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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)**

**PLACING OF HK\$20 MILLION CONVERTIBLE NOTES  
UNDER GENERAL MANDATE**

**PLACING AGENT**



**英皇證券(香港)有限公司  
Emperor Securities Limited**

On 16 February 2012 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent agreed to procure, on a best effort basis, not less than six independent Placees to subscribe in cash for the Convertible Notes of an aggregate principal amount of HK\$20 million at coupon rate of 1.5% per annum, due on the first anniversary of the Issue Date, convertible into Shares at the initial Conversion Price of HK\$0.10 per Share (subject to adjustments).

Assuming full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.10 per Share, a total of 200,000,000 Conversion Shares will be issued by the Company, representing (i) approximately 7.8% of the Company's existing issued share capital; and (ii) approximately 7.23% of the Company's issued share capital as enlarged by the issue of the Conversion Shares. The Conversion Shares will be issued under the General Mandate.

The estimated net proceeds for the issue of the Convertible Notes of approximately HK\$19.27 million will be used as general working capital of the Group.

The Placing is conditional upon, among other things, the granting of the listing of and permission to deal in the Conversion Shares by the Listing Committee of the Stock Exchange.

## **THE PLACING AGREEMENT**

### **Date**

16 February 2012 (after trading hours)

### **Parties**

Issuer: the Company

Placing Agent: Emperor Securities Limited

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons and are not connected persons of the Company.

Pursuant to the Placing Agreement, the Company agreed to issue and the Placing Agent agreed to place, on a best effort basis, the Convertible Notes of an aggregate principal amount of HK\$20 million at the issue price of 100% of the principal amount of the Convertible Notes. It is expected that the Convertible Notes will be placed to not less than six Placees all of which shall be third parties independent of and not connected with the Company and its connected persons.

### **Placing commission**

The Placing Agent will receive a placing commission of 2.5% of the aggregate principal amount of the Convertible Notes placed which was determined after arm's length negotiation between the Company and the Placing Agent after taking into account the current financial position of the Group, the size of the Placing and the current market condition.

The Directors are of the view that the placing commission payable for the Placing is fair and reasonable.

## **Principal terms of the Convertible Notes**

Principal amount:	HK\$20,000,000
Maturity date:	First anniversary of the Issue Date, or if such is not a Business Day, the immediately following Business Day.
Issue price:	The Convertible Notes will be issued at 100% of their principal amount.
Interest:	1.5% per annum, payable by the Company once every six months in arrear on 30 June and 31 December of each year.
Redemption:	<p>The Company shall redeem all the Convertible Notes on the Maturity Date at 100% of the principal amount outstanding.</p> <p>The Company has the right at any time after six months from the Issue Date to redeem the whole or any principal amount of the Convertible Notes at 100% of the principal amount thereof by giving to the holder of the Convertible Notes not less than seven days' written notice of its intention to make such redemption. The Company may also at any time and from time to time purchase the outstanding Convertible Notes at such price as may be agreed between the Company and the holder(s) thereof.</p>
Conversion Period:	The period commencing from the day after the Issue Date up to and including the date which is 7 days prior to the Maturity Date.
Conversion Price:	Initially at HK\$0.10 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Notes.

The initial Conversion Price of HK\$0.10 per Share was arrived at after arm's length negotiations between the Company and the Placing Agent and represents:

- (i) a premium of approximately 26.58% over the closing price of HK\$0.079 per Share as quoted on the Stock Exchange on 15 February 2012, being the last trading day of the Shares immediately prior to the date of the Placing Agreement;
- (ii) a premium of approximately 25.94% over the average closing price of HK\$0.079 per Share as quoted on the Stock Exchange for the last five trading days prior to the date of the Placing Agreement; and
- (iii) a premium of approximately 28.04% over the average closing price of HK\$0.078 per Share as quoted on the Stock Exchange for the last ten trading days prior to the date of the Placing Agreement.

**Conversion Rights:**

The holder(s) of the Convertible Notes shall have the right at any time during the Conversion Period to convert the whole or part of the principal amount outstanding (in minimum amount of HK\$500,000 or whole multiple thereof) under the Convertible Notes at the Conversion Price into Conversion Shares. The holder(s) shall not exercise any Conversion Rights to such an extent that results or will result in (i) the holder(s) and person(s) acting in concert with it (within the meaning of the Takeover Code) holding or having more than 29% (or such percentage as may from time to time be specified in the Takeover Code as being the level for triggering a mandatory general offer) of the then issued ordinary share capital of the Company or otherwise being obliged to make a general offer for the Shares in accordance with the Takeover Code; or (ii) the Company in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Issuer held by the public.

Adjustment to the Conversion Price:	The Conversion Price will be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Notes upon occurrence of, among others, the following events: (i) consolidation or subdivision of Shares; (ii) capitalisation of profits or reserves of the Company; (iii) capital distributions by the Company; (iv) rights issues of Shares or grant of warrants or options over Shares at a price which is less than 90% of the then market price of the Shares; (v) issues of securities to all shareholders of the Company by way of rights or grant to all shareholders by way of rights, options, warrants or other rights to subscribe for or purchase any securities; and (vi) issue by the Company wholly for cash Shares at a price which is less than 90% of the then market price of the Shares.
Conversion Shares:	Upon full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.10 per Share, an aggregate of 200,000,000 Conversion Shares will be issued, representing approximately (i) 7.8% of the existing issued share capital of the Company; and (ii) 7.23% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.
Listing:	No application will be made for listing of, or permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
Ranking of the Conversion Shares:	The Conversion Shares, when allotted and issued, will rank <i>pari passu</i> in all respects with all issued Shares on the date of the allotment and issue of the Conversion Shares.
Voting:	The holder(s) of Convertible Notes shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the holder(s) to the Convertible Notes.

**Transferability:** The Convertible Notes are freely transferrable to any person, except that the Convertible Notes may not be transferred to a connected person of the Company without the prior written consent of the Company; and any transfer of the Convertible Notes shall be in integral multiples of HK\$500,000.

The terms of the Convertible Notes have been arrived at based on arm's length negotiations between the Company and the Placing Agent. The Directors consider that the terms of the Convertible Notes including the initial Conversion Price of HK\$0.10 per Share are fair and reasonable.

### **Conditions Precedent**

Completion of the Placing under the Placing Agreement shall be conditional upon:

- (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares;
- (b) the compliance of any other requirements under the Listing Rules and the Takeovers Code or otherwise of the Stock Exchange and the SFC which requires compliance in relation to the creation and issue of the Convertible Notes and the Conversion Shares;
- (c) (where required) the approval of the Cayman Islands Monetary Authority for the issue of the Convertible Notes and the issue and allotment of the Conversion Shares; and
- (d) none of the warranties given by the Company under the Placing Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

If any of such conditions has not been fulfilled by 4:00 p.m. (Hong Kong time) on or before 31 March 2012, the Placing Agreement shall terminate and the respective obligations of the parties to the Placing Agreement shall forthwith cease and terminate and neither the Company nor the Placing Agent shall have any claims against each other thereon except for antecedent breach.

### **Completion**

Completion of the Placing of the Convertible Notes shall take place on or before the third Business Day after the above conditions have been fulfilled, or such other time and date as the Placing Agent and the Company may agree in writing.

## **Termination**

If at any time on or prior to 10:00 a.m. on the completion date of the Placing Agreement:

- (a) in the reasonable opinion of the Placing Agent there shall have been since the date of the Placing Agreement such a change in national or international financial, political or economic conditions or taxation or exchange controls as would be likely to prejudice the consummation of the Placing or would have an adverse effect on the business or financial position of the Group as a whole; or
- (b) any breach of any of the representations and warranties of the Company set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date thereof and prior to the Completion Date which if it had occurred or arisen before the date thereof would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a breach by the Company of any other provision of the Placing Agreement in any material respect; or
- (c) there is any material adverse change in the financial position of the Group as a whole which in the reasonable opinion of the Placing Agent will have adverse effect to the Placing,

then and in any such case, the Placing Agent may after consultation with the Company terminate the Placing Agreement without liability to the Company by giving notice in writing to the Company.

In the event that the Placing Agent terminates the Placing Agreement due to the occurrence of any of the aforesaid event, all obligations of each of the Company and the Placing Agent under the Placing Agreement (save for the obligation of the Company to reimburse the Placing Agent's reasonable expenses (including those of legal advisers)) shall cease and determine and neither the Company nor the Placing Agent shall have any claim against each other in respect of any matter arising out of or in connection with the Placing Agreement except for any antecedent breach of any obligation as prescribed in the Placing Agreement.

## **General Mandate**

The Conversion Shares shall be allotted and issued under the General Mandate. The General Mandate was granted to the Directors at the annual general meeting of the Company held on 28 November 2011 which authorised the Directors to issue up to 513,079,160 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date). The General Mandate has not been

utilised prior to the date of this announcement. Based on the initial Conversion Price of HK\$0.10 per Share, the 200,000,000 Conversion Shares to be allotted and issued will utilise approximately 38.98% of the General Mandate. The Placing and the issue of Conversion Shares are not subject to the Shareholders' approval.

### **REASONS FOR AND BENEFIT OF THE PLACING Company to confirm**

The Company is an investment holding company. Its subsidiaries are principally engaged in the green businesses of research, development and application of technologies and solutions, manufacture, sale and trading of products, materials, systems and services for green market segments including the environmental markets, agricultural markets, organic markets, green medical markets and green technology markets in the PRC and overseas.

The Directors consider the Placing offers a good opportunity for the Company to raise further capital as well as to strengthen the financial position of the Group.

Assuming the Placing becomes unconditional, the gross proceeds of the Placing will be approximately HK\$20 million and the net proceeds will be approximately HK\$19.27 million after deducting all related expenses (including professional advisors fees). The Company intends to apply the net proceeds as as general working capital of the Group. The net proceeds to be raised per Conversion Share will be approximately HK\$0.096.

The Directors consider that the terms of the Placing Agreement, which were arrived at after arm's length negotiations between the Company and the Placing Agent, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

<b>Date of announcement</b>	<b>Capital raising activity</b>	<b>Net proceeds raised (approximately)</b>	<b>Proposed use of the net proceeds</b>	<b>Actual use of the net proceeds</b>
18 November 2011	Placing and subscription of 360,000,000 new Shares	HK\$25.41 million	To be used for financing the acquisition of a forest plantation business in PRC and/or general working capital	HK\$12 million has been used for deposit for the acquisition of a forest plantation business in PRC and approximately HK\$13.41 million was used as general working capital



Save as disclosed above, the Company had not carried out any equity fund raising exercise in the 12-month period immediately preceding 16 February 2012, being the last trading day before the publication of this announcement.

## CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the Placing and assuming allotment and issue of the maximum number of Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price (in each case assuming that there is no other change in the issued share capital of the Company) will be as follows:

	As at the date of this announcement		Immediately after the Placing and assuming upon full conversion of the Convertible Notes at initial Conversion Price of HK\$0.10 per Share	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Capital Master International Limited ( <i>Note 1</i> )	304,104,000	11.85	304,104,000	11.00
The Cathay Investment Fund, Limited	263,920,000	10.29	263,920,000	9.54
The Placees ( <i>Note 2</i> )	—	—	200,000,000	7.23
Other Public Shareholders	<u>1,997,371,800</u>	<u>77.86</u>	<u>1,997,371,800</u>	<u>72.23</u>
Total	<u>2,565,395,800</u>	<u>100.00</u>	<u>2,765,395,800</u>	<u>100.00</u>

*Notes:*

- (1) Capital Master International Limited is wholly and beneficially owned by Mr. Choy Ping Fai.
- (2) Assuming the Placees do not currently hold any Shares.

## DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“acting in concert”	has the meaning ascribed to it under The Hong Kong Code on Takeovers and Mergers
“Board”	board of Directors
“Business Day”	any day on which licensed banks in Hong Kong are generally open for business in Hong Kong and the stock exchanges operated by the Stock Exchange are open for trading, except a Saturday, Sunday, public holiday and any day on which a tropical cyclone warning No.8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“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
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	conversion price of the Convertible Notes from time to time (subject to adjustment)
“Conversion Rights”	the rights attaching to the Convertible Notes to convert the principal amount or a part thereof into Shares
“Conversion Shares”	Shares which would fall to be issued by the Company upon exercise of the Conversion Rights;
“Convertible Notes”	the one-year 1.5% coupon convertible notes in aggregate principal amount of HK\$20,000,000 to be issued by the Company to the Placees pursuant to the Placing Agreement
“Director(s)”	director(s) of the Company

“General Mandate”	general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 28 November 2011, pursuant to which a maximum of 513,079,160 new Shares may fall to be allotted and issued
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Date”	the date of issue of the Convertible Notes
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the day being the first anniversary of the Issue Date, or, if that is not a Business Day, the first Business Day thereafter
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Placees”	any institutional, professional or private investor(s) procured by the Placing Agent to subscribe for any of the Convertible Notes pursuant to the Placing Agreement
“Placing”	the placing of the Convertible Notes by the Placing Agent on a best effort basis
“Placing Agent”	Emperor Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement dated 16 February 2012 entered into between the Placing Agent and the Company in respect of the Placing

“Takeover Code” the Code on Takeovers and Mergers and Share Repurchases

“HK\$” Hong Kong dollar(s), the lawful currency of Hong Kong

“%” per cent.

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

Hong Kong, 16 February 2012

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