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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 2017**

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 2017 together with the comparative figures for the corresponding period in 2016. 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 2017

	Notes	Six months ended 31 December	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	5	41,190	6,748
Cost of sales		<u>(35,815)</u>	<u>(3,205)</u>
Gross profit		5,375	3,543
Other income		2,023	5,268
Administrative and operating expenses		(26,790)	(21,414)
Net (loss)/gain on fair value changes on financial assets at fair value through profit or loss		(45)	397
Loss arising from changes in fair value less costs to sell of biological assets		(21,022)	(12,056)
Loss on settlement of promissory note	16	<u>(1,144)</u>	<u>—</u>
Loss from operations		(41,603)	(24,262)
Finance costs	6	<u>(443)</u>	<u>—</u>
Loss before tax		(42,046)	(24,262)
Income tax credit	7	<u>5,704</u>	<u>3,488</u>
Loss for the period	8	(36,342)	(20,774)
Other comprehensive income/(loss): <i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>19,948</u>	<u>(21,099)</u>
Other comprehensive income/(loss) for the period, net of tax		<u>19,948</u>	<u>(21,099)</u>
Total comprehensive loss for the period		<u><u>(16,394)</u></u>	<u><u>(41,873)</u></u>

	Six months ended	
	31 December	
	2017	2016
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to:		
Owners of the Company	(35,075)	(20,486)
Non-controlling interests	<u>(1,267)</u>	<u>(288)</u>
	<u>(36,342)</u>	<u>(20,774)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(15,127)	(41,585)
Non-controlling interests	<u>(1,267)</u>	<u>(288)</u>
	<u>(16,394)</u>	<u>(41,873)</u>
Loss per share	<i>9</i>	
Basic (<i>HK cents per share</i>)	<u>(2.07)</u>	<u>(1.21)</u>
Diluted (<i>HK cents per share</i>)	<u>(2.07)</u>	<u>(1.21)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December 2017	As at 30 June 2017
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>11</i>	11,662	4,087
Investment properties		206,305	210,845
Biological assets		506,317	506,022
Intangible assets		105,568	103,635
Goodwill		1,087	1,087
		<hr/> 830,939	<hr/> 825,676
Current assets			
Inventories		23,103	13,356
Trade and other receivables	<i>12</i>	48,392	28,602
Loans receivable	<i>13</i>	14,660	25,899
Financial assets at fair value through profit or loss		1,217	1,264
Refundable secured deposit	<i>14</i>	12,000	70,000
Cash and cash equivalents		7,487	13,015
		<hr/> 106,859	<hr/> 152,136
Current liabilities			
Trade and other payables	<i>15</i>	21,807	17,153
Current tax liabilities		3,510	3,460
		<hr/> 25,317	<hr/> 20,613
Net current assets		<hr/> 81,542	<hr/> 131,523
Total assets less current liabilities		<hr/> 912,481	<hr/> 957,199

		As at 31 December 2017 <i>HK\$'000</i> (Unaudited)	As at 30 June 2017 <i>HK\$'000</i> (Audited)
Non-current liabilities			
Deferred tax liabilities		152,971	152,414
Promissory note	<i>16</i>	—	28,881
		<u>152,971</u>	<u>181,295</u>
NET ASSETS		<u>759,510</u>	<u>775,904</u>
Capital and reserves			
Share capital		33,943	33,943
Reserves		<u>713,243</u>	<u>728,370</u>
Equity attributable to owners of the Company		747,186	762,313
Non-controlling interests		<u>12,324</u>	<u>13,591</u>
TOTAL EQUITY		<u>759,510</u>	<u>775,904</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2017

	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 interests	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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>
At 1 July 2017 (audited)	33,943	1,133,156	5,407	76	6,923	37,433	(454,625)	762,313	13,591	775,904
Total comprehensive loss for the period (unaudited)	—	—	—	—	—	19,948	(35,075)	(15,127)	(1,267)	(16,394)
At 31 December 2017 (unaudited)	<u>33,943</u>	<u>1,133,156</u>	<u>5,407</u>	<u>76</u>	<u>6,923</u>	<u>57,381</u>	<u>(489,700)</u>	<u>747,186</u>	<u>12,324</u>	<u>759,510</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2017

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<u>(26,153)</u>	<u>(19,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,768)	(113)
Refund of deposit paid in relation to acquisition of a subsidiary	60,000	—
Deposit paid in relation to proposed acquisition of a target company	<u>—</u>	<u>(5,000)</u>
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	<u>51,232</u>	<u>(5,113)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of promissory note	<u>(30,468)</u>	<u>—</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(30,468)</u>	<u>—</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,389)	(24,286)
Effect of foreign exchange rate changes	(139)	75
Cash and cash equivalents at beginning of period	<u>13,015</u>	<u>81,359</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>7,487</u></u>	<u><u>57,148</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

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 Uglan 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 referred to as the “Group”) for the six months ended 31 December 2017 are metal recycle business, 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.

The unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) are presented in Hong Kong dollars (“HK\$”) which is the Group’s presentation currency and the functional currency of the Company and its principal operating subsidiaries.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting period beginning on 1 July 2017. 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 interim financial statements and amounts reported for the current 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 these 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.

3. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by 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 and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 30 June 2017.

The preparation of Interim Financial Statements in conformity with HKAS 34 requires management to make judgements, 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 consolidated financial statements for the year ended 30 June 2017.

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 2017:

Description	Fair value measurements using:			Total <i>HK\$'000</i> (Unaudited)
	Level 1 <i>HK\$'000</i> (Unaudited)	Level 2 <i>HK\$'000</i> (Unaudited)	Level 3 <i>HK\$'000</i> (Unaudited)	
Recurring fair value measurements:				
Biological assets	—	506,317	—	506,317
Financial assets at fair value through profit or loss	<u>1,217</u>	<u>—</u>	<u>—</u>	<u>1,217</u>
Total recurring fair value measurements	<u>1,217</u>	<u>506,317</u>	<u>—</u>	<u>507,534</u>

Disclosures of level in fair value hierarchy at 30 June 2017:

Description	Fair value measurements using:			Total <i>HK\$'000</i> (Audited)
	Level 1 <i>HK\$'000</i> (Audited)	Level 2 <i>HK\$'000</i> (Audited)	Level 3 <i>HK\$'000</i> (Audited)	
Recurring fair value measurements:				
Biological assets	—	506,022	—	506,022
Financial assets at fair value through profit or loss	<u>1,264</u>	<u>—</u>	<u>—</u>	<u>1,264</u>
Total recurring fair value measurements	<u>1,264</u>	<u>506,022</u>	<u>—</u>	<u>507,286</u>

- (b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's management is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes. The management reports directly to the board of directors for these fair value measurements. Discussions of valuation processes and results are held between the management and the directors at least twice a year.

The following table gives information about how the fair values of the Group's biological assets carried at fair value are determined.

Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value as at 31 December 2017 <i>HK\$'000</i> (Unaudited)	Fair value as at 30 June 2017 <i>HK\$'000</i> (Audited)
Biological assets	Market approach	Market price of poplar trees per m ³ of RMB656 (As at 30 June 2017: RMB674)	506,317	506,022

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue mainly represents sales of motor vehicles and related accessories and recycled metals, loan interest income and rental income from car parking spaces.

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 gain on deregistration of a subsidiary, finance costs, loss on settlement of promissory note and income tax credit. Segment assets do not include refundable secured deposit. Segment liabilities do not include deferred tax liabilities and promissory note.

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

	Metal recycle business HK\$'000 (Unaudited)	Trading of motor vehicles HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Provision of financial services HK\$'000 (Unaudited)	Securities trading and investment HK\$'000 (Unaudited)	Sales of plantation materials and products HK\$'000 (Unaudited)	Green technology advisory services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
For the six months ended								
31 December 2017								
Revenue from external customers	<u>35,650</u>	<u>2,628</u>	<u>1,879</u>	<u>1,033</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,190</u>
Segment (loss)/profit comprising:	374	(3,559)	(5,766)	1,024	(52)	(25,308)	—	(33,287)
Loss arising from changes in fair value less costs to sell of biological assets	—	—	—	—	—	(21,022)	—	(21,022)
Depreciation and amortisation	(357)	(314)	(5,334)	—	—	(2,472)	—	(8,477)
Proceeds from disposal of listed securities	—	—	—	—	2	—	—	2
Costs of disposal of listed securities	—	—	—	—	(2)	—	—	(2)
Net unrealised losses on trading securities	—	—	—	—	(45)	—	—	(45)
At 31 December 2017								
Segment assets (Unaudited)	<u>28,245</u>	<u>35,115</u>	<u>208,043</u>	<u>15,382</u>	<u>1,972</u>	<u>611,960</u>	<u>—</u>	<u>900,717</u>
Segment liabilities (Unaudited)	<u>672</u>	<u>3,361</u>	<u>2,899</u>	<u>511</u>	<u>467</u>	<u>3,016</u>	<u>—</u>	<u>10,926</u>
For the six months ended								
31 December 2016								
Revenue from external customers	<u>—</u>	<u>4,128</u>	<u>1,783</u>	<u>837</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,748</u>
Segment (loss)/profit comprising:	—	(2,879)	(1,626)	800	29	(17,045)	(284)	(21,005)
Loss arising from changes in fair value less costs to sell of biological assets	—	—	—	—	—	(12,056)	—	(12,056)
Depreciation and amortisation	—	(293)	(2,244)	—	(250)	(2,416)	—	(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 30 June 2017								
Segment assets (Audited)	<u>—</u>	<u>32,966</u>	<u>215,126</u>	<u>26,478</u>	<u>5,784</u>	<u>609,729</u>	<u>—</u>	<u>890,083</u>
Segment liabilities (Audited)	<u>—</u>	<u>903</u>	<u>2,917</u>	<u>343</u>	<u>467</u>	<u>1,197</u>	<u>—</u>	<u>5,827</u>

Reconciliations of reportable segment profit or loss:

	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total loss of reportable segments	(33,287)	(21,005)
Other profit or loss:		
Finance costs	(443)	—
Loss on settlement of promissory note	(1,144)	—
Gain on deregistration of a subsidiary	—	4,864
Income tax credit	5,704	3,488
Corporate and unallocated loss	(7,172)	(8,121)
	<u>(36,342)</u>	<u>(20,774)</u>

6. FINANCE COSTS

	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on promissory note	443	—
	<u>443</u>	<u>—</u>

7. INCOME TAX CREDIT

	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — Hong Kong Profits Tax	169	145
Deferred tax	(5,873)	(3,633)
	<u>(5,704)</u>	<u>(3,488)</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 31 December 2016: 16.5%) on the estimated assessable profits for the six months ended 31 December 2017.

No provision for overseas taxation is required since the Group has no assessable profit arisen from its operations outside Hong Kong during the six months ended 31 December 2017 (six months ended 31 December 2016: Nil).

8. LOSS FOR THE PERIOD

This is stated at after charging the following:

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Gain on deregistration of a subsidiary included in other income	—	4,864

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$35,075,000 (six months ended 31 December 2016: HK\$20,486,000) and the weighted average of 1,697,138,114 (six months ended 31 December 2016: 1,697,138,114) ordinary shares 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 2017 and 2016.

10. INTERIM DIVIDENDS

The directors have resolved not to declare an interim dividend for the six months ended 31 December 2017 (six months ended 31 December 2016: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2017, the Group acquired property, plant and equipment of approximately HK\$8,768,000 (six months ended 31 December 2016: HK\$113,000).

12. TRADE AND OTHER RECEIVABLES

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
	Trade receivables	8,510
Prepayments, deposits and other receivables	39,882	27,830
	<u>48,392</u>	<u>28,602</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. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables, based on the invoice date, is as follows:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
0–90 days	7,760	758
91–180 days	8	10
181–360 days	740	2
Over 360 days	2	2
	<u>8,510</u>	<u>772</u>

13. LOANS RECEIVABLE

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Loans receivable, secured	—	7,500
Loans receivable, unsecured	13,990	17,510
Loan interests receivable, secured	—	446
Loan interests receivable, unsecured	670	443
	<u>14,660</u>	<u>25,899</u>

The loans granted to independent individuals and companies are interest bearing at 9%–12% (30 June 2017: 5%–12%) per annum and 9%–12% (30 June 2017: 9%–12%) per annum, respectively. The directors monitored the collectibility of the receivables closely with reference to their respective current creditworthiness and repayment records.

The ageing analysis of these loans and interests receivable, based on loan commencement or renewal date set out in the relevant contracts, is as follows:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
0–90 days	—	7,634
91–180 days	10,135	10,319
181–360 days	4,525	7,946
	14,660	25,899

14. REFUNDABLE SECURED DEPOSIT

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 People's Republic of China (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 was 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 installment together with the interest was overdue as at 30 June 2016. During the year ended 30 June 2017, the Company received interest income of HK\$5,830,000. During the six months ended 31 December 2017, the Company received deposit refund of HK\$58,000,000 together with interest income of HK\$2,000,000.

No provision for impairment has been made on the outstanding refundable deposit as at the end of reporting period as the directors of the Company are of the opinion that the deposit is fully recoverable.

15. TRADE AND OTHER PAYABLES

	As at 31 December 2017 <i>HK\$'000</i> (Unaudited)	As at 30 June 2017 <i>HK\$'000</i> (Audited)
Trade payables	539	3
Other payables and accruals	<u>21,268</u>	<u>17,150</u>
	<u><u>21,807</u></u>	<u><u>17,153</u></u>

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

	As at 31 December 2017 <i>HK\$'000</i> (Unaudited)	As at 30 June 2017 <i>HK\$'000</i> (Audited)
0–90 days	<u>539</u>	<u>3</u>

16. PROMISSORY NOTE

On 6 June 2017, the Company acquired industrial properties by issuing Promissory Note (“PN”) with a principal amount of HK\$30,000,000 as partial settlement of the consideration. The fair value of the PN was assessed to be approximately HK\$28,720,000 on 6 June 2017 by Roma Appraisals Limited, which comprises a group of independent professional valuers. The PN is unsecured, denominated in HK\$, interest bearing at a fixed rate of 6% per annum and mature on 5 June 2019.

On initial recognition, the fair value of the PN is determined based on the present value of the contractual stream of future cash flows discounted at 8.08% per annum. The discount rate is determined with reference to the yield rate with credit rating and duration similar to the PN.

The movement of the carrying amount of the PN for the period/year is set out below:

	Six months ended 31 December 2017 <i>HK\$'000</i> (Unaudited)	Year ended 30 June 2017 <i>HK\$'000</i> (Audited)
At beginning of the reporting period	28,881	—
PN issued on 6 June 2017	—	28,720
Interest charged calculated at effective interest rate	443	161
Loss on settlement of PN	1,144	—
Repayment of PN	<u>(30,468)</u>	<u>—</u>
At end of the reporting period	<u><u>—</u></u>	<u><u>28,881</u></u>

17. 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 directors 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	
				Granted on 22 April 2016 (HK\$)	Balance as at 1 July 2017 and 31 December 2017
Options granted to directors	22 April 2016	22 April 2016–21 April 2026	0.2064	42,428,451	42,428,451
Options granted to chief executive officer	22 April 2016	22 April 2016–21 April 2026	0.2064	14,142,817	14,142,817
Options granted to an employee	22 April 2016	22 April 2016–21 April 2026	0.2064	14,142,817	14,142,817
				<u>70,714,085</u>	<u>70,714,085</u>
Weighted average exercise price (HK\$)					<u>0.2064</u>

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Rental expenses	<u>1,042</u>	<u>869</u>

Rental expenses were paid to a company of 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	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Directors' remuneration	<u>2,286</u>	<u>2,346</u>

19. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the directors on 27 February 2018.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2017 (six months ended 31 December 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

The Group is currently engaged in metal recycle business, motor trading, car parking spaces rental, money lender business and securities trading and investment business. The Group also maintains 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. The Group is conducting studies with a view to devise a plan to reconstruct and upgrade the facilities of the plantation land. Alternatively, the Group is seeking a similar plantation/forestry to exchange the plantation land.

As the construction industry in China is shrinking, the demand for housing construction materials decreases and the market price of polar trees continued to drop. The drop was RMB18 from a market price of RMB674 per m³ at 30 June 2017 to RMB656 per m³ as at 31 December 2017 which was the slightest decrease in price in the past financial years. The Group still adopted a conservative investment approach towards its plantation management, under which the Group reduced its investment in reforestation and only conducted basic maintenance measures.

In view of the anticipated growth in the green business, the Group has extended its green business to the trading of recycled material during the six months ended 31 December 2017, it broadened the Group's revenue base and became major revenue contributor.

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" which has fulfilled the requirement imposed by Transport Department of HKSAR and officially road legally in Hong Kong. The Group also started its trading in a United Kingdom motorcycle marque "Norton" which is highly regarded road motorcycle, a Italian unique brand "Bimota", a Sweden famous and highly recognized motorcycle component "Öhlins" and other motorcycle related accessories.

The Group acquired 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 holding car parking spaces as investment in Hong Kong is positive. The car parking spaces rental provides a stable source of income to the Group.

The Group is considering ways to make best use of the industrial properties in Dongguan City, the PRC, which was acquired by the Group during the financial year ended 30 June 2017.

For the six months ended 31 December 2017, turnover of the Group increased by 510% to HK\$41,190,000 (2016: HK\$6,748,000) and gross profit of HK\$5,375,000 (2016: HK\$3,543,000) was recorded. Loss for the six months ended 31 December 2017 increased to HK\$36,342,000 as compared to loss of HK\$20,774,000 of corresponding period of last period.

For the six months ended 31 December 2017, basic and diluted loss per share were HK\$2.07 cents (2016: HK\$1.21 cents). Loss from changes in fair value of biological assets was HK\$21,022,000 (2016: HK\$12,056,000).

For the six months ended 31 December 2017, the finance costs were HK\$443,000 (2016: Nil).

Administrative expenses from operations for the six months ended 31 December 2017 increased to approximately HK\$26,790,000 (2016: HK\$21,414,000). It included major items such as amortization of intangible asset of approximately HK\$2,472,000, salaries and directors' emoluments of approximately HK\$5,777,000, operating lease charges on land and buildings of approximately HK\$2,585,000, legal and professional fees of approximately HK\$1,746,000, forest plantation maintenance fee of approximately HK\$1,750,000 and others of HK\$12,460,000. Income tax credit was recorded at HK\$5,704,000 (2016: HK\$3,488,000). Exchange gain on translating foreign operations was recorded at HK\$19,948,000 (2016: loss of HK\$21,099,000).

Recycled Material Trading

In view of there being a market for recycled material in Hong Kong, PRC and other regions, the Group extended its green business to the trading of recycled material during the reported period and for the six months ended 31 December 2017, this segment recorded a revenue of approximately HK\$35,650,000 (2016: Nil)

Motor Trading

There was a drop of revenue in motor trading. The main reason was due to increasing demand of BAC Mono worldwide and the manufacturer delayed production of our orders resulting in no sale of BAC Mono for the six months ended 31 December 2017. The main revenue generator for motor trading was sales of “Öhlins” motorcycle component. For the six months ended 31 December 2017, the sale of motor trading recorded a revenue of approximately HK\$2,628,000 (2016: HK\$4,128,000).

Car Parking Spaces Rental

The car parking spaces continued to provide a stable income and cash flow to the Group. Refurbishment of the car parking spaces to enhance the property value and/or operate the car parking spaces by the Group itself to enhance rental revenue are still under consideration. For the six months ended 31 December 2017, rental income recorded was approximately HK\$1,879,000 (2016: HK\$1,783,000).

Money Lending Business

The money lending business continued to generate income to the Group. For the six months ended 31 December 2017, loan interest income was recorded approximately HK\$1,033,000 (2016: HK\$837,000).

Trading and Investment Business

For the six months ended 31 December 2017, the net loss on fair value changes on financial assets at fair value through profit or loss was recorded HK\$45,000 (2016: net gain of HK\$397,000).

Plantation Products

For the six months ended 31 December 2017, the trading business of plantation products recorded no turnover (2016: Nil).

Green Technology

For the six months ended 31 December 2017, technology income recorded no turnover (2016: Nil).

PROSPECTS

The management of the Group has continued to review its existing business from time to time and strived to improve the business operation and financial position of the Group.

The Group has been negotiating with a Hong Kong bank for banking facilities and an indicated offer had been agreed. Upon the banking facilities being formalised and available, they will certainly help to improve the trading position of the Group especially in motor trading and recycled material trading.

The Group started to engage in metal recycle business in Hong Kong in November 2017. Details of the business can be found at the Group's announcement dated 3 November 2017. The business only started in November 2017 had already recorded a significant contribution to the revenue of the Group in the reported period. As a start, the business placed its focus on local collection. It shall also look into overseas materials as well. The PRC authorities have tightened the policies for importation of recycled material. The Group has the benefit of taking advantage of its own workshop to have recycled material processed to meet the importation requirement of PRC. In addition, there are more and more countries encouraging environmental conservation, it leads to an increase in the demand of recycled material especially in South East Asia. The Group is optimistic for the development of its recycled material trading business.

The Group has been working on importing BAC Mono and Norton motorcycle to PRC and have them being granted road registration and become road legal in PRC. There are various importation regulatory compliance to be fulfilled and they are being handled progressively. Once all formalities have been complied with, we expect the PRC market will have great demand for these limited supply luxury products.

The Group has devised a plan to reconstruct and upgrade the facilities of plantation land. Alternatively, the Group is seeking a simulation plantation/forestry to exchange the plantation land. Details of the plans can be found at the Group's announcement dated 14 February 2018.

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 2017, the total number of issued shares capital of the Company comprised 1,697,138,114 ordinary shares of HK\$0.02 each (30 June 2017: 1,697,138,114 ordinary shares of HK\$0.02 each).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$7,487,000 (30 June 2017: approximately HK\$13,015,000). As at 31 December 2017, the Group's current assets amounted to approximately HK\$106,859,000 (30 June 2017: HK\$152,136,000) and current liabilities amounted to approximately HK\$25,317,000 (30 June 2017: HK\$20,613,000). The Group's net current assets, being its current assets minus its current liabilities, amounted to approximately HK\$81,542,000 (30 June 2017: HK\$131,523,000). As at 31 December 2017, the Group had no borrowing (30 June 2017: HK\$28,881,000) and the gearing ratio of the Group calculated as total borrowings divided by total equity was nil as at 31 December 2017 (30 June 2017: 3.72%).

As at 31 December 2017, 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 Kong Dollars for the six months period ended 31 December 2017. The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 31 December 2017, 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 2017, there was no charge on the Group's assets (30 June 2017: Nil).

CAPITAL RAISING

During the period ended 31 December 2017, the Group did not have any capital raising activity.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017.

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 40 employees in Hong Kong and the PRC as at 31 December 2017. 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 2017, 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 2017, 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 8 November 2017 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 2017.

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 2017. 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 2018

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.