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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 2015

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 2015 together with the comparative figures for the corresponding period in 2014. 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 2015

| | | Six months ended 31 December | |
|--|-------|---------------------------------|-----------------|
| | | 2015 | 2014 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| | Notes | | |
| Revenue | 5 | 3,726 | 2,700 |
| Cost of sales | | (1,768) | (1,800) |
| Gross profit | | 1,958 | 900 |
| Other income | 6 | 59 | 795 |
| Administrative expenses | | (23,142) | (19,862) |
| Net loss on fair value changes on financial assets | | | |
| at fair value through profit or loss | | (30,524) | (3,067) |
| (Loss)/gain arising from changes in fair value | | | |
| less costs to sell of biological assets | | (8,636) | 12,926 |
| Loss from operations | | (60,285) | (8,308) |
| Finance costs | 7 | (661) | (3) |
| Loss before tax | | (60,946) | (8,311) |
| Income tax credits/(expenses) | 8 | 7,928 | (2,696) |
| Loss for the period | 9 | (53,018) | (11,007) |
| Other comprehensive income after tax: | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translation of | | | |
| foreign operations | | (25,494) | 102 |
| Total comprehensive loss for the period | | (78,512) | (10,905) |

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

For the six months ended 31 December 2015

| | | Six months ended | |
|---|------------------------------|-------------------------|-----------------|
| | | 31 December | |
| | | 2015 | 2014 |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Loss for the period attributable to: | | | |
| | Owners of the Company | (52,809) | (11,007) |
| | Non-controlling interests | (209) | – |
| | | (53,018) | (11,007) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| | Owners of the Company | (78,303) | (10,905) |
| | Non-controlling interests | (209) | – |
| | | (78,512) | (10,905) |
| | | | (restated) |
| Loss per share | | | |
| | | | 10 |
| | Basic (HK cents per share) | (4.06) | (1.00) |
| | Diluted (HK cents per share) | (4.06) | (1.00) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

| | | As at 31 December 2015 <i>HK\$'000</i> (Unaudited) | As at 30 June 2015 <i>HK\$'000</i> (Audited) |
|--|----|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 4,552 | 1,816 |
| Biological assets | 13 | 596,657 | 634,119 |
| Intangible asset | 14 | 114,949 | 123,091 |
| Investment properties | 15 | 139,726 | – |
| Goodwill | 21 | 1,087 | – |
| Secured deposit for acquisition of subsidiaries | 16 | – | 42,000 |
| Deferred tax assets | | 937 | – |
| | | 857,908 | 801,026 |
| Current assets | | | |
| Inventory | 18 | 2,126 | – |
| Prepayments, deposits and other receivables | | 15,041 | 8,551 |
| Loan receivable | 17 | 5,073 | 5,010 |
| Financial assets at fair value through profit or loss | | 7,907 | 43,587 |
| Refundable secured deposit | 19 | 70,000 | 70,000 |
| Bank and cash balances | | 67,479 | 57,622 |
| | | 167,626 | 184,770 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

| | As at | As at |
|--|--------------------|-----------------|
| | 31 December | 30 June |
| | 2015 | 2015 |
| <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Current liabilities | | |
| Other payable and accrued charges | 8,104 | 8,128 |
| Current tax liabilities | 7,890 | 7,889 |
| | 15,994 | 16,017 |
| Net current assets | | |
| | 151,632 | 168,753 |
| Total assets less current liabilities | | |
| | 1,009,540 | 969,779 |
| Non-current liabilities | | |
| Deferred tax liabilities | 179,355 | 193,745 |
| | 179,355 | 193,745 |
| NET ASSETS | | |
| | 830,185 | 776,034 |
| Capital and reserves | | |
| Share capital | 28,286 | 18,857 |
| Reserves | 802,117 | 757,177 |
| Equity attributable to owners of the Company | 830,403 | 776,034 |
| Non-controlling interest | (218) | – |
| TOTAL EQUITY | 830,185 | 776,034 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2015

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|-----------------------------------|-------------------------------|-----------------------------|--|--|--------------------------------|-------------------|---------------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium account HK\$'000 | Statutory reserve HK\$'000 | Capital reserve HK\$'000 | Share-based Compensation reserve HK\$'000 | Foreign currency translation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
| At 1 July 2014 (audited) | 18,857 | 969,958 | 5,407 | 76 | 990 | 80,229 | (231,828) | 843,689 | - | 843,689 |
| Lapsed of share options (unaudited) | - | - | - | - | (990) | - | 990 | - | - | - |
| Total comprehensive loss for the period (unaudited) | - | - | - | - | - | 102 | (11,007) | (10,905) | - | (10,905) |
| At 31 December 2014 (unaudited) | 18,857 | 969,958 | 5,407 | 76 | - | 80,331 | (241,845) | 832,784 | - | 832,784 |
| At 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 (note 20) (unaudited) | 9,429 | 123,243 | - | - | - | - | - | 132,672 | - | 132,672 |
| At 31 December 2015 (unaudited) | 28,286 | 1,093,201 | 5,407 | 76 | - | 55,981 | (352,548) | 830,403 | (218) | 830,185 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2015

| | Six months ended 31 December | |
|--|---------------------------------|-----------------|
| | 2015 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| NET CASH USED IN OPERATING ACTIVITIES | (24,381) | (27,166) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net proceeds from disposal of property, plant and equipment | – | 60 |
| Purchase of property, plant and equipment | (563) | (431) |
| Purchase of investment properties | (36,515) | – |
| Acquisition of subsidiaries | (1,001) | – |
| Refund of deposit paid in relation to acquisition of a subsidiary | – | 60,000 |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | (38,079) | 59,629 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from the open offer | 132,672 | – |
| Repayment of Promissory Note | (60,661) | – |
| Repayment of finance lease payables | – | (96) |
| NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES | 72,011 | (96) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 9,551 | 32,367 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 306 | (1) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 57,622 | 64,157 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 67,479 | 96,523 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2015

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, 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 2015 are sales and distribution of plantation products, environmental system and plantation materials and the provision of green technology advisory services, provision of financial services, securities trading and investment, car parking spaces rentals and motor trading.

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 2015.

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 2015 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 2015. 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.

4. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2015:

| Description | Fair value measurements using: | | | Total |
|--|--------------------------------|-----------------|-----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Recurring fair value measurements: | | | | |
| Biological assets | - | 596,657 | - | 596,657 |
| Financial assets at fair value through profit or loss | | | | |
| Listed securities in Hong Kong | 7,907 | - | - | 7,907 |
| Total recurring fair value measurements | 7,907 | 596,657 | - | 604,564 |

Disclosures of level in fair value hierarchy at 30 June 2015:

| Description | Fair value measurements using: | | | Total |
|--|--------------------------------|-----------------|-----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Audited) | (Audited) | (Audited) | (Audited) |
| Recurring fair value measurements: | | | | |
| Biological assets | - | 634,119 | - | 634,119 |
| Financial assets at fair value through profit or loss | | | | |
| Listed securities in Hong Kong | 43,587 | - | - | 43,587 |
| Total recurring fair value measurements | 43,587 | 634,119 | - | 677,706 |

4. FAIR VALUE MEASUREMENTS (Continued)

(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

| | | | Fair value as at 31 December 2015 HK\$'000 (Unaudited) |
|-------------------|-----------------------|---------------------------------|---|
| Description | Valuation technique | Inputs | |
| Biological assets | Market value approach | Market price per m ³ | 596,657 |
| | | | Fair value as at 30 June 2015 HK\$'000 (Audited) |
| Description | Valuation technique | Inputs | |
| Biological assets | Market value approach | Market price per m ³ | 634,119 |

5. REVENUE AND SEGMENT INFORMATION

The Group's revenue for the six months ended 31 December 2015 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 profit or loss, assets and liabilities:

| | Green technology advisory fee income HK\$'000 (Unaudited) | Sales of plantation materials HK\$'000 (Unaudited) | Sales of plantation products HK\$'000 (Unaudited) | Provision of financial services HK\$'000 (Unaudited) | Rental income HK\$'000 (Unaudited) | Trading of motor vehicles HK\$'000 (Unaudited) | Trading and investment business HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|---|--|--|---|--|---|--|--|----------------------------------|
| For the six months ended 31 December 2015: | | | | | | | | |
| Revenue from external customers | - | - | - | 126 | 1,600 | 2,000 | - | 3,726 |
| Segment (loss)/profit, comprising: | (348) | (207) | (11,221) | 135 | 869 | (2,302) | (31,409) | (44,483) |
| Loss arising from changes in fair value less costs to sell of biological assets | - | - | (8,638) | - | - | - | - | (8,638) |
| Depreciation and amortisation | (2) | - | (2,567) | - | (562) | - | (300) | (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 31 December 2015 | | | | | | | | |
| Segment assets (unaudited) | 123 | 397 | 711,618 | 5,138 | 141,076 | 16,563 | 15,536 | 890,451 |
| Segment liabilities (unaudited) | 4,872 | 1 | 1,182 | - | 408 | 284 | 467 | 7,214 |

5. REVENUE AND SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss, assets and liabilities (Continued):

| | Green technology advisory fee income <i>HK\$'000</i> (Unaudited) | Sales of plantation materials <i>HK\$'000</i> (Unaudited) | Sales of plantation products <i>HK\$'000</i> (Unaudited) | Provision of financial services <i>HK\$'000</i> (Unaudited) | Trading and investment business <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
|---|---|---|--|---|---|---|
| For the six months ended 31 December 2014: | | | | | | |
| Revenue from external customers | 2,700 | – | – | – | – | 2,700 |
| Segment profit/(loss), comprising: | 900 | (11) | 4,368 | – | – | 5,257 |
| Gain arising from changes in fair value less costs to sell of biological assets | – | – | 12,926 | – | – | 12,926 |
| Depreciation and amortisation | (2) | – | (2,647) | – | – | (2,649) |
| At 30 June 2015 | | | | | | |
| Segment assets (audited) | 142 | 418 | 761,223 | 5,010 | 46,558 | 813,351 |
| Segment liabilities (audited) | 4,864 | 1 | 1,219 | – | 467 | 6,551 |

Reconciliations of reportable segment profit or loss:

| | Six months ended 31 December | |
|--|---|-----------------|
| | 2015 | 2014 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Total (loss)/profit of reportable segments | (44,483) | 5,257 |
| Other profit or loss: | | |
| Finance costs | – | (3) |
| Income tax credit/(expenses) | 7,928 | (2,696) |
| Corporate and unallocated loss | (16,463) | (13,565) |
| Consolidated loss for the period | (53,018) | (11,007) |

6. OTHER INCOME

| | Six months ended 31 December | |
|--------------------|--|--|
| | 2015 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) |
| Sub-letting income | – | 704 |
| Others | 59 | 91 |
| | 59 | 795 |

7. FINANCE COSTS

| | Six months ended 31 December | |
|------------------------------|--|--|
| | 2015 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) |
| Finance lease interests | – | 3 |
| Interests on Promissory Note | 661 | – |
| | 661 | 3 |

8. INCOME TAX CREDITS/(EXPENSES)

| | Six months ended 31 December | |
|-------------------------|--|--|
| | 2015 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) |
| Current tax | | |
| – Hong Kong Profits Tax | (253) | (127) |
| Deferred tax | 8,181 | (2,569) |
| | 7,928 | (2,696) |

8. INCOME TAX CREDITS/(EXPENSES) (Continued)

Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 31 December 2014: 16.5%) on the estimated assessable profits for six months ended 31 December 2015. 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 2014: 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 existing legislation, interpretation and practices in respect thereof.

9. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

| | Six months ended | |
|--|-------------------------|-------------|
| | 31 December | |
| | 2015 | 2014 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Staff costs (including Directors' remuneration): | | |
| – salaries, bonuses and allowances | 3,195 | 1,994 |
| – retirement benefits scheme contributions | 204 | 43 |
| Amortisation of intangible assets | 2,567 | 2,647 |
| Cost of inventories sold | 1,768 | – |
| Depreciation | 1,385 | 428 |
| Net loss on fair value changes of financial assets at fair value through profit or loss | 30,524 | 3,067 |
| Gain on disposal of property, plant and equipment | – | 19 |
| Operating lease charges on land and buildings | 2,849 | 2,653 |

10. 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 six months period attributable to owners of the Company of approximately HK\$52,809,000 (six months ended 31 December 2014: HK\$11,007,000) and the weighted average number of ordinary shares of 1,301,966,245 (six months ended 31 December 2014: 1,096,342,451) in issue during the period. The weighted average number of ordinary shares for the purpose of calculating the basic loss per share for last period has been adjusted accordingly for the effect of the open offer of the Company during the period.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the two periods ended 31 December 2015 and 2014, respectively.

11. INTERIM DIVIDENDS

The board of Directors has resolved not to declare an interim dividend for the six months ended 31 December 2015 (six months ended 31 December 2014: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2015, the Group acquired plant and equipment of approximately HK\$3,563,000.

13. BIOLOGICAL ASSETS

| | Six months ended 31 December 2015 HK\$'000 (Unaudited) | Year ended 30 June 2015 HK\$'000 (Audited) |
|--|---|--|
| At beginning of the period/year | 634,119 | 710,248 |
| Loss arising from changes in fair value less costs to sell of biological assets | (8,636) | (77,172) |
| Exchange differences | (28,826) | 1,043 |
| At end of the period/year | 596,657 | 634,119 |

13. BIOLOGICAL ASSETS (Continued)

The Group's biological assets represent standing timbers on plantation land of approximately 30,000 Chinese Mu with lease term of 30 years, expiring in 2038. The standing timbers comprise mostly poplar trees (accounting over 99% of the total standing timbers), mixed with a very small portion of other species of deciduous trees such as elm, willow. During the period, the Group did not harvest or sell any standing timbers (six months ended 31 December 2014: Nil).

The Group's standing timber volume as at 31 December 2015 was evaluated by an independent forestry operator engaged by the Group. The Directors of the Company have adopted market value approach for the valuation of standing timbers. The method uses the present market value in terms of price per unit cubic meter of round logs and the total merchantable volume of timbers on the plantation land at 31 December 2015 as a basis for calculating the fair value less costs to sell of the biological assets. The principal assumptions adopted are as follows:

1. no material changes in the existing political, legal, technological, fiscal, economic conditions, climate and any other natural condition;
2. poplar trees can grow to certain size and can be legally cut in 8 years and in 5 years with organic fertilisers added; and
3. the movement of the price of the timber, the setup fee and maintenance fee for tree plantation will move in line with the price index of forestry product in China.

Nature risk

The Group's revenue depends significantly on the ability to harvest wood at adequate levels. The ability to harvest on the plantation land and the growth of the trees on the plantation land may be affected by unfavorable local weather conditions and natural disasters. Weather conditions such as earthquakes, rainfall, underground water, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting on the plantation land, or otherwise impede The Group's logging operations or the growth of the trees on the plantation land, which in turn may have a material adverse effect on the Group's ability to produce the products in sufficient quantities and a timely manner.

14. INTANGIBLE ASSET

The intangible asset represents the operating right in respect of the favorable aspect of the right to use and operate the plantation land of a subsidiary of the Company. The subsidiary was acquired in year ended 30 June 2009. The intangible asset is amortized using straight-line method over the useful life of 30 years and the remaining useful life is 22 years. The decrease for the period is due to the amortization charged for the period. The Directors of the Company consider the expected recoverable amount of the operating right exceeds its carrying value and thus, no impairment loss is recognized as at the period end date.

The exchange loss on translation of foreign operations arising from the intangible asset amounted to RMB5,575,000 due to the devaluation of Renminbi during the period.

15. INVESTMENT PROPERTIES

| | Six months ended 31 December 2015 HK\$'000 (Unaudited) | Year ended 30 June 2015 HK\$'000 (Audited) |
|---|---|--|
| At the beginning of the period/year | – | – |
| Additions | 140,290 | – |
| Depreciation charge for the period/year | (564) | – |
| At the end of the period/year | 139,726 | – |

Investment properties are units of car parking spaces located in Hong Kong and held to earn rentals and/or for capital appreciation. Investment properties are measured initially at its costs including all direct costs attributable to the properties.

After initial recognition, investment properties are stated at costs less accumulated depreciation and impairment losses. The depreciation are calculated using the straight line method to allocate the costs to the residual value over its estimated useful lives of 49 to 55 years.

As at 31 December 2015, in the opinions of the Directors of the Company, the fair value of the investment properties are comparable to their respective carrying amounts with reference being made to the market value approach under fair value measurement level 2. Therefore, no impairment indicators are identified for the six months ended 31 December 2015.

16. SECURED DEPOSIT FOR ACQUISITION OF SUBSIDIARIES

On 26 March 2015, a wholly owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the “SPA”) with the Vendors, which are controlled by the mother of an executive director of the Company to acquire 100% equity interest in Harvest Top Development Limited (“Harvest Top”), a Hong Kong incorporated company, at an adjustable consideration of approximately of HK\$140,000,000. On the same date, an amount of HK\$42,000,000 of the consideration has been settled by a cash deposit by the Company upon the Vendors’ production of duly executed share charge over the entire issued share capital of Harvest Top to the Company. Harvest Top is a property holding company and is holding certain units of car parking spaces located in Hong Kong. In the opinion of the Directors, the acquisition enables the Group to enter into the property holding business and thus diversify the revenue stream of the Group.

With reference to the Company’s announcement dated on the 3 July 2015, all the conditions precedent under the SPA have been fulfilled or waived, the transaction is completed on 3 July 2015. As at 31 December 2015, the secured deposit has been transferred to the investment properties upon completion of the SPA.

17. LOAN RECEIVABLE

| | As at 31 December 2015 HK\$’000 (Unaudited) | As at 30 June 2015 HK\$’000 (Audited) |
|-----------------|--|---|
| Loan receivable | 5,073 | 5,010 |

Included in loan receivable is a Hong Kong dollar short term personal loan made to an independent individual by a subsidiary of the Company which is mainly engaged in money lending business. The personal loan is unsecured and bearing fixed interest rate of 5% per annum.

The loan has been matured before the end of the period and the Company is under negotiation with the borrower for the arrangement of the repayment. In the opinions of the Directors of the Company, the loan receivable is recoverable and thus it is appropriate not to make any impairment provision in these Interim Financial Statements.

18. INVENTORY

Inventory as at 31 December 2015 represents a motor car held by a newly acquired subsidiary for trading purpose. The motor car is stated at the lower of cost and net realisable value. Cost is determined as individual basis with reference being made to the respective purchased price.

19. 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 (collectively refer to the "Target Group") 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 Group.

According to the Company's announcement dated 28 October 2014 (the "Announcement"), the Group and the Vendor entered into a termination agreement (the "Termination Agreement") to terminate the Proposed Acquisition because of certain conditions precedent of the Proposed Acquisition have not been satisfied. Pursuant to the Termination Agreement, the Group and the Vendor have agreed that the refundable deposit shall be refunded to the Group by three instalments 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 instalment of HK\$60,000,000 has been 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 (the "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 has been received by the Company on 18 June 2015.

Since the refundable deposit has been charged over the entire equity interest of the Hong Kong subsidiary of the Target Group and the Company is under negotiation with the Vendor for the collection of the outstanding amount, the Directors of the Company expect the outstanding amount is recoverable and consider it is appropriate not to make any impairment provision in respect of the subject amount in these Interim Financial Statements.

20. SHARE CAPITAL

| | As at 31 December 2015 HK\$'000 | As at 30 June 2015 HK\$'000 |
|---|--|--------------------------------------|
| Authorised: | | |
| 15,000,000,000 ordinary shares of HK\$0.02 each | 300,000 | 300,000 |
| Issued and fully paid: | | |
| 1,414,281,762 ordinary shares of HK\$0.02 each (At 30 June 2015: 942,854,508 ordinary shares of HK\$0.02 each) | 28,286 | 18,857 |

A summary of the movements in the issued share capital of the Company is as follows:

| | Number of shares '000 | Amount HK\$'000 |
|--------------------------------|--------------------------------------|----------------------------|
| At 1 July 2015 | 942,855 | 18,857 |
| Open offer (<i>Note (i)</i>) | 471,427 | 9,429 |
| At 31 December 2015 | 1,414,282 | 28,286 |

Note:

(i) Open offer

Completion of the open offer took place on 4 September 2015 pursuant to which 471,427,254 offer shares were issued under the open offer on the basis of one offer share for every two shares held by the qualifying shareholders at the subscription price of HK\$0.29 per offer share with par value of HK\$0.02 each. Accordingly, the Company's issued share capital was increased by approximately HK\$9,429,000 and its share premium account was increased by approximately HK\$123,243,000, net of the transaction costs related to the open offer by approximately HK\$4,042,000.

21. GOODWILL

Goodwill was mainly arising from acquisition of 90% equity interest of BAC HK Limited which is principally engaged in trading of motor vehicles. In the opinions of the Directors, the newly acquired subsidiary would broaden the principal activities of the Group and is expected to be one of the major revenue stream in the future.

The fair value of the identifiable assets and liabilities of the newly acquired companies as at their respective dates of acquisition, is as follows:

| | BAC HK Limited | Others | Carrying amount and Fair value |
|--|---------------------------|-----------------|---|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net liabilities acquired | – | – | – |
| Accruals and other payables | (95) | – | (95) |
| Non-controlling interests | 9 | – | 9 |
| Net liabilities | (86) | – | (86) |
| Goodwill | 1,086 | 1 | 1,087 |
| | 1,000 | 1 | 1,001 |
| Satisfied by: | | | |
| Cash | 1,000 | 1 | 1,001 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | 1,000 | 1 | 1,001 |

22 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2015 and 2014.

23. COMMITMENTS

As at 31 December 2015, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

| | As at 31 December 2015 HK\$'000 (Unaudited) | As at 30 June 2015 HK\$'000 (Audited) |
|--|--|---|
| Within one year | 2,790 | 1,948 |
| In the second to fifth years inclusive | 2,138 | 150 |
| After five years | 626 | 675 |
| | 5,554 | 2,773 |

24. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

| | Six months ended 31 December | |
|-------------------------|--|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| Directors' remuneration | 1,346 | 912 |

25. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 23 February 2016.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2015 (six months ended 31 December 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

The Group is currently engaged in the green businesses of research, development and application of technologies and solutions, manufacture, sale and trading of products, materials, systems and services for green market segments including the environmental markets, agricultural markets, organic markets and green technology markets in the PRC market and overseas, trading and investment, money lending business, car parking spaces rental and motor trading. The Group has been continuing to explore new business opportunities for corporate development and dedicates to develop, sustainable and viable green businesses serving both the mankind and the environment.

Most developed countries' economies continued to remain sluggish and drastic turbulences in global financial markets will still cloud the economic development of PRC. Due to global climatic change, the world and the PRC had experienced non-stopped natural disasters on unprecedented scale and damage during last few years and the weather will become extremely unpredictable.

With specific to the Group's operating Plantation Land of approximately 30,000 mu (Chinese Mu) in Shihezi City. 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.

Expecting extreme uncertainties and risks in its plantation business activities affected by worsening economic conditions and unstable natural factors, the Group continued its protective business approach. The protective business approach included tight credit control and pricing measures to corporate clients, trading of plantation materials, transfer the operating right of new plantation activities and protection of existing biological assets.

The Group has launched its motor trading business during this period ended 31 December 2015 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.

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 2015, turnover of the Group increased by 38% to HK\$3,726,000 (2014: HK\$2,700,000) and gross profit of HK\$1,958,000 (2014: HK\$900,000) was recorded. Loss for the six months ended 31 December 2015 arrived at HK\$53,018,000 as compared to loss of HK\$11,007,000 of corresponding period of last year.

For the six months ended 31 December 2015, basic and diluted loss per share was HK\$4.06 cents (2014: HK\$1.00 cents). Loss from changes in fair value of biological assets was HK\$8,636,000 (2014: Gain of approximately HK\$12,926,000). Finance costs recorded for the six months ended 31 December 2015 was approximately HK\$661,000 (2014: HK\$3,000). Administrative expenses from operations for the six months ended 31 December 2015 increased to approximately HK\$23,142,000 (2014: HK\$19,862,000). It included major items such as amortization of intangible assets of approximately HK\$2,567,000, salaries and directors' emoluments of approximately HK\$3,195,000, operating lease charges on land and buildings of approximately HK\$2,849,000, legal and professional fees of approximately HK\$1,398,000, forest plantation maintenance fee of approximately HK\$4,000,000 and others of HK\$9,133,000. Income tax credits were recorded at HK\$7,928,000 (2014: Income tax expenses of approximately HK\$2,696,000). Exchange differences on translating foreign operations was recorded at HK\$25,494,000 (2014: translation exchange gain of HK\$102,000).

Plantation Materials

The trading business of plantation materials recorded no turnover.

Plantation Products

The trading business of plantation products recorded no turnover.

Green Technology

The green technology segment comprises the research and development, project establishment, application and sale of green and environmental product, technology, service and related products for sustainable development. For the six months ended 31 December 2015, technology income recorded no turnover (2014: HK\$2,700,000).

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 prior year. The securities market was very volatile in July and August 2015. 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 2015. For the six months ended 31 December 2015, the net loss on fair value changes on financial assets at fair value through profit or loss was recorded HK\$30,524,000 (2014: HK\$3,067,000).

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 2015, loan interest income was recorded approximately HK\$126,000 (2014: Nil).

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 2015, rental income was recorded approximately HK\$1,600,000 (2014: Nil).

Motor Trading

This segment commenced on 10 August 2015. For the six month ended 31 December 2015, sales of trading of a motor vehicle was recorded HK\$2,000,000 (2014: Nil).

PROSPECTS

China has a population of approximately 1.4 billion, which is accounted for 19% of the world's population. In contrast, the cultivable land in China is only 1.826 billion Chinese Mu, which is accounted for 7% of world's total cultivable land. The PRC Government continuously placed strategic importance on the "Three Rural Issues". The <Twelfth Five-Year Plan for National Economic and Social Development>, formulating the next phase of economic growth for 2011-2015, reiterated the modernization of agriculture and accelerated establishment of modern agricultural village. Regarding environmental aspect, the average growth rate of energy consumption were approximately 10% per annum for last five years. The Chinese government would continue to commit to environmental improvements for energy saving and low-carbon economy. The <Twelfth Five-Year Plan for National Economic and Social Development> targeted to achieve 16% decrease in energy consumption of production by 2015 as compared to 2010.

Having based on the above sectors blessed by China's prioritized policies, the Group will continue to capitalize the green business opportunities stimulated by supportive government policies and uprising green markets. However, the sluggish economies of most developed countries' economies, global financial markets turbulences and slowing PRC economic growth will continue to cloud the economic development of PRC in next few years. In addition, the scale, intensity, frequency and related economic loss of natural disasters in the world as well as in PRC caused by the global climatic change will continue to become extreme uncertainties and risks for the Group's operating activities.

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. 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 2015, the total number of issued shares capital of the Company comprised 1,414,281,762 ordinary shares of HK\$0.02 each (30 June 2015: 942,854,508 ordinary shares of HK\$0.02 each).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had cash and cash equivalents, which were principally Renminbi and Hong Kong Dollar denominated, of approximately HK\$67,479,000 (30 June 2015: approximately HK\$57,622,000). As at 31 December 2015, the Group's current assets amounted to approximately HK\$167,626,000 (30 June 2015: HK\$184,770,000) and current liabilities amounted to approximately HK\$15,994,000 (30 June 2015: HK\$16,017,000). The Group's net current assets, being its current assets minus its current liabilities, amounted to approximately HK\$151,632,000 (30 June 2015: HK\$168,753,000). 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 2015 (30 June 2015: Nil).

As at 31 December 2015, 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 2015. The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated

in RMB. As at 31 December 2015, 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.

As at 31 December 2015, 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 2015, there was no charge on the Group's assets (30 June 2015: Nil).

CAPITAL RAISING

On 4 September 2015, a total of 471,427,254 ordinary shares of HK\$0.02 each was allotted and issued to the qualifying shareholders of the Company on the basis of one share for every two shares held on 11 August 2015, at a subscription price of HK\$0.29 per share.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2015.

MAJOR ACQUISITION OR DISPOSAL

On 26 March 2015, a wholly owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the "SPA") with the Vendors, which are controlled by the mother of an executive director of the Company to acquire 100% equity interest in Harvest Top Development Limited ("Harvest Top"), a Hong Kong incorporated company, at an adjustable consideration of approximately of HK\$140,000,000. Harvest Top is a property holding company and is holding certain units of car parking spaces located in Hong Kong. In the opinion of the directors, the acquisition enables the Group to enter into the property holding business and thus diversify the revenue stream of the Group. As all the conditions precedent under the SPA have been fulfilled or waived, the transaction was completed on 3 July 2015.

HUMAN RESOURCES AND REMUNERATION POLICY

The Group had approximately 25 employees in Hong Kong and the PRC as at 31 December 2015. 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 2015, 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 2015, except the followings:

Code provision A.2.1 of the CG Code provide 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 11 November 2015 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 2015.

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 2015. 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, 23 February 2016

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 Sui Wah and Mr. Chen Yuyang; and three independent non-executive Directors, namely Mr. Wong Kwai Sang, Mr. Ong Chi King, and Mr. Heung Chi Hang Eric.