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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

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 2016 together with the comparative figures for the corresponding period in 2015. These interim financial statements have not been audited, but have been reviewed by the audit committee and auditor of the Company.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 31 December 2016

| | | Six months ended | |
|---|--------------|-------------------------|--------------------|
| | | 31 December | |
| | | 2016 | 2015 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Revenue | 5 | 6,748 | 3,726 |
| Cost of sales | | <u>(3,205)</u> | <u>(1,768)</u> |
| Gross profit | | 3,543 | 1,958 |
| Other income | | 5,268 | 59 |
| Administrative expenses | | (21,414) | (23,142) |
| Net gain/(loss) on fair value changes on financial assets at fair value through profit or loss | | 397 | (30,524) |
| Loss arising from changes in fair value less costs to sell of biological assets | | <u>(12,056)</u> | <u>(8,636)</u> |
| Loss from operations | | (24,262) | (60,285) |
| Finance costs | 6 | <u>—</u> | <u>(661)</u> |
| Loss before tax | | (24,262) | (60,946) |
| Income tax credit | 7 | <u>3,488</u> | <u>7,928</u> |
| Loss for the period | 8 | (20,774) | (53,018) |
| Other comprehensive loss after tax: | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translation of foreign operations | | <u>(21,099)</u> | <u>(25,494)</u> |
| Other comprehensive loss for the period, net of tax | | <u>(21,099)</u> | <u>(25,494)</u> |
| Total comprehensive loss for the period | | <u>(41,873)</u> | <u>(78,512)</u> |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (20,486) | (52,809) |
| Non-controlling interest | | <u>(288)</u> | <u>(209)</u> |
| | | <u>(20,774)</u> | <u>(53,018)</u> |
| Total comprehensive loss for the period attributable to: | | | |
| Owners of the Company | | (41,585) | (78,303) |
| Non-controlling interest | | <u>(288)</u> | <u>(209)</u> |
| | | <u>(41,873)</u> | <u>(78,512)</u> |
| Loss per share | 9 | | |
| Basic (<i>HK cents per share</i>) | | <u>(1.21)</u> | <u>(4.06)</u> |
| Diluted (<i>HK cents per share</i>) | | <u>(1.21)</u> | <u>(4.06)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | <i>Notes</i> | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|---|--------------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 4,806 | 5,765 |
| Investment properties | | 132,103 | 134,347 |
| Biological assets | | 511,667 | 547,224 |
| Intangible asset | | 102,871 | 110,011 |
| Goodwill | | 1,087 | 1,087 |
| | | <u>752,534</u> | <u>798,434</u> |
| Current assets | | | |
| Inventories | | 8,357 | 8,576 |
| Trade and other receivables | 12 | 32,370 | 22,051 |
| Loans receivable | 13 | 17,817 | 13,072 |
| Financial assets at fair value through profit or loss | | 2,862 | 5,433 |
| Refundable secured deposit | 14 | 70,000 | 70,000 |
| Bank and cash balances | | 57,148 | 81,359 |
| | | <u>188,554</u> | <u>200,491</u> |
| Current liabilities | | | |
| Trade and other payables | 15 | 8,629 | 9,258 |
| Current tax liabilities | | 3,322 | 7,976 |
| | | <u>11,951</u> | <u>17,234</u> |
| Net current assets | | <u>176,603</u> | <u>183,257</u> |
| Total assets less current liabilities | | <u>929,137</u> | <u>981,691</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 153,636 | 164,324 |
| | | <u>153,636</u> | <u>164,324</u> |
| NET ASSETS | | <u>775,501</u> | <u>817,367</u> |
| Capital and reserves | | | |
| Share capital | | 33,943 | 33,943 |
| Reserves | | 742,125 | 783,710 |
| Equity attributable to owners of the Company | | 776,068 | 817,653 |
| Non-controlling interest | | (567) | (286) |
| TOTAL EQUITY | | <u>775,501</u> | <u>817,367</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016

Attributable to owners of the Company

| | Share capital | Share premium account | Statutory reserve | Capital reserve | Share-based compensation reserve | Foreign currency translation reserve | Accumulated losses | Total | Non-controlling interest | Total |
|---|----------------------|-------------------------|---------------------|------------------|----------------------------------|--------------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 July 2015 (audited) | 18,857 | 969,958 | 5,407 | 76 | — | 81,475 | (299,739) | 776,034 | — | 776,034 |
| Acquisition of subsidiaries (unaudited) | — | — | — | — | — | — | — | — | (9) | (9) |
| Total comprehensive loss for the period (unaudited) | — | — | — | — | — | (25,494) | (52,809) | (78,303) | (209) | (78,512) |
| Open offer (unaudited) | 9,429 | 123,243 | — | — | — | — | — | 132,672 | — | 132,672 |
| At 31 December 2015 (unaudited) | <u>28,286</u> | <u>1,093,201</u> | <u>5,407</u> | <u>76</u> | <u>—</u> | <u>55,981</u> | <u>(352,548)</u> | <u>830,403</u> | <u>(218)</u> | <u>830,185</u> |
| At 1 July 2016 (audited) | 33,943 | 1,133,156 | 5,407 | 76 | 6,923 | 44,496 | (406,348) | 817,653 | (286) | 817,367 |
| Total comprehensive loss for the period (unaudited) | — | — | — | — | — | (21,099) | (20,486) | (41,585) | (288) | (41,873) |
| Disposal of subsidiaries (unaudited) | — | — | — | — | — | — | — | — | 7 | 7 |
| At 31 December 2016 (unaudited) | <u>33,943</u> | <u>1,133,156</u> | <u>5,407</u> | <u>76</u> | <u>6,923</u> | <u>23,397</u> | <u>(426,834)</u> | <u>776,068</u> | <u>(567)</u> | <u>775,501</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 31 December 2016*

| | Six months ended | |
|--|-------------------------|--------------------|
| | 31 December | |
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES | (19,173) | (24,381) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (113) | (563) |
| Purchase of investment properties | — | (36,515) |
| Acquisition of subsidiaries | — | (1,001) |
| Deposit paid in relation to proposed acquisition of a target company | (5,000) | — |
| Net cash used in investing activities | (5,113) | (38,079) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of Promissory Note | — | (60,661) |
| Net proceeds from the open offer | — | 132,672 |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | — | 72,011 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (24,286) | 9,551 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 75 | 306 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 81,359 | 57,622 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 57,148 | 67,479 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

1. GENERAL INFORMATION

China Environmental Resources Group Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The address of its principal place of business is Room 2811, 28/F West Tower, Shun Tak Centre 168–200 Connaught Road Central, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Singapore Exchange Limited.

The principal activities of the Company and its subsidiaries (collectively known as the “Group”) for the six months ended 31 December 2016 are motor trading, car parking spaces rentals, provision of financial services, securities trading and investment and sales and distribution of plantation products, environmental system and plantation materials and the provision of green technology advisory services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Interim Financial Statements do not include all the information and disclosures required in the full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”), and should be read in conjunction with the Group’s annual financial statements for the year ended 30 June 2016.

The preparation of Interim Financial Statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the Group’s annual financial statements for the year ended 30 June 2016 except as stated below.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 July 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior periods.

The Group has not applied new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2016:

| Description | Fair value measurements using: | | | Total 2016 HK\$'000 (Unaudited) |
|---|------------------------------------|------------------------------------|------------------------------------|--|
| | Level 1 HK\$'000 (Unaudited) | Level 2 HK\$'000 (Unaudited) | Level 3 HK\$'000 (Unaudited) | |
| Recurring fair value measurements: | | | | |
| Biological assets | — | 511,667 | — | 511,667 |
| Financial assets at fair value through profit or loss — listed securities in Hong Kong | 2,862 | — | — | 2,862 |
| Total recurring fair value measurements | 2,862 | 511,667 | — | 514,529 |

Disclosures of level in fair value hierarchy at 30 June 2016:

| Description | Fair value measurements using: | | | Total 2016 HK\$'000 (Audited) |
|---|----------------------------------|----------------------------------|----------------------------------|--|
| | Level 1 HK\$'000 (Audited) | Level 2 HK\$'000 (Audited) | Level 3 HK\$'000 (Audited) | |
| Recurring fair value measurements: | | | | |
| Biological assets | — | 547,224 | — | 547,224 |
| Financial assets at fair value through profit or loss — listed securities in Hong Kong | 5,433 | — | — | 5,433 |
| Total recurring fair value measurements | 5,433 | 547,224 | — | 552,657 |

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of the reporting period:

The Group's management is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The management reports directly to the Directors for these fair value measurements. Discussions of valuation processes and results are held between the management and the Board of Directors annually.

Level 2 fair value measurements

| Description | Valuation technique | Inputs | Fair value | Fair value |
|-------------------|---------------------|---------------------------------|---|---|
| | | | as at 31 December 2016 HK\$'000 (Unaudited) | as at 30 June 2016 HK\$'000 (Audited) |
| Biological assets | Market approach | Market price per m ³ | <u>511,667</u> | <u>547,224</u> |

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue for the six months ended 31 December 2016 mainly represents sales of goods to customers, loan interest income and rental income.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include bank interest income, finance costs and income tax expenses/credits. Segment assets do not include deposit for acquisition of subsidiaries. Segment liabilities do not include deferred tax liabilities/assets.

Information about reportable segment revenue, profit or loss, assets and liabilities:

| | Green technology advisory services HK\$'000 (Unaudited) | Sales of plantation materials and products HK\$'000 (Unaudited) | Provision of financial services HK\$'000 (Unaudited) | Trading and investment business HK\$'000 (Unaudited) | Rental income HK\$'000 (Unaudited) | Trading of motor vehicles HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|--|--|--|--|--|---|--|----------------------------------|
| For the six months ended 31 December 2016 | | | | | | | |
| Revenue from external customers | — | — | 837 | — | 1,783 | 4,128 | 6,748 |
| Segment profit/(loss), comprising: | (284) | (17,045) | 800 | 29 | (1,626) | (2,879) | (21,005) |
| Loss arising from changes in fair value less costs to sell of biological assets | — | (12,056) | — | — | — | — | (12,056) |
| Depreciation and amortisation | — | (2,416) | — | (250) | (2,244) | (293) | (5,203) |
| Proceeds from disposal of listed securities | — | — | — | 3,749 | — | — | 3,749 |
| Costs of disposal of listed securities | — | — | — | (2,800) | — | — | (2,800) |
| Net unrealised losses on trading securities | — | — | — | (552) | — | — | (552) |
| At 31 December 2016 | | | | | | | |
| Segment assets (Unaudited) | — | 614,608 | 23,891 | 7,229 | 135,702 | 33,741 | 815,171 |
| Segment liabilities (Unaudited) | — | 1,144 | 162 | 467 | 569 | 873 | 3,215 |
| For the six months ended 31 December 2015 | | | | | | | |
| Revenue from external customers | — | — | 126 | — | 1,600 | 2,000 | 3,726 |
| Segment profit/(loss), comprising: | (348) | (11,428) | 135 | (31,409) | 869 | (2,302) | (44,483) |
| Loss arising from changes in fair value less costs to sell of biological assets | — | (8,636) | — | — | — | — | (8,636) |
| Depreciation and amortisation | (2) | (2,567) | — | (300) | (562) | — | (3,431) |
| Proceeds from disposal of listed securities | — | — | — | 19,317 | — | — | 19,317 |
| Costs of disposal of listed securities | — | — | — | (44,162) | — | — | (44,162) |
| Net unrealised losses on trading securities | — | — | — | (5,679) | — | — | (5,679) |
| At 30 June 2016 | | | | | | | |
| Segment assets (Audited) | 69 | 657,635 | 13,072 | 14,014 | 137,280 | 33,512 | 855,582 |
| Segment liabilities (Audited) | 4,860 | 1,182 | 39 | 467 | 487 | 1,075 | 8,110 |

Reconciliations of reportable segment profit or loss:

| | Six months ended 31 December | |
|-----------------------------------|-------------------------------------|--------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Total loss of reportable segments | (21,005) | (44,483) |
| Other profit or loss: | | |
| Finance costs | — | (661) |
| Income tax credit | 3,488 | 7,928 |
| Corporate and unallocated loss | (3,257) | (15,802) |
| | <hr/> | <hr/> |
| Consolidated loss for the period | (20,774) | (53,018) |
| | <hr/> <hr/> | <hr/> <hr/> |

6. FINANCE COSTS

| | Six months ended 31 December | |
|------------------------------|-------------------------------------|--------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interests on promissory note | — | 661 |
| | <hr/> | <hr/> |

7. INCOME TAX CREDIT

| | Six months ended 31 December | |
|-------------------------------------|-------------------------------------|--------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Current tax — Hong Kong Profits Tax | 145 | 253 |
| Deferred tax | (3,633) | (8,181) |
| | <hr/> | <hr/> |
| | (3,488) | (7,928) |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong Profits Tax has been provided at a rate of 16.5% (Six months ended 31 December 2015: 16.5%) on the estimated assessable profits for six months ended 31 December 2016. Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC is 25% (Six months ended 31 December 2015: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on the existing legislation, interpretation and practices in respect thereof.

8. LOSS FOR THE PERIOD

The Group’s loss for the period is stated after crediting the following:

| | Six months ended 31 December | |
|---|-------------------------------------|--------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Gain on deregistration of a subsidiary included in other income | 4,864 | — |
| | <hr/> | <hr/> |

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$20,486,000 (Six months ended 31 December 2015: HK\$52,809,000) and the weighted average of 1,697,138,114 ordinary shares (Six months ended 31 December 2015: 1,301,966,245) in issue during the period.

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the period ended 31 December 2016 and 2015.

10. INTERIM DIVIDENDS

The board of Directors has resolved not to declare an interim dividend for the six months ended 31 December 2016 (Six months ended 31 December 2015: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2016, the Group acquired furniture, fixtures and equipment of approximately HK\$113,000 (Six months ended 31 December 2015: HK\$3,563,000).

12. TRADE AND OTHER RECEIVABLES

| | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|---|--|--|
| Trade receivables | 2,921 | 4,873 |
| Prepayments, deposits and other receivables | 29,449 | 17,178 |
| | <u>32,370</u> | <u>22,051</u> |

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, was as follows:

| | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|-------------|--|--|
| 0-90 days | 114 | 177 |
| 91-180 days | 2,807 | 4,696 |
| | <u>2,921</u> | <u>4,873</u> |

13. LOANS RECEIVABLE

| | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|------------------|--|--|
| Loans receivable | <u>17,817</u> | <u>13,072</u> |

Loans receivable as at 31 December 2016 included (i) a short-term personal loan granted to an independent individual during the period which is unsecured, bearing interest at 9% per annum and repayable within six months; (ii) a corporate short-term loan granted to an independent company which is secured over its own shares, bearing interest at 12% per annum. The loan was due and has been extended to 30 August 2017 according to a supplemental agreement signed during the period; and (iii) a corporate short-term loan granted to an independent company during the period which is unsecured, bearing interest at 9% per annum and repayable with six months term.

As at 31 December 2016, loans receivable were neither past due nor impaired.

14. REFUNDABLE SECURED DEPOSIT

| | <i>HK\$'000</i> (Unaudited) |
|--|--------------------------------|
| At the beginning and the end of reporting period | <u>70,000</u> |

The Group entered into a sale and purchase agreement and a supplemental agreement on 27 November 2013 and 16 December 2013, respectively, with an independent third party in relation to the acquisition of 100% equity interest of a target company and its subsidiaries which are mainly engaged in hotel operations in the PRC (the "Proposed Acquisition"). On 23 December 2013, an amount of HK\$150,000,000 was paid by the Group as refundable deposit. The refundable deposit is charged over the entire issued share capital of a Hong Kong subsidiary of the target company and was classified as secured deposit for acquisition of subsidiaries as at 30 June 2014.

According to the Company's announcement dated 28 October 2014, the Group and the vendor entered into a termination agreement to terminate the Proposed Acquisition because certain conditions precedent of the Proposed Acquisition have not been satisfied. Pursuant to the termination agreement, the Group and the vendor agreed that the refundable deposit shall be refunded to the Group by three installments including HK\$60,000,000; HK\$45,000,000; and HK\$45,000,000, repayable on 10 November 2014, 27 January 2015 and 27 April 2015, respectively. The first installment of HK\$60,000,000 was received by the Company on 7 November 2014.

According to the Company's announcement dated 18 June 2015, the Group and the vendor entered into a supplemental termination agreement to amend certain terms of the termination agreement relating to the refund of the remaining refundable deposit. Pursuant to the supplemental termination agreement, the Group and the vendor have agreed that the remaining refundable deposit shall be refunded to the Group by two installments including HK\$20,000,000 and HK\$70,000,000, together with respective interest as calculated at 5% per annum, repayable on 18 June 2015 and 19 November 2015, respectively. The second installment of HK\$20,000,000 together with interest was received by the Company on 18 June 2015. The last instalment together with the interest was overdue as at 31 December 2016.

The Directors of the Company are still in negotiation with the vendor over the repayment arrangement of the subject outstanding amount. An impairment review over the recoverability of the subject amount has been carried out by the Company. Since the recoverable amount of the secured assets as estimated by the Directors of the Company, after taking into account of the valuation as performed by an independent professional valuer and the current property market in the PRC, exceeded the carrying amount of the subject outstanding amount, the Directors are in the opinion that it is appropriate not to make any impairment provision in respect to the subject amount as at 31 December 2016.

15. TRADE AND OTHER PAYABLES

| | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|-----------------------------|--|--|
| Trade payables | 12 | 144 |
| Other payables and accruals | 8,617 | 9,114 |
| | <u>8,629</u> | <u>9,258</u> |

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

| | As at 31 December 2016 <i>HK\$'000</i> (Unaudited) | As at 30 June 2016 <i>HK\$'000</i> (Audited) |
|-----------|--|--|
| 0–90 days | 12 | 144 |

16. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The existing share option scheme of the Company was approved on 11 November 2015 (“Share Option Scheme”) (the 10% general limit under the said share option scheme has been refreshed pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 11 November 2015). 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 Board may, at their discretion, invite any participant to take up options. An option is deemed to have been granted and accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Share Option Scheme will be the highest of (i) the closing price of the shares in the Company as stated in the Stock Exchange’s daily quotations sheet on the offer date (which date must be a business day); (ii) a price being the average of the closing prices of the shares in the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The total number of shares in the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in the Company in issue as at the date of approval of the Share Option Scheme. An option may be exercised during a period to be determined by the directors in its absolute discretion and in any such period shall not be longer than 10 years from the date upon which the option is granted.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders’ approval in general meeting with such participant and his or her associates abstaining from voting. The Share Option Scheme will remain in force for a period of 10 years from the date upon which the Option is deemed to be granted and accepted.

Details of the specific categories of options are as follows:

| Participants | Date of grant | Exercise period | Exercise price per share | Number of share options | | |
|--|---------------|---------------------|--------------------------|-----------------------------------|--|---------------------------------------|
| | | | | Balance as at 30 June 2016 ('000) | Granted/ (exercised) during the period | Balance as at 31 December 2016 ('000) |
| Options granted to directors | 22/4/2016 | 22/4/2016–21/4/2026 | 0.2064 | 42,428 | — | 42,428 |
| Options granted to chief executive officer | 22/4/2016 | 22/4/2016–21/4/2026 | 0.2064 | 14,143 | — | 14,143 |
| Options granted to an employee | 22/4/2016 | 22/4/2016–21/4/2026 | 0.2064 | 14,143 | — | 14,143 |
| | | | | <u>70,714</u> | <u>—</u> | <u>70,714</u> |
| Weighted average exercise price (HK\$) | | | | <u>0.2064</u> | | <u>0.2064</u> |

17. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in these Interim Financial Statements, the Group entered into the following material related party transactions.

| | Six months ended 31 December | |
|-----------------|---------------------------------|---------------------------------|
| | 2016 HK\$'000 (Unaudited) | 2015 HK\$'000 (Unaudited) |
| Rental expenses | <u>869</u> | <u>664</u> |

Rental expenses were paid to a company in which the mother of Mr. Yeung Chi Hang, Chairman and Chief Executive Director of the Company has 50% indirect equity interest.

- (b) Key management personnel remuneration

| | Six months ended 31 December | |
|-------------------------|---------------------------------|---------------------------------|
| | 2016 HK\$'000 (Unaudited) | 2015 HK\$'000 (Unaudited) |
| Directors' remuneration | <u>2,346</u> | <u>1,346</u> |

18. APPROVAL OF FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 27 February 2017.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2016 (six months ended 31 December 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

The Group is currently engaged in motor trading, car parking spaces rental, money lender business and trading and investment business. The Group also maintain 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 current business.

The Group operates Plantation Land of approximately 30,000 mu (Chinese Mu) in Shihezi City, Xinjiang. The underground water level of the region dropped drastically in recent years due to over-exploitation of farmland, resulting in a shortage of water resources. The irrigation in Xinjiang relies heavily on underground water, because the supply of surface water is far below the demand for plantation irrigation, thus creating difficulties for hydraulic engineering projects for plantation areas and driving up the operating costs.

As the construction industry in China is shrinking, the demand for housing construction materials decreases and the prices of timber are going downward in short-term. Therefore, the Group adopted a conservative investment approach towards its plantation management, under which the Group reduced its investment in reforestation and only conducted basic maintenance measures.

The Group has started its motor trading business during the financial year ended 30 June 2016 by introducing the world's first road legal, within a captivating package of formula car-inspired technology remarkable performance, breath-taking design and ultra light-weight single seat supercar "BAC Mono". The Group also started its trading in a United Kingdom motorcycle marque "Norton" which is highly regarded road motorcycle and in a Italian unique brand "Bimota".

The Group acquired a subsidiary which directly holds, inter alia, 95 car parking spaces located in Kennedy Town, Hong Kong during the financial year ended 30 June 2016. In view of recent surge in market price of car parking spaces in Hong Kong, the prospect of car parking spaces in Hong Kong is positive. The car parking spaces rental can broaden the Group's source of income.

Although global economy will still be uncertain and volatile in coming years, the luxury goods market, especially the supercar segment is stable and rising. The Group is of the view that the motor trading business will bring positive contribution to the Group and will allocate appropriate resource to further develop this business segment.

For the six months ended 31 December 2016, turnover of the Group increased by 81% to HK\$6,748,000 (2015: HK\$3,726,000) and gross profit of HK\$3,543,000 (2015: HK\$1,958,000) was recorded. Loss for the six months ended 31 December 2016 arrived at HK\$20,774,000 as compared to loss of HK\$53,018,000 of corresponding period of last year.

For the six months ended 31 December 2016, basic and diluted loss per share was HK\$1.21 cents (2015: HK\$4.06 cents). Loss from changes in fair value of biological assets was HK\$12,056,000 (2015: HK\$8,636,000). No finance costs recorded for the six months ended 31 December 2016 (2015: HK\$661,000). Administrative expenses from operations for the six months ended 31 December 2016 decreased to approximately HK\$21,414,000 (2015: HK\$23,142,000). It included major items such as amortization of intangible asset of approximately HK\$2,416,000, salaries and directors' emoluments of approximately HK\$4,880,000, operating lease charges on land and buildings of approximately HK\$2,029,000, legal and professional fees of approximately HK\$1,262,000, forest plantation maintenance fee of approximately HK\$2,500,000 and others of HK\$8,327,000. Income tax credits were recorded at HK\$3,488,000 (2015: HK\$7,928,000). Exchange differences on translating foreign operations was recorded at HK\$21,099,000 (2015: HK\$25,494,000).

Motor Trading

In view of an increasing demand of supercars in Hong Kong, on 10 August 2015, the Group firstly commenced its distribution business of specialist sport cars of United Kingdom brand and extended the scope with motorcycles and accessories. At the second quarter of 2016, the Group further commenced to distribute United Kingdom and Italian Brands motorcycles and related accessories. For the six month ended 31 December 2016, the sales of trading of motor vehicles and motorcycles recorded HK\$4,128,000 (2015: HK\$2,000,000).

Car Parking Spaces Rental

On 3 July 2015, the Group completed a major and connected transaction, namely, the acquisition of the entire issued share capital and shareholder's loan of the newly acquired subsidiary which directly holds, inter alia, 95 car parking spaces located in Kennedy Town, Hong Kong. For the six months ended 31 December 2016, rental income recorded was approximately HK\$1,783,000 (2015: HK\$1,600,000).

Money Lending Business

On 18 December 2014, the Group obtained the money lenders license. The Directors consider it will be beneficial to the Company to explore new opportunities in the money lending business to broaden its source of income and expand the business operations in order to generate profits and return for the Company and the Shareholders. For the six months ended 31 December 2016, loan interest income was recorded approximately HK\$837,000 (2015: HK\$126,000).

Trading and Investment Business

In view of the launch of Shanghai-Hong Kong Stock Connect and to have a better utilization of the Group's funding resources, the Group started trading in securities in 2014. The Group's trading securities are measured at fair value, which are based on their quoted prices in the securities market. The volatility of the securities market may have adverse effect to the performance of the Group after the year ended 30 June 2016. For the six months ended 31 December 2016, the net gain on fair value changes on financial assets at fair value through profit or loss was recorded HK\$397,000 (2015: net loss of HK\$30,524,000).

Plantation Products

For the six months ended 31 December 2016, the trading business of plantation products recorded no turnover (2015: Nil).

Green Technology

For the six months ended 31 December 2016, technology income recorded no turnover (2015: Nil).

PROSPECTS

In view of the challenging economic and business environment, the management of the Group continued to review its existing businesses from time to time and strived to improve the business operation and financial position of the Group.

In this regards, on 3 July 2015, the Group completed a major and connected transaction, namely, the acquisition of the entire issued share capital and shareholder's loan of the newly acquired subsidiary which directly holds, inter alia, 95 car parking spaces located in Kennedy Town, Hong Kong. The acquisition generated stable and continuous income and cash flow to the Group. The Group is considering to enhance the value of the car parking spaces and maximize the return of the Group.

In addition, at August 2015, the Group commenced its motor trading business including distribution of United Kingdom brand of supercar; and United Kingdom and Italian Brands motorcycles and related accessories. This business segment became major revenue generator for the period ended 31 December 2016 and the Group will continue to allocate more resource and effort to develop this segment.

It has been the business strategy of the Group to proactively seek potential investment opportunities in order to enhance value of the shareholders of the Company. The directors of the Company consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio into new line of business with growth potential and to broaden its source of income.

SHARE CAPITAL

As at 31 December 2016, the total number of issued shares capital of the Company comprised 1,697,138,114 ordinary shares of HK\$0.02 each (30 June 2016: 1,697,138,114 ordinary shares of HK\$0.02 each).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$57,148,000 (30 June 2016: approximately HK\$81,359,000). As at 31 December 2016, the Group's current assets amounted to approximately HK\$188,554,000 (30 June 2016: HK\$200,491,000) and current liabilities amounted to approximately HK\$11,951,000 (30 June 2016: HK\$17,234,000). The Group's net current assets, being its current assets minus its current liabilities, amounted to approximately HK\$176,603,000 (30 June 2016: HK\$183,257,000). The Group had no borrowing and the gearing ratio of the Group calculated as total borrowings divided by total equity was nil as at 31 December 2016 (30 June 2016: Nil).

As at 31 December 2016, there was no capital commitment.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group conducted most of its business in Great British Pound, Renminbi (“RMB”) and Hong Dollars for the six months period ended 31 December 2016. The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 31 December 2016, the Group had a minimal exposure to foreign currency risk as most of its business transactions were principally denominated in the respective functional currencies used by the respective group entities.

The Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

CHARGE ON THE GROUP’S ASSETS

As at 31 December 2016, there was no charge on the Group’s assets (30 June 2016: Nil).

CAPITAL RAISING

During the period ended 31 December 2016, the Group did not have any capital raising activity.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2016.

MAJOR ACQUISITION AND DISPOSAL

During the period, there was no material acquisition or disposal of subsidiaries or associated corporation of the Company.

HUMAN RESOURCES AND REMUNERATION POLICY

The Group had approximately 28 employees in Hong Kong and the PRC as at 31 December 2016. 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.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the six months ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s shares.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in the Appendix 14 of the Listing Rules for the six months ended 31 December 2016, except the followings:

Code provision A.2.1 of the CG Code provides that the role of chairman of the board and chief executive should be separate and should not be performed by the same individual. This code provision also stipulate, inter alia, the role and responsibility of the chairman of the board and the chief executive.

Mr. Yeung Chi Hang was appointed as chairman of the Board and the chief executive officer of the Company on 27 January 2015. Thereafter, Mr. Yeung Chi Hang has assumed both roles.

The directors were of the view that the vesting of the roles of chairman of the Board and chief executive officer in the same person can provide the Group with strong and consistent leadership and allow for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The directors were also of the view that the present structure was considered to be appropriate under the circumstances of the Company. The Board would keep review of its current board structure from time to time.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Mr. Yeung Chi Hang was unable to attend the annual general meeting of the Company held on 9 November 2016 due to business trips. Mr. Wong Po Keung, an executive director, was elected and acted as chairman of the said annual general meeting.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by directors of the Company. 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 2016.

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, internal controls and risk management systems. 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 2016. The audit committee of the Company currently comprises three independent non-executive directors of the Company, namely Mr. Ong Chi King (Chairman), Mr. Wong Kwai Sang and Mr. Heung Chee Hang, Eric.

By Order of the Board
China Environmental Resources Group Limited
YEUNG CHI HANG
Chairman and Chief Executive Officer

Hong Kong, 27 February 2017

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Yeung Chi Hang, Mr. Leung Kwong Choi, Mr. Wong Po Keung, Mr. Chung Siu Wah and Mr. Chik To Pan; and three independent non-executive Directors namely Mr. Wong Kwai Sang, Mr. Ong Chi King and Mr. Heung Chee Hang, Eric.