCHASES**

Any repurchase will be made out of funds which are legally available for the purpose in accordance with the memorandum of association of the Company, the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. As compared with the financial position of the Company as at 30 June 2011 (being the date to which the latest audited accounts of the Company have been made up), the Directors consider that there would not be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed repurchases were to be carried out in full during the proposed repurchase period.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of the Company or the gearing position which in the opinion of the Directors are from time to time appropriate for the Company.

### **3.    REASONS FOR REPURCHASES**

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

### **4.    SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 2,205,395,800 Shares.

Subject to the passing of the relevant ordinary resolutions to approve the general mandates to issue and repurchase Shares and on the basis that no further Shares are issued or repurchased between the Latest Practicable Date and the AGM, the Directors would be authorised to exercise the powers of the Company to repurchase a maximum of 220,539,580 Shares.

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## APPENDIX II EXPLANATORY STATEMENT AS TO REPURCHASE MANDATE

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### 5. UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands, the memorandum of association of the Company and the Articles of Association.

### 6. EFFECT OF THE TAKEOVERS CODE

A repurchase of Shares by the Company may result in an increase in the proportionate interests of substantial Shareholder in the voting rights of the Company, which may give rise to an obligation to make a mandatory offer in accordance with Rules 26 of the Takeovers Code. As at the Latest Practicable Date, the following Shareholders are taken to have 5% or more of the issued share capital of the Company:

Name of Shareholders	No. of Shares interested	Percentage of shareholding in the Company	
		As at the Latest Practicable Date	Exercise in full of the Repurchase Mandate
Choy Ping Fai ( <i>Note 1</i> )	304,104,000	13.79%	15.32%
Kam Yuen ( <i>Note 1</i> )	304,104,000	13.79%	15.32%
Capital Master International Limited ( <i>Note 1</i> )	304,104,000	13.79%	15.32%
The Cathay Investment Fund, Limited	263,920,000	11.97%	13.30%

*Note 1: The entire issued share capital of Capital Master International Limited is beneficially owned by Mr. Choy Ping Fai, whom is the spouse of Ms. Kam Yuen. Accordingly, Mr. Choy Ping Fai and Ms. Kam Yuen are deemed to have interests in these shares.*

On the basis that no further Shares are issued or repurchased prior to the AGM, in the event that the Directors exercise in full the Repurchase Mandate, the interests of the above Shareholders would be increased to such percentages of the issued share capital of the Company as set out in the fourth column of the above table and such increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code.

In the event that the Repurchase Mandate is exercised in full, the number of Shares held by the public would not fall below 25%.

### 7. DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS

None of the Directors nor, to the best knowledge and belief of the Directors, having made all reasonable enquiries, any of their respective associates has any present intention, in the event that the proposed Repurchase Mandate is granted, to sell Shares to the Company. No connected person of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company nor has he/she/it undertaken not to sell any of the Shares held by him/her/it to the Company in the event that the Company is authorised to make repurchases of Shares.

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**APPENDIX II EXPLANATORY STATEMENT AS TO REPURCHASE MANDATE**

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**8. SHARE REPURCHASE MADE BY THE COMPANY**

No repurchase of Shares has been made by the Company (whether on the Stock Exchange or otherwise) during the six months ended on the Latest Practicable Date.

**9. SHARE PRICES**

The highest and lowest prices at which the Shares have been traded on the Stock Exchange in each of the previous twelve months up to the Latest Practicable Date were as follows:

	<b>Shares</b>	
	<b>Highest</b>	<b>Lowest</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>2010</b>		
October	0.485*	0.330*
November	0.410*	0.295*
December	0.340*	0.230*
<b>2011</b>		
January	0.265	0.230*
February	0.295	0.227
March	0.240	0.170
April	0.227	0.183
May	0.206	0.160
June	0.180	0.145
July	0.149	0.120
August	0.135	0.098
September	0.118	0.073
October (up to the Latest Practicable Date)	0.100	0.060

\* Adjusted due to consolidation of every 5 issued and unissued shares of HK\$0.01 each of the Company into one share of HK\$0.05 each on 17 January 2011.

**CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED****中國環境資源集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1130)**

**NOTICE IS HEREBY GIVEN** that the annual general meeting of China Environmental Resources Group Limited (the “**Company**”) will be held at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 28 November 2011 at 9:30 a.m. for the following purposes:

**ORDINARY BUSINESS**

1. To received and adopt the audited consolidated financial statements for the year ended 30 June 2011 together with the report of the directors and the independent auditor’s report.
2. (a) To re-elect the following persons as directors of the Company (“**Directors**”):
  - (i) Ms. Kam Yuen
  - (ii) Mr. Christopher David Thomas
- (b) To authorise the board of Directors (“**Board**”) to fix the Directors’ remuneration.
3. To re-appoint Lau & Au Yeung C.P.A. Limited as auditor of the Company and to authorise the Board to fix the remuneration of auditor of the Company and, in this connection, to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“**THAT** Lau & Au Yeung C.P.A. Limited, who has been appointed by the Board as auditor of the Company to fill the casual vacancy occasioned by the resignation of Zhonglei (HK) CPA Company Limited, be and is hereby re-appointed as auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company and that the Board be and is hereby authorised to fix the remuneration of auditor of the Company.”

## SPECIAL BUSINESS

## ORDINARY RESOLUTIONS

The following resolutions 4 to 7 will be proposed to be considered and, if thought fit, passing with or without amendments, as ordinary resolutions of the Company:

## 4. “THAT:

- (a) subject to the provisions of paragraphs (b) and (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company (“**New Shares**”) and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval given in provisions of paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted and issued or agreed conditionally or unconditionally to be allotted, issued (whether pursuant to an option or otherwise) and dealt with by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of New Shares upon the exercise of rights of subscription or conversion under the terms of warrants of the Company or any securities which are convertible into shares; (iii) an issue of New Shares as scrip dividends or similar arrangement providing for the allotment of New Shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company from time to time; (iv) an issue of New Shares under any share option scheme or similar arrangement of the Company and/or any of its subsidiaries; or (v) a specific mandate granted by the shareholders of the Company in general meeting, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this resolution, and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company’s articles of association to be held; or

- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“**Rights Issue**” means the allotment, issue or grant of New Shares pursuant to an offer of New Shares open for a period fixed by the Directors to holders of issued shares of the Company (“**Shares**”) whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company).”

5. “**THAT:**

- (a) subject to the provisions of paragraphs (b) and (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase the Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or any stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) or listing rules of any other stock exchange as amended from time to time and the articles of association of the Company, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares hereby authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the issued share capital of the Company as at the date of the passing of this resolution, and the said approval shall be limited accordingly;
- (c) for the purpose of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the Company’s articles of association to be held; or
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution in general meeting.”

6. “**THAT** conditional on the passing of resolutions 4 and 5 in the notice convening this meeting, the general mandate granted to the Directors and for the time being in force to exercise all the powers of the Company pursuant to paragraph (a) of resolution 4 above be and is hereby extended by the addition thereto an amount representing the aggregate nominal amount of the Shares repurchased by the Company under the authority granted pursuant to paragraph (a) of resolution 5 above, provided that such extended amount shall not exceed 10% of the issued share capital of the Company as at the date of the passing of this resolution.”
7. “**THAT**:
- (a) the renewal of the limit in respect of the granting of share options of the Company (the “**Share Options**”) under the share option scheme of the Company (the “**Share Option Scheme**”) adopted on 16 December 2005 or any other schemes of the Company or its subsidiaries, as the case may be, (the “**Renewed Scheme Mandate Limit**”) be and is hereby approved and confirmed and the total number of New Shares which may be issued upon exercise of Share Options to be granted under the Share Option Scheme as renewed shall not exceed 10% of the issued Shares as at the date of passing of this resolution. Share Options and other options previously granted under the Share Option Scheme or any other schemes of the Company or its subsidiaries, as the case may be (including options outstanding, cancelled, exercised or lapsed in accordance with the terms of the Share Option Scheme or any other schemes of the Company or its subsidiaries, as the case may be) shall not be counted for the purpose of calculating the Renewed Scheme Mandate Limit;
  - (b) the Directors be and are hereby authorised, subject to compliance with the Listing Rules, to grant Share Options under the Share Option Scheme up to the Renewed Scheme Mandate Limit and to exercise all the powers of the Company to allot, issue and deal with the Shares pursuant to the exercise of such Share Options; and
  - (c) any Director be and is hereby authorised to do all such acts and execute all such documents to effect the Renewed Scheme Mandate Limit.”

#### SPECIAL RESOLUTION

The following resolution 8 will be proposed to be considered and, if thought fit, passing, as a special resolution of the Company:

8. “**THAT** conditional upon the approval from the Grand Court of the Cayman Islands (“**Court**”) and compliance with any conditions the Court may impose and the Listing Committee of The Hong Kong Stock Exchange Limited granting approval for the listing of, and permission to deal in, the New Shares (as defined below) in issue, with effect from the day the Court order and other relevant documents are filed with the Registrar of Companies in the Cayman Islands:
- (a) 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 (“**Capital Reduction**”);

- (b) immediately following the Capital Reduction, 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;
- (c) the credit arising from the Capital Reduction be transferred to a distributable reserve account of the Company and applied by the directors (“**Directors**”) of the Company in accordance with the articles of association of the Company and all applicable laws, including towards setting off the accumulated losses of the Company; and
- (d) the Directors be and are hereby authorised to do all such acts, deeds and things and to effect all necessary actions as they may consider necessary or desirable in order to effect, implement and complete any and all of the foregoing.”

Yours faithfully,  
By Order of the Board  
**China Environmental Resources Group Limited**  
**Kam Yuen**  
*Chairman*

Hong Kong, 28 October 2011

**Notes:**

1. Any member entitled to attend and vote at the meeting is entitled to appoint a proxy or, if such member is a holder of two or more shares, proxies to attend and vote in his stead. A proxy need not be a member of the Company but must attend the meeting in person to represent the appointing member.
2. To be valid, the form of proxy must be deposited with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
3. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.