
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Environmental Resources Group Limited (the "Company"), you should at once hand this Circular and the accompanying form of proxy to the purchaser or licensed securities dealer or registered institution in securities or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This Circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

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CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1130)

PROPOSED OPEN OFFER ON THE BASIS OF THIRTY-THREE OFFER SHARES FOR EVERY TEN SHARES HELD ON THE RECORD DATE

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Underwriter of the Open Offer



華晉證券有限公司
China Rise Securities Co. Limited

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders



Terms used in this cover shall have the same meanings as defined in this Circular.

A letter from the Board is set out on pages 8 to 23 of this Circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Open Offer is set out on page 24 of this Circular. A letter from Enerchine Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice and recommendation in connection with the Open Offer is set out on pages 25 to 40 of this Circular.

A notice convening the EGM to be held on Friday, 18 October 2013 at 11:00 a.m. at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-2 of this Circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time fixed for the holding of the EGM of the Company or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof, if you so wish.

The Open Offer is subject to the satisfaction of certain conditions as described under the section headed "Conditions of the Open Offer and the Underwriting Agreement" of the letter from the Board on page 15 of this Circular. In particular, it is subject to the Underwriter not terminating the Underwriting Agreement (see the section headed "Termination of the Underwriting Agreement" on pages 16 to 17 of this Circular) on or before the Latest Time for Termination. Accordingly, the Open Offer may or may not become unconditional and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealings in the Shares up to the date when the conditions of the Open Offer are fulfilled, and if they are in any doubt about their position, they should consult their professional advisers.

30 September 2013

CONTENT

	<i>Page</i>
Definitions	1
Expected Timetable	6
Letter from the Board	
Introduction	8
The Open Offer	9
The Underwriting Agreement	14
Warning of the risk of dealing in the Shares	17
Reasons for the Open Offer and use of proceeds	17
Shareholding structure of the Company	19
Details of previous fund raising activities in the past 12 months	21
Possible adjustments to the outstanding Options	21
Listing rules implications	22
The EGM	22
Recommendation	22
Additional information	23
Letter from the Independent Board Committee	24
Letter from Enerchine	25
Appendix I — Financial Information of the Group	I-1
Appendix II — Unaudited Pro Forma Financial Information of the Group	II-1
Appendix III — General Information	III-1
Notice of EGM	EGM-1

DEFINITIONS

In this Circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:

“Announcement”	announcement of the Company dated 15 August 2013 in relation to the Open Offer
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CDP”	the Central Depository (Pte) Limited, which is the securities clearing and depository house of the SGX-ST
“CDP Depositors(s)”	persons named in the CDP Register maintained by CDP and to whose securities accounts Share(s) have been credited
“CDP Register”	the depository register of CDP Depositors maintained by CDP in respect of book entry securities
“Circular”	this circular in relation to the Open Offer
“Company”	China Environmental Resources Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which have a primary listing on the Main Board of the Stock Exchange and a secondary listing on the SGX-ST
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Open Offer
“Excluded Shareholders”	those Overseas Shareholders whom the Directors consider, it is necessary or expedient not to offer the Offer Shares to such Shareholders on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place

DEFINITIONS

“Final Acceptance Date”	14 November 2013 or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment for, the Offer Shares
“Formal Agreement”	the formal agreement to be entered into between the Company and the Prospective Vendor in relation to the Possible Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising the Independent Shareholders in relation to the Open Offer
“Independent Financial Adviser” or “Enerchine”	Enerchine Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer
“Independent Shareholder(s)”	the Shareholders other than controlling Shareholders and their respective associates or, where there are no controlling Shareholders, any Shareholders other than Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates
“Independent Third Party(ies)”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons
“Last Trading Day”	12 August 2013, being the last trading day before the suspension of the trading of the Shares, pending the release of the Announcement
“Latest Practicable Date”	23 September 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on the second Business Day after the Final Acceptance Date or such other time and date as the Underwriter may agree in writing with the Company
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MOU”	the memorandum of understanding dated 19 July 2013 entered into between the Company and the Prospective Vendor in relation to the Possible Acquisition
“MOU Announcement”	announcement of the Company dated 19 July 2013 in relation to the MOU
“Offer Share(s)”	Shares to be issued and allotted under the Open Offer, being not less than 602,988,342 Shares and not more than 607,773,342 Shares
“Open Offer”	the proposed issue of the Offer Shares at the Subscription Price by way of open offer on the basis of thirty-three Offer Shares for every ten Shares held by the Qualifying Shareholders on the Record Date pursuant to the terms to be set out in the Prospectus Documents and summarized in the Circular
“Options”	the options granted by the Company to subscribe for Shares under the Share Option Scheme
“Overseas Letter”	a letter from the Company to the Excluded Shareholders explaining the circumstances in which the Excluded Shareholders are not eligible to participate in the Open Offer
“Overseas Shareholder(s)”	the Shareholder(s) whose names appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong and the CDP Depositor(s) whose Share(s) are being traded on the SGX-ST and whose name(s) appear(s) on the CDP Register at the close of business on the Record Date
“PAL(s)”	the provisional allotment letter(s) issued to the Qualifying Shareholders in connection with the Open Offer
“Possible Acquisition”	the possible acquisition of entire equity interest in the Target by the Company from the Prospective Vendor as contemplated under the MOU

DEFINITIONS

“PRC”	the People’s Republic of China
“Prospective Vendor”	Grand Keen Limited, a company incorporated in Samoa with limited liability
“Prospectus”	the Open Offer prospectus
“Prospectus Documents”	the Prospectus and the PAL(s)
“Prospectus Posting Date”	31 October 2013 or such other date as the Underwriter may agree in writing with the Company, as the expected date of despatch of the Prospectus Documents to the Qualifying Shareholders
“Qualifying Shareholders”	the Shareholders other than the Excluded Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	30 October 2013 or such other date the Underwriter may agree with the Company in writing, being the date by reference to which entitlements to the Open Offer will be determined
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Share(s)”	ordinary share(s) in the Company of HK\$0.02 each
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme of the Company adopted on 16 December 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.27 per Offer Share under the Open Offer
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target”	Clear Wisdom Limited, a company incorporated in British Virgin Islands with limited liability
“Underwriter”	China Rise Securities Company Limited, a licensed corporation to carry out business in type 1 (dealing in securities) regulated activity under the SFO

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 12 August 2013 entered into between the Company and the Underwriter in relation to the Open Offer
“Underwritten Shares”	not less than 602,988,342 Offer Shares and not more than 607,773,342 Offer Shares, being all the Offer Shares, which are fully underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“%”	per cent

EXPECTED TIMETABLE

Set out below is the expected timetable for the Open Offer:

Event		<i>2013</i> Date
Latest time for lodging proxy forms for the EGM	11:00 a.m. on Wednesday	16 October
EGM	11:00 a.m. on Friday	18 October
Announcement of poll results of the EGM	Friday	18 October
Last day of dealings in the Shares on a cum-entitlement basis	Monday	21 October
First day of dealings in the Shares on an ex-entitlement basis	Tuesday	22 October
Latest time for lodging transfer of the Shares in order to qualify for the Open Offer	4:30 p.m. on Wednesday	23 October
Register of members of the Company closes (both days inclusive)	Thursday Wednesday	24 October to 30 October
Record Date	Wednesday	30 October
Register of members of the Company re-opens	Thursday	31 October
Despatch of Prospectus Documents to the Qualifying Shareholders and despatch of Prospectus, together with the Overseas Letter, to the Excluded Shareholders for information only	Thursday	31 October
Latest time and date for acceptance of and payment for the Offer Shares	4:00 p.m. on Thursday	14 November
Latest Time for Termination	4:00 p.m. on Monday	18 November
Announcement of results of the Open Offer	Thursday	21 November
Despatch of share certificates for Offer Shares	Friday	22 November
If the Open Offer is terminated, refund cheques to be despatched on or before	Friday	22 November
Dealings in Offer Shares commence	Monday	25 November
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of the Offer Shares	9:00 a.m. on Monday	25 November
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Offer Shares	4:00 p.m. on Monday	16 December

EXPECTED TIMETABLE

All time and dates specified in this Circular refer to Hong Kong local time and dates. Dates or deadlines specified in this Circular are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OFFER SHARES

If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Final Acceptance Date, the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day instead;

- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Final Acceptance Date, the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. instead.

LETTER FROM THE BOARD



CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1130)

Executive Directors:

Mr. Zhou Hongbo

(Chairman and Chief Executive Officer)

Mr. Kwok Wai, Wilfred

Mr. Leung Kwong Choi

Independent non-executive Directors:

Mr. Wong Kwai Sang

Mr. Christopher David Thomas

Mr. Chan Ka Yin

Registered office:

Ugland House

South Church Street

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

*Head office and principal place of
business in Hong Kong:*

2/F., Shui On Centre

6-8 Harbour Road

Wanchai, Hong Kong

30 September 2013

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF THIRTY-THREE OFFER
SHARES FOR EVERY TEN SHARES HELD ON THE RECORD DATE**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement on 15 August 2013, the Board announced that the Company proposed to raise approximately HK\$162.8 million (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) to approximately HK\$164.1 million (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) before expenses by way of the Open Offer of not less than

LETTER FROM THE BOARD

602,988,342 Offer Shares (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) and not more than 607,773,342 Offer Shares (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) at a price of HK\$0.27 per Offer Share, on the basis of thirty-three Offer Shares for every ten Shares held on the Record Date. The Open Offer will be fully underwritten by the Underwriter, subject to the terms and conditions of the Underwriting Agreement. Qualifying Shareholders are not entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Open Offer. The Open Offer is only available to the Qualifying Shareholders and will not be available to the Excluded Shareholders.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Open Offer and Enerchine has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this Circular is to provide you with, among other things, (i) further information of the Open Offer; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from Enerchine to the Independent Board Committee and the Independent Shareholders on the Open Offer; and (iv) a notice of the EGM at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Open Offer.

THE OPEN OFFER

Issue statistics

Basis of the Open Offer	: Thirty-three Offer Shares for every ten Shares held on the Record Date by the Qualifying Shareholders
Number of Shares in issue as at the Latest Practicable Date	: 182,723,748 Shares
Number of Offer Shares	: Not less than 602,988,342 Offer Shares (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date), and not more than 607,773,342 Offer Shares (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) (<i>Note</i>)
Subscription Price	: HK\$0.27 per Offer Share

Note:

As at the Latest Practicable Date, there are 1,450,000 outstanding Options to subscribe for an aggregate of 1,450,000 Shares. Assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date, additional 4,785,000 Offer Shares will be issued. Therefore, the maximum number of Offer Shares that may be issued under the Open Offer would be 607,773,342 Offer Shares.

LETTER FROM THE BOARD

As at the Latest Practicable Date, save for the outstanding Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any rights to subscribe for, convert or exchange into the Shares.

Taking into account 182,723,748 Shares in issue as at the Latest Practicable Date and assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to the date of the Record Date, a minimum number of 602,988,342 Offer Shares may be issued under the Open Offer. The minimum number of Offer Shares represents approximately 330.00% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 76.74% of the issued share capital of the Company as enlarged by the issue of the minimum number of Offer Shares. The minimum number of Offer Shares will have an aggregate nominal value of HK\$12,059,766.84.

Taking into account 182,723,748 Shares in issue as at the Latest Practicable Date and 1,450,000 new Shares which may be issued upon full exercise of the outstanding Options on or prior to the Record Date, a maximum number of 607,773,342 Offer Shares may be issued under the Open Offer. The maximum number of Offer Shares represents approximately 332.62% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 76.74% of the issued share capital of the Company as enlarged by the issue of the maximum number of Offer Shares (assuming full exercise of the subscription rights attaching to the outstanding Options). The maximum number of Offer Shares will have an aggregate nominal value of HK\$12,155,466.84.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders only. To the extent reasonably practicable, the Company will send copies of the Prospectus, together with the Overseas Letter, to each of the Excluded Shareholders for their information only. Please take special note that the Company will send the PALs to the Qualifying Shareholders only.

To qualify for the Open Offer, a Shareholder must be (i) registered as a member of the Company on the register of members of the Company at the close of business on the Record Date; and (ii) not be an Excluded Shareholder.

In order to be registered as members of the Company on its register of members at the close of business on the Record Date, Qualifying Shareholders must lodge any transfer of the Shares (with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 23 October 2013.

The last day for dealing in the Shares on a cum-entitlement basis is 21 October 2013. The Shares will be dealt with on an ex-entitlement basis from 22 October 2013.

LETTER FROM THE BOARD

The latest time for acceptance of and payment for the Offer Shares is expected to be at 4:00 p.m. on 14 November 2013.

Holders of the outstanding Options who wish to participate in the Open Offer should exercise the subscription rights attaching to their outstanding Options in accordance with the terms of the Share Option Scheme on or before 4:30 p.m. on 23 October 2013 so as to enable them to be registered as members of the Company on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from 24 October 2013 to 30 October 2013, both dates inclusive to determine the eligibility and entitlements to the Open Offer. No transfer of Shares will be registered during this period.

Rights of the Excluded Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Open Offer as explained below.

As at the Latest Practicable Date, the shareholdings of the Overseas Shareholders comprised of shareholders in the United States of America, the PRC and Singapore and the CDP Depositors, with an aggregate shareholding representing approximately 5.2% of the then issued share capital of the Company. In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company has made enquiries with the Company's legal advisers to assist and enable the Board to consider whether it is necessary or expedient not to, offer the Offer Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or requirements of the relevant regulatory body or stock exchange in that place.

Based on the advice received, the Board takes the view that the time and costs involved in complying with relevant legal and regulatory requirements in the United States of America, the PRC and Singapore would outweigh the possible benefits to the Overseas Shareholders (including the CDP Depositors) and the Company if the Offer Shares are to be offered to the Overseas Shareholders (including the CDP Depositors). On this basis, the Board considers that it is necessary or expedient not to offer the Offer Shares to the Overseas Shareholders (including the CDP Depositors) and Overseas Shareholders (including the CDP Depositors) will be regarded as Excluded Shareholders in relation to the Open Offer.

Accordingly, the Open Offer will not be extended to the Excluded Shareholders. Further information in this connection will be set out in (i) the Prospectus Documents containing among other things, details of the Open Offer, to be despatched to the Qualifying Shareholders as soon as practicable; and (ii) the Overseas Letter to be despatched to the Excluded Shareholders. The Company will only send the Prospectus, together with the Overseas Letter, to the Excluded Shareholders for their information, but will not send any PAL to them.

LETTER FROM THE BOARD

The Offer Shares to which the Excluded Shareholders would otherwise be entitled under the Open Offer will be taken up by the Underwriter.

The Subscription Price

The Subscription Price for the Offer Shares is HK\$0.27 per Offer Share, payable in cash in full upon application.

The Subscription Price represents:

- (a) a discount of 50.00% to the closing price of HK\$0.540 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of 50.00% to the average closing price of HK\$0.540 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 52.21% to the average closing price of HK\$0.565 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 18.92% to the theoretical ex-rights price of approximately HK\$0.333 per Share based on the closing price of HK\$0.540 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (e) a discount of approximately 92.61% to the unaudited consolidated net asset value per Share of approximately HK\$3.653 (based on 182,723,748 issued Shares as at the Latest Practicable Date and the unaudited net asset value of the Group of approximately HK\$667.43 million as at 31 December 2012); and
- (f) a discount of approximately 27.03% to the closing price of HK\$0.370 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares, the financial conditions of the Company and the prevailing market conditions. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Open Offer, the Directors consider that the terms of the Open Offer, including the Subscription Price, is fair and reasonable and in the interests of the Company and the Shareholder as a whole. The net price per Offer Share upon full acceptance of the relevant provisional allotment of the Offer Shares (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) will be approximately HK\$0.26.

LETTER FROM THE BOARD

Fractions of the Offer Shares

Entitlement to the Offer Shares will be rounded down to the nearest whole number. No fractional entitlements to the Offer Shares will be allotted to the Qualifying Shareholders. All such fractional entitlements will be aggregated and taken up by the Underwriter in accordance with the terms and conditions of the Underwriting Agreement.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Offer Shares, the Company has appointed China Rise Securities Company Limited to act as an agent to provide matching service, on a best effort basis, for the sale and purchase of odd lots of the Offer Shares arising from the Open Offer, during the period from 25 November 2013 to 16 December 2013 (both days inclusive). Holders of odd lots of the Offer Shares who wish to take advantage of this facility either to dispose of their odd lots of the Offer Shares or to top up to a full board lot may contact Mr. Wat Hin Pong of China Rise Securities Company Limited at Suit 1611, 16/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong (telephone: (852) 2158-9068 and facsimile: (852) 2158-9099) during the aforesaid period. Holders of odd lots of the Offer Shares should note that the matching of the sale and purchase of odd lots of the Offer Shares is not guaranteed. The Company will bear the costs relating to the matching of sale and purchase of odd lots of the Offer Shares. Any holders of odd lots of the Offer Shares are recommended to consult their professional advisers if they are in doubt about the above facility.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Offer Shares.

No application for excess Offer Shares

Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its entitlements under the Open Offer, the Board considers that the Company will not be justified in making additional effort and incurring additional costs to administer the excess application procedures. All Offer Shares not taken up under the Open Offer are underwritten by the Underwriter.

Share certificates and refund cheques for Open Offer

Subject to the fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted to Qualifying Shareholders who have validly accepted and paid for the Offer Shares on or before 22 November 2013 by ordinary post at their own risk. Refund cheques in respect of the Offer Shares if the Open Offer is terminated are also expected to be posted on or before 22 November 2013 by ordinary post at their own risk.

LETTER FROM THE BOARD

Application for listing

The Company will apply to the Listing Committee for the listing of and permission to deal in, the Offer Shares.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Offer Shares will be subject to the payment of stamp duty (if any) in Hong Kong and any other applicable fees and charges in Hong Kong.

THE UNDERWRITING AGREEMENT

Date	:	12 August 2013 (after trading hours)
Underwriter	:	China Rise Securities Company Limited. To the best of the Directors' knowledge and information, the Underwriter and its ultimate beneficial owners are Independent Third Parties. As at the Latest Practicable Date, the Underwriter does not hold any Shares.
Total number of Underwritten Shares	:	Not less than 602,988,342 Offer Shares (in the event that no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) and not more than 607,773,342 Offer Shares (in the event that all subscription rights attaching to the outstanding Options are exercised on or before the Record Date), being all the Offer Shares
Commission	:	2.5% of the aggregate Subscription Price in respect of the Underwritten Shares

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed that, if any of the Underwritten Shares has not been taken up by 4:00 p.m. on the Final Acceptance Date, it will subscribe for or procure the subscription for all such Underwritten Shares not so taken up. Accordingly, the Open Offer is fully underwritten.

The commission rate of 2.5% was determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Open Offer and the current and expected market condition. The Board considers the terms of the Underwriting Agreement including the commission rate are fair and reasonable so far as the Company and the Shareholders are concerned.

LETTER FROM THE BOARD

Conditions of the Open Offer and the Underwriting Agreement

The Open Offer and the obligations of the Underwriter under the Underwriting Agreement are conditional upon the following conditions being fulfilled:

- (i) due posting to the Shareholders of the Circular;
- (ii) the passing by the Independent Shareholders at the EGM of ordinary resolutions to approve the Open Offer;
- (iii) the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by two Directors (or by their agents duly authorised in writing) in the manner as mentioned in condition (v) below of two copies of each of the Prospectus Documents;
- (iv) the delivery of one such signed copy of each of the Prospectus Documents to the Underwriter;
- (v) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by two Directors (or by their agents duly authorised in writing) in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules;
- (vi) the Cayman Island Monetary Authority granting consent (if required) to the issue of the Offer Shares and the Shares that may fall to be issued;
- (vii) the posting of copies of the Prospectus Documents to the Qualifying Shareholders;
- (viii) compliance by the Company with its obligations under relevant clauses of the Underwriting Agreement; and
- (ix) the Listing Committee (a) agreeing to grant the listing of, and permission to deal in, the Offer Shares and the Shares that may fall to be issued or subject to such conditions which the Underwriter and in their reasonable opinion accept and the satisfaction of such conditions (if any); and (b) not having withdrawn or revoked such listing and permission by no later than the first day of their dealings.

If any of the above conditions is not fulfilled on or before the Prospectus Posting Date or such later date as the Underwriter and the Company may agree in writing, or the Underwriting Agreement is terminated by the Underwriter by written notice to the Company pursuant to the terms of the Underwriting Agreement, the Open Offer will not proceed.

Up to the Latest Practicable Date, none of the above conditions have been fulfilled.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company by the Underwriter at any time before the Latest Time for Termination, if:

- (i) the occurrence of the following events would, in the reasonable opinion of the Underwriter materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or
 - (c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);
- (ii) any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;
- (iii) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;
- (iv) the Underwriter shall receive notification pursuant to relevant clause of the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated as provided in relevant clause of the Underwriting Agreement and Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or

LETTER FROM THE BOARD

- (v) the Company shall, after any matter or event referred to in relevant clause of the Underwriting Agreement has occurred or come to the attention of the Underwriter, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party to the Underwriting Agreement shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees as may then be agreed by the parties as set out in the Underwriting Agreement but not the underwriting commission. If the Underwriter exercises such right, the Open Offer will not proceed.

WARNING OF THE RISK OF DEALING IN THE SHARES

The Open Offer is conditional upon, among others, the fulfillment of the conditions set out under the section headed “Conditions of the Open Offer and the Underwriting Agreement” and the Underwriter not terminating the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed “Termination of the Underwriting Agreement”). Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors are advised to exercise due caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that, based on the expectable timetable as contained in the Circular, the Shares will be dealt in on an ex-entitlement basis commencing from 22 October 2013 and that dealing in the Shares will take place while the conditions to which the Underwriting Agreement is subject remained unfulfilled. Any Shareholders or other persons dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

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 gross proceeds from the Open Offer will be not less than approximately HK\$162.8 million but not more than HK\$164.1 million before expenses. The estimated net proceeds from the Open Offer will be not less than approximately HK\$156.8 million but not more than HK\$158.1 million after deducting all necessary expenses for the Open Offer, which include the commission to the Underwriters, the fees to the Company’s professional and legal advisers and printing and translation costs. The net proceeds of the Open Offer is intended to be applied as to (i) approximately HK\$150.0

LETTER FROM THE BOARD

million for financing the payment of refundable cash deposit of the Formal Agreement (the “**Deposit**”) in the event that the Formal Agreement is entered into. The Deposit shall be treated as partial payment of the consideration of the Possible Acquisition (as mentioned below) subject to the terms of the Formal Agreement; and (ii) the remaining balance as general working capital of the Group. If the entering into of the Formal Agreement does not proceed, the net proceeds of approximately HK\$150.0 million which is originally intended to be used for financing payment of the Deposit will then be used for other suitable investment opportunities as and when identified by the Group. Up to the Latest Practicable Date, apart from the Possible Acquisition, no other specific investment opportunities have been identified by the Group. In the event that the Formal Agreement cannot proceed and suitable investment opportunities cannot be identified by the Group after completion of the Open Offer, relevant proceeds will be applied to enhance general working capital of the Group, strengthen the capital base of the Group and to allow the Group to maintain sufficient financial flexibility necessary for its future general corporate and business development where the Company will continue to actively seek suitable investment opportunities in pursuing business growth.

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. The Directors 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.

To this end, on 19 July 2013, as disclosed in the MOU Announcement, the Group demonstrated its initiative in seeking appropriate business investment or business development opportunities by entering into the MOU with the Prospective Vendor in relation to the Possible Acquisition associated with possible investment in the PRC hotel sector. The Group is now conducting due diligence investigation on the Possible Acquisition. Subject to the satisfaction of due diligence result and in the event that the Directors consider that the Possible Acquisition will offer the Group an investment opportunity to diversify and expand its business portfolio into the PRC hotel sector with the view of broadening the income source of the Group, generating additional and stable cashflow and bringing investment returns to the Shareholders, the Group will further negotiate with the Prospective Vendor for the entering into of the Formal Agreement. Furthermore, the Prospective Vendor has indicated that prior to further negotiation of the Formal Agreement, it is expecting the Group to have funding for payment of the Deposit in the amount of not less than HK\$150.0 million in order for the Formal Agreement to be entered into. As such, in order to facilitate the Group in its negotiation of the Formal Agreement, it is necessary for the Group to raise funds to finance the payment of the Deposit.

The Directors consider that the Open Offer provides a good opportunity for the Group to (i) raise funds for financing the Possible Acquisition when it materializes; (ii) strengthen the capital base of the Group which will facilitate the Group’s long-term development; (iii) provide the Company with sufficient financial flexibility necessary for the Group in capturing the prevailing investment opportunity associated with the Possible Acquisition in a timely manner and for Group’s future development and investment purposes as and when suitable opportunities arises; and (iv) enhance its

LETTER FROM THE BOARD

overall financial position. Furthermore, the Open Offer will enable the Qualifying Shareholders to participate in the future development of the Company on equal terms, given that the Open Offer will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution.

Apart from the Open Offer, the Board has also considered other financing alternatives such as a rights issue which allows the Shareholders to trade their nil-paid entitlements in the market in nil-paid form. However, the Board views that such trading arrangements will increase the administrative works and expenses for the proposed fund raising exercise. The Board considers raising funds by way of the Open Offer is more cost-effective and efficient as compared to a rights issue.

The Directors (excluding the independent non-executive Directors whose opinion will be set forth in the circular in respect of the Open Offer, after taking into account the independent advice from an independent financial adviser) consider that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately before and after the completion of the Open Offer is set out below:

Scenario 1:

Assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date:

	As at the Latest Practicable Date		Immediately after completion of the Open Offer			
			Assuming all the Offer Shares are subscribed by the Qualifying Shareholders		Assuming none of the Offer Shares are subscribed by the Qualifying Shareholders <i>(Note)</i>	
	<i>No. of Shares held</i>	%	<i>No. of Shares held</i>	%	<i>No. of Shares held</i>	%
Public Shareholders:						
The Underwriter	—	—	—	—	602,988,342	76.74
Other Public Shareholders	<u>182,723,748</u>	<u>100.00</u>	<u>785,712,090</u>	<u>100.00</u>	<u>182,723,748</u>	<u>23.26</u>
	<u>182,723,748</u>	<u>100.00</u>	<u>785,712,090</u>	<u>100.00</u>	<u>785,712,090</u>	<u>100.00</u>

LETTER FROM THE BOARD

Scenario 2:

Assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date:

	As at the Latest Practicable Date		As at the Record Date (Assuming the outstanding Options have been fully exercised)		Immediately after completion of the Open offer			
					Assuming all the Offer Shares are subscribed by the Qualifying Shareholders		Assuming none of the Offer Shares are subscribed by the Qualifying Shareholders <i>(Note)</i>	
	<i>No. of Shares held</i>	%	<i>No. of Shares held</i>	%	<i>No. of Shares held</i>	%	<i>No. of Shares held</i>	%
Public Shareholders:								
The Underwriter	—	—	—	—	—	—	607,773,342	76.74
Other Public Shareholders	182,723,748	100.00	184,173,748	100.00	791,947,090	100.00	184,173,748	23.26
	<u>182,723,748</u>	<u>100.00</u>	<u>184,173,748</u>	<u>100.00</u>	<u>791,947,090</u>	<u>100.00</u>	<u>791,947,090</u>	<u>100.00</u>

Note:

This scenario is for illustrative purpose only and will never occur. The Underwriter has undertaken to the Company that (i) it shall procure that the Underwriter, each of the sub-underwriters and subscribers procured by them, together with any parties acting in concert with each of them, will not own 30% or more of the issued share capital of the Company immediately after the Open Offer which will give rise to an obligation to make a mandatory general offer under the Takeovers Code; and (ii) it shall cause the Underwriter and each of the sub-underwriters to procure each of the subscribers who are Independent Third Parties to take up such number of the Offer Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with. As at the Latest Practicable Date, the Underwriter has entered into sub-underwriting arrangement on 12 August 2013 with eight sub-underwriters, being Independent Third Parties, in respect of the sub-underwriting of all the Underwritten Shares. The details of the sub-underwriters and their respective underwriting commitments are: (i) Cheng Tun Nei (30%), (ii) Or Ching Fai (24.4%), (iii) To Koon Hung Andrew (6.1%), (iv) Cheng Chiu Man (9.1%), (v) Liu Kam Lung (9.1%), (vi) Fung Kim Wan Ewim (6.1%), (vii) Chan Kar Lee Gary (6.1%) and (viii) Lee Hung Yuen (9.1%).

LETTER FROM THE BOARD

DETAILS OF PREVIOUS FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Save as disclosed below, the Company has not conducted any fund raising activities in the past 12 months before the date of the Announcement:

Date of announcement	Event	Net proceeds (Approximately)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
20 March 2013	Placing of 24,000,000 new Shares	HK\$6.13 million	General working capital	<ol style="list-style-type: none">1. Approximately HK\$3.4 million was used to settle professional fees and general administrative expenses of the Group; and2. approximately HK\$2.73 million was used to settle part of the payment obligation of approximately of HK\$5.8 million of an acquisition, details of which was announced by the Company on 23 April 2013.
10 June 2013	Placing of 30,453,958 new Shares	HK\$5.74 million	General working capital	<ol style="list-style-type: none">1. Approximately HK\$3.07 million was used to settle part of the payment obligation of approximately HK\$5.8 million of an acquisition, details of which was announced by the Company on 23 April 2013; and2. approximately HK\$2.67 million was used to settle professional fees and general administrative expenses of the Group.

POSSIBLE ADJUSTMENTS TO THE OUTSTANDING OPTIONS

As a result of the Open Offer, the exercise price and the number of Shares to be issued pursuant to the outstanding Options may be adjusted in accordance with the respective terms and conditions of the Share Option Scheme. The Board will instruct its auditors or an independent financial adviser to certify the adjustments, if any, to the outstanding Options and will inform the holders of the outstanding Options of the adjustments, if any, accordingly. Further announcement will be made by the Company in respect of such adjustments upon completion of the Open Offer.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As the Open Offer will increase the issued share capital of the Company by more than 50%, in accordance with Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by the Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer. As at the Latest Practicable Date, the Company has no controlling Shareholder and none of the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates hold any Share. Accordingly, no Shareholder is required to abstain from voting in favour of the Open Offer at the EGM.

The Company has established the Independent Board Committee comprising the independent non-executive Directors to make recommendation to the Independent Shareholders in respect of the Open Offer. The Company has appointed Enerchine to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this Circular. The EGM will be held on Friday, 18 October 2013 at 11:00 a.m. at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the purpose of, considering and, if thought fit, approving the Open Offer and the transactions contemplated thereunder.

A form of proxy for the EGM is enclosed with this Circular. Whether or not you intend to be present at the EGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

RECOMMENDATION

You are advised to read carefully the letter from the Independent Board Committee and the letter from Enerchine as set out on page 24 and pages 25 to 40 respectively of this Circular.

The Independent Board Committee, having taken into account the advice of Enerchine, considers that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolution approving the Open Offer at the EGM.

LETTER FROM THE BOARD

Accordingly, the Directors believe that the terms of the Open Offer and the Underwriting Agreements are fair and reasonable and in the interests of the Group and the Shareholders as a whole, therefore, the Directors recommend the Independent Shareholders to vote in favour of the proposed resolution approving the Open Offer at the EGM.

ADDITIONAL INFORMATION

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

By Order of the Board
China Environmental Resources Group Limited
Zhou Hongbo
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1130)

30 September 2013

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF THIRTY-THREE OFFER
SHARES FOR EVERY TEN SHARES HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 30 September 2013 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Company as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable insofar as the Independent Shareholders are concerned. Enerchine has been appointed to advise the Independent Shareholders and the Independent Board Committee in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of Enerchine as set out in its letter of advice to the Independent Shareholders and the Independent Board Committee on pages 25 to 40 of the Circular, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole and the terms of the Open Offer are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer.

We have been appointed to advise you in connection with the Open Offer details of which are set out in the “Letter from the Board” set out on pages 8 to 23 of the Circular. We wish to draw your attention to the “Letter from Enerchine” set out on pages 25 to 40 of the Circular, which contains the independent financial adviser’s advice regarding the Open Offer.

Yours faithfully,

Chan Ka Yin

Wong Kwai Sang

Christopher David Thomas

Independent non-executive Directors

LETTER FROM ENERCHINE

The following is the full text of a letter of advice from Enerchine Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer prepared for the purpose of inclusion in this circular.



Enerchine Corporate Finance Limited

25/F, China United Centre, 28 Marble Road
North Point, Hong Kong

30 September 2013

*To the Independent Board Committee and the Independent Shareholders of
China Environmental Resources Group Limited*

Dear Sir/Madam,

PROPOSED OPEN OFFER ON THE BASIS OF THIRTY-THREE (33) OFFER SHARES FOR EVERY TEN (10) SHARES HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board in the Company's Circular dated 30 September 2013 to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 15 August 2013, the Board announced that the Company proposed to raise approximately HK\$162.8 million (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) to approximately HK\$164.1 million (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) before expenses by way of the Open Offer of not less than 602,988,342 Offer Shares (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) and not more than 607,773,342 Offer Shares (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) at a price of HK\$0.27 per Offer Share, on the basis of thirty-three Offer Shares for every ten Shares held on the Record Date. The estimated net proceeds from the Open Offer will be not less than approximately HK\$156.8 million but not more than HK\$158.1 million after deducting all necessary expenses for the Open Offer, which include the commission to the Underwriter, the fees to the Company's professional and legal advisers and printing and translation costs. The Open Offer will be fully underwritten by the Underwriter, subject to the

LETTER FROM ENERCHINE

terms and conditions of the Underwriting Agreement. Qualifying Shareholders are not entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Open Offer. The Open Offer is only available to the Qualifying Shareholders and will not be available to the Excluded Shareholders.

As the Open Offer will increase the issued share capital of the Company by more than 50%, in accordance with Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by the Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there is no controlling Shareholder, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer. As at the Latest Practicable Date, the Company has no controlling Shareholder and none of the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates hold any Share. Accordingly, no Shareholder is required to abstain from voting in favour of the Open Offer at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wong Kwai Sang, Mr. Christopher David Thomas and Mr. Chan Ka Yin, has been established by the Company to make recommendations to the Independent Shareholders as to whether the Open Offer is on normal commercial terms and is fair and reasonable and the Open Offer is in the interests of the Company and the Shareholders as a whole.

Our role as the Independent Financial Adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to the Open Offer, and to make recommendations as to, among others, whether the Open Offer is on normal commercial terms and is fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Independent Shareholders should vote in favour of or against of the resolution to be proposed at the EGM to approve the Open Offer. Our appointment has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the EGM, Shareholders would be notified as soon as possible.

LETTER FROM ENERCHINE

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm in the Circular, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have not conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies. We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise.

In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

This letter is issued as the recommendation to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Open Offer, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

A. Financial highlights of the Group

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.

Based on the information set out in the unaudited interim report for the six month ended 31 December 2012 and the audited annual report for the year ended 30 June 2012, the financial results of the Company are summarized as below:

	For the six-month period		For the year ended	
	ended 31 December		30 June	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	13,204	12,456	28,838	331,555
(Loss)/profit for the period	(23,008)	704	(269,743)	(54,484)

LETTER FROM ENERCHINE

	As at 31 December		As at 30 June	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total Assets	953,255	980,095	980,095	1,287,879
Total Liabilities	(285,828)	(291,387)	(291,387)	(377,958)
Equity attributable to owners of the Company	667,427	688,708	688,708	909,921

As shown in the table above, the Group recorded a profit for the six-month period ended 31 December 2011. However, it recorded losses for the year ended 30 June 2012 and 2011 and six-month period ended 31 December 2012. Loss attributable to Shareholders for the six months ended 31 December 2012 was recorded at HK\$23,008,000, while the Group recorded a profit attributable to owners of the Company of HK\$614,000 in corresponding period of previous year. According to the interim report 2012, we noted that the decrease was due to the loss from changes in fair value of biological assets was HK\$11.44 million mainly resulted from decrease in volume affected by the shortage of underground water in the Shihezi City, Xinjiang Region, the PRC. On the other hand, as set out in the interim report of 2011, the Group recorded a profit of HK\$704,000. We also note from the annual report of the Group for the year ended 30 June 2012, the loss for the year significantly increased to HK\$269.74 million from previous year's loss of HK\$54.48 million, mainly attributable to the HK\$36.28 million impairment of goodwill arising from the acquisitions of subsidiaries and HK\$64.56 million impairment of intangible assets of technology patents and HK\$183.73 million loss on changes in fair value of biological assets.

B. Reasons for the Open Offer

According to the Letter from the Board, upon full subscription of the Offer Shares and assuming no further Shares have been allotted and issued from the date of the Record Date, the gross proceeds from the Open Offer will be not less than approximately HK\$162.8 million but not more than HK\$164.1 million before expenses. The estimated net proceeds from the Open Offer will be not less than approximately HK\$156.8 million but not more than HK\$158.1 million after deducting all necessary expenses for the Open Offer, which include the commission to the Underwriters, the fees to the Company's professional and legal advisers and printing and translation costs. The net proceeds of the Open Offer is intended to be applied as to (i) approximately HK\$150.0 million for financing the payment of refundable cash Deposit of the Formal Agreement in the event that the Formal Agreement is entered into. The Deposit shall be treated as partial payment of the consideration of the Possible Acquisition as announced on the Company's MOU Announcement dated 19 July 2013 subject to the terms of the Formal Agreement; and (ii) the remaining balance as general working capital of the Group. If the entering into of the Formal Agreement does not proceed, the net proceeds of approximately HK\$150.0 million which is originally intended to be used for financing payment of the Deposit will then be used for other suitable investment opportunities as and when identified by the Group. According to the management of the Company, the Possible Acquisition, which is associated with a PRC hotel project, is subject to the satisfaction of due diligence on the Target and the Company will consider further negotiation with the Prospective Vendor on the Possible Acquisition. As at the Latest Practicable Date, apart from the Possible Acquisition, no other specific investment

LETTER FROM ENERCHINE

opportunities have been identified by the Group. The Board advised us that in the event that the Formal Agreement cannot proceed and suitable investment opportunities cannot be identified by the Group after completion of the Open Offer, relevant proceeds will be applied to enhance general working capital of the Group, strengthen the capital base of the Group and to allow the Group to maintain sufficient financial flexibility necessary for its future general corporate and business development where the Company will continue to actively seek suitable investment opportunities in pursuing business growth.

As noted from the Letter of the Board, the Group is now conducting due diligence investigation on the Possible Acquisition. Subject to the satisfaction of due diligence result and in the event that the Directors consider that the Possible Acquisition will offer the Group an investment opportunity to diversify and expand its business portfolio into the PRC hotel sector with the view of broadening the income source of the Group, generating additional and stable cash flow and bringing investment returns to the Shareholders, the Group will further negotiate with the Prospective Vendor for the entering into of the Formal Agreement. Furthermore, the Prospective Vendor has indicated that prior to further negotiation of the Formal Agreement, it is expecting the Group to have funding for payment of the Deposit in the amount of not less than HK\$150.0 million in order for the Formal Agreement to be entered into. As such, in order to facilitate the Group in its negotiation of the Formal Agreement, it is necessary for the Group to raise funds to finance the payment of the Deposit.

The Board is of the opinion that as each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company, Qualifying Shareholders are treated equally and fairly under the Open Offer.

According to the management of the Company and having considered the follows: (i) the net consolidated current liabilities of the Group as at 31 December 2012 in accordance with the Interim Report 2012; (ii) the net proceeds from placing announced on 10 June 2013 has been fully utilized and the general mandated granted on 6 June 2013 at the extraordinary general meeting has been fully utilized; (iii) the Company needs additional fund to finance the Possible Acquisition; (iv) the Open Offer can strengthen the liquidity of the Shares regarding the low liquidity of the Shares traded in the market in the Review Period (as defined below) as elaborated hereinafter; (v) it has been the business strategy of the Group to proactively seek potential investment opportunities in order to enhance the Company's value and provide potentially profitable return to the Shareholders' investments and the Company will apply the net proceeds on other suitable investment opportunities in case the Possible Acquisition cannot proceed; and (vi) Qualifying Shareholders are treated equally and fairly under the Open Offer, we concur with the view of the Directors that the Open Offer is fair and reasonable and is in the interest of the Company and Independent Shareholders as a whole.

LETTER FROM ENERCHINE

C. The Open Offer

The Subscription Price for the Offer Shares is HK\$0.27 per Offer Share, payable in cash in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer. The net Subscription Price per Offer Share (after deducting the relevant expenses) will be approximately HK\$0.26.

The Subscription Price represents:

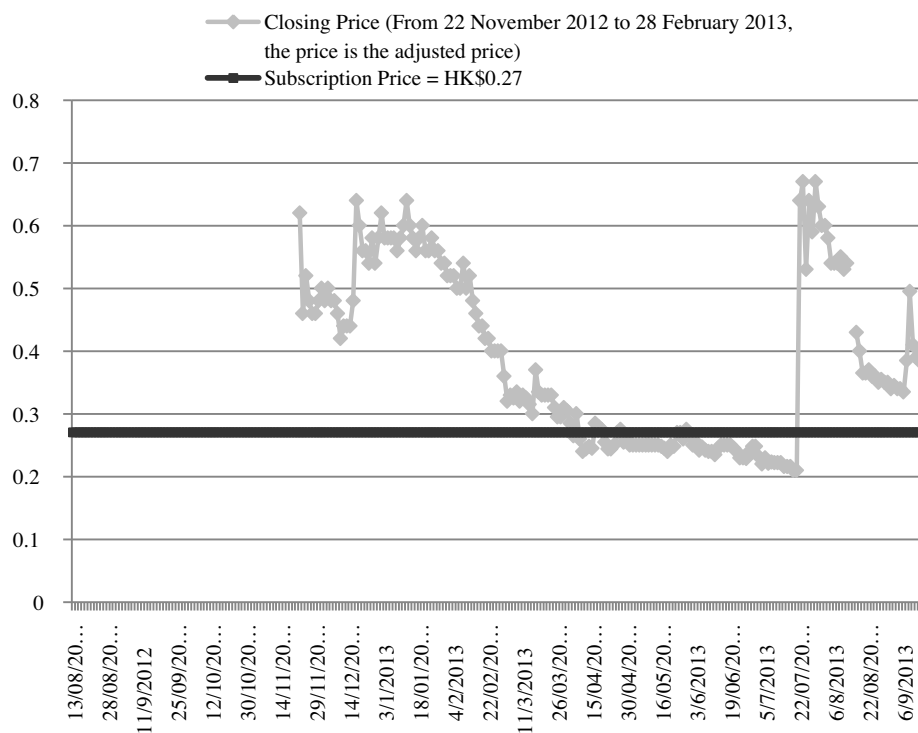
- (a) a discount of 50.00% to the closing price of HK\$0.540 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of 50.00% to the average closing price of HK\$0.540 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 52.21% to the average closing price of HK\$0.565 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 18.92% to the theoretical ex-rights price of approximately HK\$0.333 per Share based on the closing price of HK\$0.540 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (e) a discount of approximately 92.61% to the unaudited consolidated net asset value per Share of approximately HK\$3.653 (based on 182,723,748 issued Shares as at the Latest Practicable Date and the unaudited net asset value of the Group of approximately HK\$667.43 million as at 31 December 2012); and
- (f) a discount of approximately 27.03% to the closing price of HK\$0.370 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

As stated in the letter for the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the financial conditions of the Company and the prevailing market conditions. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Open Offer, the Directors consider that the terms of the Open Offer, including the Subscription Price, is fair and reasonable and in the interests of the Company and the Shareholder as a whole. The net price per Offer Share upon full acceptance of the relevant provisional allotment of the Offer Shares (assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date) will be approximately HK\$0.26.

LETTER FROM ENERCHINE

1. *Historical closing prices*

We have reviewed the movements in the trading price of the Shares during the period from 12 August 2012 (being the 12 calendar months period prior to the date of the Underwriting Agreement) to the Latest Practicable Date (the “**Review Period**”). The closing prices of the Shares during the Review Period are set out below:



Source: www.hkex.com.hk

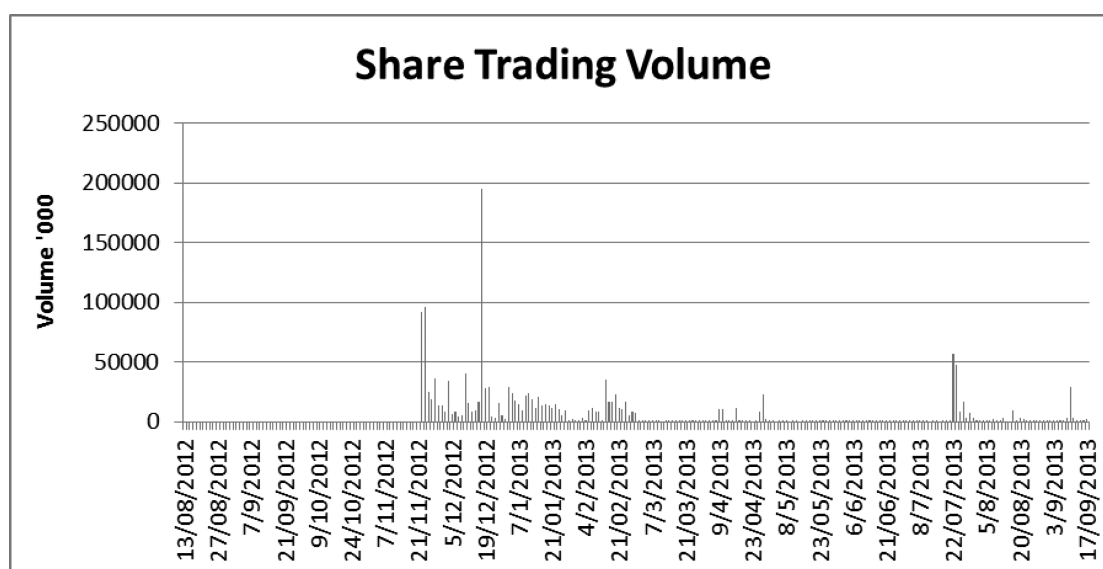
Note: The trading of the Shares was suspended during the periods from 24 February 2012 to 21 November 2012 and 13 August 2013 to 15 August 2013.

The closing prices of the Shares ranged from the lowest of HK\$0.210 on 18 July 2013 and 19 July 2013 to the highest of HK\$0.670 on 23 July 2013 and 29 July 2013 during the Review Period. The closing prices of the Shares illustrated a decreasing trend starting from the resumption of trading of the Shares on 22 November 2012. The closing prices rebounded in July 2013 and illustrated a decreasing trend again since 16 August 2013. As noted from the announcement of the Company dated 19 July 2013, apart from the Possible Acquisitions announced by the Company, the Board was not aware of any reasons of such price increase. We also noted that the Company published an announcement on 22 July 2013 regarding the increase in the price and trading volume of the Shares on that day and stated that the Board was not aware of any reasons for the increase save for the Announcement and the Possible Acquisition Announcement. As shown in the above price graph, the closing prices of the Shares during the Review Period were fluctuated and despite the sudden increase in the closing price of the Shares in 22 July 2013. As advised by the Company, the subsequent decrease in the share price of the Company was mainly affected by the market conditions and there was no favorable news to stimulate the property market.

LETTER FROM ENERCHINE

We note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. In view of that closing price of the Shares and the fund raising need for the expected deposit of the consideration for the Possible Acquisition, we concur with the Directors that the Subscription Price being set at lower than the prevailing market prices of the Shares is in line with general market practice and is acceptable.

2. *Share trading volume*



Source: www.hkex.com.hk

Note: The trading of the Shares was suspended during the periods from 24 February 2012 to 21 November 2012 and 13 August 2013 to 15 August 2013.

During the Review Period, the daily trading volume of the Shares ranged from 0 Shares to 194,944,000 Shares. The average daily trading volume during the Review Period was approximately 7,674,293 Shares, representing approximately 4.20% of the entire issued capital of the Company as at the Latest Practicable Date. Therefore, we are of the view that the Shares were traded at thin liquidity during the Review Period. Due to the thin trading liquidity of the Shares, we concur with the Directors that the Subscription Price being set at lower than the prevailing market prices of the Shares is in line with general market practice and is acceptable.

3. *Comparison with open offers comparables*

In assessing the fairness of the Subscription Price, we have compared the Open Offer with an exhaustive list which includes all the samples within our parameters, the identified 22 open offers (the "Comparables") conducted by companies that are listed on the Stock Exchange, which announced the respective open offers since the 12 August 2012 up to and including 12 August 2013, being a 12-month period preceding the date of the Underwriting Agreement according to our research on a best

LETTER FROM ENERCHINE

effort basis. We are of the view that a 12-month period is appropriate in order to comprise a more comparable sample size of companies to show a better comparison. However, Independent Shareholders should note that the companies of the identified open offer exercise are not identical to the Company in terms of principal business, operations and financial position, and that the determination of offer price of the open offer exercise was made reference to the arm's length commercial negotiation between the companies and the underwriters, the share price performance, financial positions of the companies and the then prevailing market condition. We believe that these companies can reflect a rounded comparison and we consider the Comparables are fair and representative samples. Details of the Comparables are summarized in the following table:

Comparable (stock code)	Date of announcement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day (%)	Maximum dilution (Note)	Underwriting Commission (%)	Excess application (Yes/No)	Ratio for allotment
Uni-bio Science Group Limited (0690)	2013-07-10	(49.37)	66.67	2.50	Yes	1 for 1, bonus issue of 1 bonus share for every offer share and 1 bonus warrant for every 2 offer shares
Sustainable Forest Holdings Limited (0723)	2013-07-05	15.94	50.00	2.50	No	1 for 12, bonus issue of 11 bonus shares for every offer share
Larry Jewelry International Company Limited (8351)	2013-04-05	(54.36)	23.08	1.50	No	3 for 10
Sustainable Forest Holdings Limited (0723)	2013-03-18	(9.49)	25.00	3.00	No	1 for 6, bonus issue of 1 bonus warrant for 1 offer share
Eternity Investment Limited (0764)	2013-03-13	(9.09)	33.33	1.00	No	1 for 2
Summit Ascent Holdings Limited (0102)	2013-02-28	(59.46)	23.08	1.25	No	3 for 10
TLT Lottotainment Group Limited (8022)	2013-02-07	49.25	66.67	3.00	No	2 for 1
Perception Digital Holdings Limited (1822)	2013-01-30	(37.27)	33.33	3.00	No	1 for 2
FU JI Food and Catering Services Holdings Limited (1175)	2013-01-21	(99.03)	50.00	NA	Yes	1 for 1
Solargiga Energy Holdings Limited (0757)	2013-01-15	(12.07)	16.67	1.00	Yes	1 for 5

LETTER FROM ENERCHINE

Comparable (stock code)	Date of announcement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day (%)	Maximum dilution (Note)	Underwriting Commission (%)	Excess application (Yes/No)	Ratio for allotment
Far East Holdings International Limited (0036).	2012-12-14	(39.39)	33.33	4.50	Yes	1 for 2
China Neng Xiao Technology (Group) Limited (8047)	2012-12-11	(73.40)	33.33	3.50	No	1 for 2
TeleEye Holdings Limited (8051)	2012-11-15	(58.20)	33.33	2.00	Yes	1 for 2
Solargiga Energy Holdings Limited (0757)	2012-11-02	(16.67)	10.00	1.50	No	1 for 9
Yunbo Digital Synergy Group Limited (8050)	2012-10-31	(44.44)	20.00	0	Yes	1 for 4
Royale Furniture Holdings Limited (1198)	2012-10-26	(38.55)	33.33	2.50	No	1 for 2
C Y Foundation Group Limited (1182)	2012-10-19	(35.90)	33.33	2.00	No	1 for 2
New Universe International Group Limited (8068)	2012-09-28	(4.76)	16.67	0	Yes	1 for 5
Sun Century Group Limited (1383)	2012-09-05	(78.26)	85.71	0	No	6 for 1
Computech Holdings Limited (8081)	2012-08-22	(81.82)	75.00	2.50	No	3 for 1
C Y Foundation Group Limited (1182)	2012-08-15	(55.56)	33.33	2.00	No	1 for 2
MelcoLot Limited (8198)	2012-08-14	(21.20)	75.00	0	No	3 for 1
	Maximum	49.25	85.71	4.50		
	Minimum	(99.03)	10.00	0		
	Mean	(41.79)	39.55	1.87		
	The Open Offer	(50.00)	76.74	2.50		

Sources: www.hkex.com.hk

Note: Maximum dilution effect of each open offer is calculated as: (number of offer shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares), e.g. for open offer with basis of 5 offer shares for every existing share held, the maximum dilution effect is calculated as $5/(1+5) = 83.33\%$.

LETTER FROM ENERCHINE

As shown in the above table, the discount represented by the subscription prices to the closing prices of shares of the Comparables on the last trading days prior to the release of the respective open offer announcements ranged from discount of approximately 99.03% to premium of approximately 49.25% and with an average discount of approximately 41.79%. The discount of 50.00% as represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the maximum market range and closes to the mean.

In general, we consider that it is common for the listed issuers in Hong Kong to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction. Having considered that (i) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter; (ii) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the maximum market range and closes to the mean; and (iii) all Qualifying Shareholders are offered an equal opportunities to subscribe for the Offer Shares, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

4. *Underwriting commission*

As advised by the Company, the underwriting commission rate of 2.5% was determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Open Offer and the current and expected market condition. The Board considers the terms of the Underwriting Agreement including the commission rate are fair and reasonable so far as the Company is concerned.

The Open Offer is fully underwritten by the Underwriter which thereby demonstrates its confidence in the Company's future and growth prospects.

Having considered that (i) fully underwritten of the Open Offer by the Underwriter can show its confidence in the Company's future and growth prospects to the Shareholders and potential investors; and (ii) the 2.5% underwriting commission under the Open Offer is in line with the market practice, which ranges from 0% to 4.5% with a mean of 1.87%. On that basis, we note that the underwriting commission charged by the Underwriter to the Company is higher than the mean of the Comparables and within the range of the commission of the Comparables, we considered that the underwriting commission charged by the Underwriter is under normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

5. *Application for excess Offer Shares*

As set out in the letter from the Board, Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its entitlements under the Open Offer, the Board considers that the Company will not be justified in making additional effort and incurring additional costs to administer the excess application procedures. All Offer Shares not taken up under the Open Offer are underwritten by the Underwriter.

LETTER FROM ENERCHINE

We consider that the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements and would result in the Underwriter taking up all the untaken Offer Shares at deep discount to the prevailing market price of the Shares.

However, we consider that the aforesaid should be balanced against after taking into account the following factors:

- (a) we noted that amongst the Comparables, 15 out of 22 companies did not adopt excess application when they conduct open offer for fund raising and we believed that the absence of the excess application arrangement is not an uncommon market practice;
- (b) the related administration costs would be lowered in the absence of excess applications; and
- (c) the absence of excess application arrangement for the Offer Shares is subject to approval by the Independent Shareholders at the EGM.

Given the above, we are of the view that the absence of the excess application arrangement is fair and reasonable.

6. *Risks associated with the Open Offer*

Shareholders and potential investors should note that the Open Offer is conditional, among other things, upon the fulfillment of the conditions set out under the section headed “Conditions of the Open Offer” in the letter from the Board. In particular, the Open Offer is subject to the Underwriter not terminating or rescinding the Underwriting Agreement in accordance with the terms set out therein (a summary of which is set out in the section headed “Termination of the Underwriting Agreement” in the letter from the Board).

Having reviewed the circulars of the Comparables, we consider that such provisions are on normal commercial terms and in line with the market practice.

D. **Alternatives**

As noted from the letter from the Board, the Board has considered other alternative financing alternatives such as a rights issues which allows the Shareholders to trade their nil-paid entitlements in the market in nil-paid form. However, the Board views that such trading arrangements will increase the administrative works and expenses for the proposed fund raising exercise. The Board considers raising funds by way of the Open Offer is more cost-effective and efficient as compared to a rights issue.

Furthermore, compared to rights issue, the absence of trading nil paid rights in the Open Offer reduces associated administrative work and costs thus requiring less time for completion.

LETTER FROM ENERCHINE

Taking into account that:

- (a) rights issue has a higher cost to complete as compared to open offer because of additional administrative costs and expenses of the Company in arranging trading arrangement of the nil-paid rights with the share registrar;
- (b) the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company;
- (c) the uncertainty of the existence of a market to trade the nil-paid entitlements and the un-economical trading cost which may be incurred by a qualifying shareholder;
- (d) the Open Offer will enable the Shareholders to maintain their proportionate interests in the Company should they so wish;
- (e) debt financing and bank borrowing will create interest payment obligations on the Group and increase the gearing of the Company; and
- (f) any placing of new Shares will inevitably cause dilution to the interests of the existing Shareholders as they will not be able to participate on an equitable basis.

We are of the view that fund raising by way of the Open Offer is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

E. Arrangement of the Excluded Shareholders

We have reviewed the arrangements of the Excluded Shareholders regarding the Open Offer. Given the Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong, Overseas Shareholders may not be eligible to take part in the Open Offer.

In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company has made enquiries with the Company's legal advisers to assist and enable the Board to consider whether it is necessary or expedient not to, offer the Offer Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or requirements of the relevant regulatory body or stock exchange in that place. Based on the advice received, the Board takes the view that the time and costs involved in complying with relevant legal and regulatory requirements in the United States of America, the PRC and Singapore would outweigh the possible benefits to the Overseas Shareholders (including the CDP Depositors) and the Company if the Offer Shares are to be offered to the Overseas Shareholders (including the CDP Depositors). On this basis, the Board considers that it is necessary or expedient not to offer the Offer Shares to the Overseas Shareholders (including the CDP Depositors) and Overseas Shareholders (including the CDP Depositors) will be regarded as Excluded Shareholders in relation to the Open Offer.

LETTER FROM ENERCHINE

Accordingly, the Open Offer will not be extended to the Exclude Shareholders. The Company will only send the Prospectus, together with the Overseas Letter, to the Excluded Shareholders for their information, but will not send any PAL to them.

F. Financial effect of the Open Offer

1. *Net asset value*

Based on the statement of unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets attributable to owners of the Company amounts to approximately HK\$539.401 million as at 31 December 2012. The unaudited pro forma consolidated net tangible assets attributable to owners of the Company amounts to at least approximately HK\$696.201 million upon completion of the Open Offer.

2. *Working capital*

The Open Offer shall have a positive effect on the Group's working capital upon completion as the proceeds from the Open Offer will bring in a net cash inflow of at least approximately HK\$156.8 million to the Group. In light of the enhancement on the net tangible assets and the working capital as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

3. *Gearing ratio (total borrowings/total equity)*

According to Interim Report 2012, the gearing ratio of the Group was approximately as low as 0.02%. Immediately after completion of the Open Offer, the total borrowings of the Group would remain unchanged while the net assets/total equity of the Group would increase by not less than HK\$156.8 million to not more than HK\$158.1 million after deducting all necessary expenses for the Open Offer. Hence, the gearing ratio of the Group would be improved as a result of the Open Offer.

G. Potential Dilution

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full.

As noted from the letter of the Board, for scenario 1 of the shareholding structure of the Company, assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date, the aggregate shareholding of the public shareholder will decrease from approximately 100.00% to approximately 23.26% upon completion of the Open Offer. For the scenario 2 of the shareholding structure of the Company, assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date, the aggregate shareholding of the public shareholder will decrease from approximately 100.00% to approximately 23.26% upon completion of the Open Offer.

LETTER FROM ENERCHINE

In all cases of open offers, the dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offers depends mainly on the extent of the basis of entitlement under such exercises since the higher offering ratio of new shares to existing shares is the greater the dilution on the shareholding would be.

We noted the massive dilution effect and the deep discount of the Subscription Price to the closing price on the Last Trading Day. However, having taken into account:

- (a) the Open Offer would enlarge the capital base of the Company;
- (b) the funding needs for the Possible Acquisition as mentioned in the above section headed “Reasons for the Open Offer”;
- (c) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the growth of the Company;
- (d) the inherent dilutive nature of Open Offer in general;
- (e) the discount represented by the Subscription Price to the closing price of the Share on the Last Trading Day falls within the Last Trading Date market range and closes to the Last Trading Day mean; and
- (f) the maximum dilution of the Open Offer falls within the range of the maximum dilution of the open offer of the Comparables which ranges from approximately 10.00% to 99.10%.

We consider the potential dilution effect on the shareholding which may happen to the Qualifying Shareholders who decide not to accept the Open Offer is acceptable.

RECOMMENDATIONS

Taking into account the factors and reasons as mentioned above, we consider that the terms of the Open Offer are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer to be proposed at the EGM.

LETTER FROM ENERCHINE

The Independent Shareholders are however reminded to note that there is no guarantee that the current market price will or will not sustain; or will or will not be higher than the Subscription Price from the Latest Practicable Date to immediately prior to the latest time for acceptance of and payment for the Offer Shares and after the dealing of the Offer Shares commences. The Independent Shareholders, especially those who intend to subscribe for the Offer Shares, are also reminded to closely monitor the market price and the liquidity of the Shares.

Yours faithfully,
For and on behalf of
Enerchine Corporate Finance Limited
Margaret Wong
Managing Director

(1) THREE YEAR AND SIX MONTH FINANCIAL INFORMATION

Financial information of the Group for the year ended 30 June 2010, year ended 30 June 2011, year ended 30 June 2012 and six months ended 31 December 2012 are disclosed on pages 26-105 of the 2010 annual report published on 1 November 2010 (<http://www.hkexnews.hk/listedco/listconews/sehk/2010/1101/LTN20101101051.pdf>), pages 24-109 of the 2011 annual report published on 27 October 2011 (<http://www.hkexnews.hk/listedco/listconews/sehk/2011/1027/LTN20111027282.pdf>), pages 32-113 of the 2012 annual report published on 18 October 2012 (<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1018/LTN20121018226.pdf>) and pages 4-34 of the 2013 interim report published on 11 March 2013 (<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0311/LTN20130311160.pdf>) of the Company respectively, which were published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (www.greencer.com).

(2) STATEMENT OF INDEBTEDNESS**Borrowing**

At the close of business on 31 July 2013, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this Circular, the Group had obligation under finance lease of approximately HK\$141,000 were secured by motor vehicles and equipment.

Commitments and contingent liabilities

As at 31 July 2013, the Group did not have any significant commitments and contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 July 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities. Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group since 31 July 2013 and up to the Latest Practicable Date.

(3) WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are in the opinion that in the absence of unforeseen circumstances and taking into account of the net proceeds from the Open Offer and the internal resources of the Group, the Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of this circular.

(4) MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2012, the date to which the latest published audited consolidated financial statements of the Group have been made up.

(5) FINANCIAL AND TRADING PROSPECT OF THE GROUP

As at the Latest Practicable Date, the Group is 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.

As mentioned in the interim report of the Company for the six months ended 31 December 2012, during the period under review, the Group recorded a loss attributable to owners of the Company of approximately HK\$23.0 million as compared to net profit of approximately HK\$0.6 million in corresponding period in 2011. The loss per share for the six months ended 31 December 2012 was approximately HK\$0.897 cents. The net loss for the six months ended 31 December 2012 was mainly attributable to (i) gross loss of approximately HK\$2.8 million; (ii) loss from changes in fair value of biological assets of approximately HK\$11.4 million; and (iii) administrative and other operating expenses of approximately HK\$11.8 million.

China has a population of approximately 1.3 billion, which is accounted for 22% 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> (the "**12th Five-Year Plan**"), 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 approximate 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 12th Five-Year Plan 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 climate change will continue to become extreme uncertainties and risks for the Group's operating activities.

Under these circumstances, the Group will continue to exercise tight credit control in plantation materials business, adjusting plantation operation to local conditions in plantation product business, upgrading the environmental system to restore profitability and to devote more resources to technology income segment which commands higher profit margin with less capital-intensive investment.

To minimize the operating risk and to maximize the return for shareholders, the Group will edge on its technology competence, forefront market experience and nationwide Chinese business network to continuously explore new investment opportunity to diversify its business areas for higher return.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following is the text of a report, prepared for the sole purpose of inclusion in this circular from the independent reporting accountants of the Company, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong.



The Board of Directors
China Environmental Resources Group Limited
2/F., Shui On Centre,
6-8 Harbour Road,
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Net Tangible Assets”) of China Environmental Resources Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed open offer of not less than 602,988,342 offer Shares (assuming no subscription rights attaching to be outstanding Options are exercised on or before the Record Date) and not more than 607,773,342 Offer Shares (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) at a subscription price of HK\$0.27 per Offer Share, on the basis of thirty-three Offer Shares for every ten Shares held on the record date as defined in an announcement dated 15 August 2013, might have affected the financial information presented, for the inclusion in Appendix II of the circular dated 30 September 2013 (the “Circular”). The basis of preparation of the unaudited pro forma information is set out in Appendix II to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Net Tangible Assets in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Net Tangible Assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Net Tangible Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagement 3420 “Assurance Engagements to Report on the compilation of Pro Forma Financial Information included in a prospectus” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information. We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Net Tangible Assets is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Elite Partners CPA Limited
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

B. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The unaudited pro forma statement of adjusted consolidated net tangible assets attributable to owners of the Company has been prepared in accordance with paragraph 4.29(1) of the Listing Rules set out below to illustrate the effect of the Open Offer on the unaudited consolidated net tangible assets of the Group as if it had taken place on 31 December 2012.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Open Offer been completed as at 31 December 2012 or at any future date.

The following unaudited pro forma statement of the adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2012, extracted from the published interim report of the Group for the six months ended 31 December 2012, with adjustment described below:

	Unaudited consolidated net tangible assets attributable to owners of the Company as at 31 December 2012	Unaudited estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 31 December 2012	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share before the completion of the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after completion of the Open Offer
	HK\$'000	HK\$'000	HK\$'000	HK\$	HK\$
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on					
602,988,342 Open Offer at subscription price of HK\$0.27 per Offer Share ("Minimum Open Offer")	539,401	156,800	696,201	2.95	0.89
Based on					
607,773,342 Open Offer at subscription price of HK\$0.27 per Offer Share ("Maximum Open Offer")	539,401	158,092	697,493	2.95	0.88

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

- 1) The unaudited consolidated net tangible liabilities attributable to owners of the Company as at 31 December 2012 has been extracted from the published interim report of the Company for the six months ended 31 December 2012 after deducting intangible assets of approximately HK\$128,026,000
- 2) The estimated net proceeds from the Open Offer of
 - i) approximately HK\$156,800,000 are based on the minimum number of 602,988,342 Offer Shares to be issued at the Subscription Price of HK\$0.27 per Offer Share (assuming no subscription rights attaching to be outstanding Options are exercised on or before the Record Date) and after deducting estimated expenses of approximately HK\$6,007,000 attributable to the Open Offer.
 - ii) approximately HK\$158,092,000 are based on maximum number of 607,773,342 Offer Shares to be issued at the Subscription Price of HK\$0.27 per Offer Share (assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date) and after deducting estimated expenses of approximately HK\$6,007,000 attributable to the Open Offer.
- 3) The unaudited pro forma adjusted consolidated net tangible assets of the Group per share attributable to the owners of the Company before the completion of the Open Offer is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2012 of approximately HK\$539,401,000 as disclosed in note 1 above, divided by 182,723,748 shares of the Company in issue as at 31 December 2012.
- 4) For Minimum Open Offer, the calculation of the unaudited pro forma adjusted consolidated net tangible assets per share is based on 785,712,090 shares which comprise 182,723,748 shares in issue as at 31 December 2012 and 602,988,342 Offer Shares assuming no exercise of the outstanding Share Options, after the completion of the Open Offer

For Maximum Open Offer, the calculation of the unaudited pro forma adjusted consolidated net tangible assets per share is based on 790,497,090 shares which comprise 182,723,748 shares in issue as at 31 December 2012, full exercise of the outstanding Share Options with proceeds of HK\$1,292,000 and 607,773,342 Offer Shares, after the completion of the Open Offer.

1. Responsibility statement

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

2. Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon completion of the Open Offer are as follows:

<i>Authorized:</i>	<i>HK\$</i>
<u>15,000,000,000</u> Shares as at the Latest Practicable Date	<u>300,000,000.00</u>

<i>Issued and fully-paid:</i>	<i>HK\$</i>
<u>182,723,748</u> Shares in issue as at the Latest Practicable Date	<u>3,654,474.96</u>

Scenario 1: Assuming no subscription rights attaching to the outstanding Options are exercised on or before the Record Date

	<i>HK\$</i>
602,988,342 Offer Shares to be issued pursuant to the Open Offer	12,059,766.84
<u>795,712,090</u> Shares in issue immediately following the Open Offer	<u>15,714,241.80</u>

Scenario 2: Assuming full exercise of the subscription rights attaching to the outstanding Options on or before the Record Date

	<i>HK\$</i>
607,773,342 Offer Shares to be issued pursuant to the Open Offer	12,155,466.84
<u>791,947,090</u> Shares in issue immediately following the Open Offer	<u>15,838,941.80</u>

Each of the Shares in issue ranks *pari passu* with all other Shares in all respects including as to rights to dividends, voting and return of capital.

The Offer Shares will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

The Shares are primarily listed on the Main Board of the Stock Exchange and secondarily listed on the SGX-ST. Other than the Stock Exchange and the SGX-ST, no part of the share capital or any other securities of the Company is listed on or dealt in any stock exchange and no application is being made or is currently proposed or sought for the Shares or Offer Shares or any other securities of the Company to be listed on or dealt in any other stock exchange.

As at the Latest Practicable Date:

- (i) save for the outstanding Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares;
- (ii) there were no arrangements under which future dividends are waived or agreed to be waived; and
- (iii) no Share or loan capital of the Company or any members of the Group had been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted, except for the Offer Shares and the outstanding Options.

3. Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures

As at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate and other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

4. Interests and short positions of substantial Shareholders

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, no person or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

5. Directors' interests in contracts and assets

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director is materially interested and significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors or proposed Directors or expert has, directly or indirectly, any interest in any assets which have since 30 June 2012 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. Competing interest

As at the Latest Practicable Date, none of the Directors and his respective associates was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's businesses pursuant to Rule 8.10 of the Listing Rules.

7. Litigation

As at the Latest Practicable Date, the Group was not engaged in any litigation, claim or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. Services contracts

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

9. Experts and consents

The following are the qualifications of the experts who have given opinions or advices which are contained in this Circular:

Name	Qualification
Enerchine	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Elite Partners CPA Limited	Certified Public Accountants

Each of Enerchine and Elite Partners CPA Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its reports and/or its letters dated 30 September 2013 and/or references to its name and/or its advice in the form and context in which they respectively appear.

10. Experts' interests in assets

As at the Latest Practicable Date, each of Enerchine and Elite Partners CPA Limited:

- (a) was not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2012, being the date to which the latest published audited consolidated accounts of the Group were made up; and
- (b) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. Material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this Circular:

- (a) the memorandum of understanding dated 18 November 2011 entered into between Mega Choice Holdings Limited ("Mega Choice") as purchaser, a wholly owned subsidiary of the Company, and Mr. Wu Chao as vendor, in relation to the possible acquisition by Mega Choice of the entire issued share capital of Eugene Finance International Limited;
- (b) the placing agreement dated 18 November 2011 entered into between the Company and Cheong Lee Securities Limited ("Cheong Lee") whereby Cheong Lee has agreed to place, on a best effort basis, to not less than 6 independent places for up to 360,000,000 placing shares at a price of HK\$0.073 per placing share;
- (c) the sale and purchase agreement dated 7 December 2011 (the "Forest Acquisition Agreement") entered into between Mega Choice as purchaser, a wholly owned subsidiary of the Company, and Mr. Wu Chao as vendor, in relation to the acquisition by Mega Choice of the entire issued share capital of Eugene Finance International Limited and all sums owned by the Company to Mr. Wu Chao at a total consideration of HK\$180,000,000;
- (d) the placing agreement dated 16 February 2012 (the "CB Placing Agreement") entered into between the Company and Emperor Securities Limited ("Emperor Securities") whereby Emperor Securities agreed to procure, on a best effort basis, not less than 6 independent places 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 of the convertible notes, convertible into shares at the initial conversion price of HK\$0.10 per share (subject to adjustments). Subsequently on 31 March 2012, the CB Placing Agreement was terminated in accordance with the terms thereof;

- (e) the letter of confirmation dated 30 March 2012 entered into between Mega Choice and Mr. Wu Chao in relation to the extension of the long stop date for the fulfillment of the conditions precedent as set out in the Forest Acquisition Agreement from 5:00 p.m. on 30 March 2012 to 5:00 p.m. on 30 June 2012;
- (f) the termination agreement dated 20 February 2013 entered into between Mega Choice and Mr. Wu Chao to terminate the Forecast Acquisition Agreement and with sum of HK\$12 million being deposits paid under the Forecast Acquisition Agreement upon signing thereof was returned to Mega Choice;
- (g) the placing agreement dated 20 March 2013 entered into between the Company and Pico Zeman Securities (HK) Limited (“Pico Zeman”) whereby the Company conditionally agreed to place, through Pico Zeman, on a best effort basis, a maximum of 24,000,000 placing shares to not less than 6 independent places at a price of HK\$0.265 per placing share;
- (h) the supplemental agreement dated 23 April 2013 entered into between CER Management Limited (“CER Management”) as purchaser and Ample Advance Group Limited (“Ample Advance”) as vendor in relation to the amendment in the settlement of the consideration of the Bright Delight Acquisition Agreement (as defined below) after considering non-fulfillment of the profits guarantee as contemplated under the Bright Delight Acquisition Agreement. A sale and purchase agreement dated 4 December 2010 (the “Bright Delight Acquisition Agreement”) was entered into between Keen Info Investments Limited (“Keen Info”) as the purchaser, a wholly-owned subsidiary of the Company, and Ample Advance as vendor in relation to the acquisition by Keen Info of the entire issued share capital of Bright Delight Group Limited. Subsequently, by an assignment dated 25 November 2011, Keen Info assigned to CER Management all its obligations, right, interest and benefit in and to the Bright Delight Acquisition Agreement;
- (i) the placing agreement dated 10 June 2013 entered into between the Company and Freeman Securities Limited (“Freeman Securities”) whereby Freeman Securities has conditionally agreed to place 30,453,958 placing shares on a fully underwritten basis to not less than 6 independent places at a price of HK\$0.20 per placing share;
- (j) the MOU; and
- (k) the Underwriting Agreement.

12. Expenses

The estimated expenses in connection with the Open Offer, including the underwriting commission, financial advisory fees, printing registration, translation, legal and accountancy charges and other related expenses are estimated to amount to approximately HK\$6.0 million and will be payable by the Company.

13. Corporate information and parties involved in the Open Offer

Registered office	Ugland House South Church Street P.O. Box 309 George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business in Hong Kong	2/F., Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Company secretary	Mr. Lo Tai On
Authorised representatives	Mr. Zhou Hongbo 2/F., Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong Mr. Leung Kwong Choi House 218, Seasons Monarch No. 183, Kam Tin Road Yuen Long, New Territories
Legal advisers to the Company in relation to the Open Offer	<i>As to Hong Kong law:</i> Tso Au Yim & Yeung 5/F, Ka Wah Bank Centre 232 Des Voeux Road Central Central, Hong Kong <i>As to Cayman Islands law:</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central, Hong Kong

Auditors	Lau & Au Yeung C.P.A. Limited <i>Certified Public Accountants</i> 21/F, Tai Yau Building 181 Johnston Road Wanchai, Hong Kong
Reporting accountants	Elite Partners CPA Limited <i>Certified Public Accountants</i> Suites 921-921A, 9th Floor Star House, 3 Salisbury Road Tsim Sha Tsui, Kowloon, Hong Kong
Independent financial adviser	Enerchine Corporate Finance Limited 25/F., China United Centre 28 Marble Road North Point, Hong Kong
Underwriter	China Rise Securities Company Limited Suite 1611, 16/F., West Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited 17M Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal share registrar and transfer office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square, Grand Cayman KY1-1102, Cayman Islands
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

14. Particulars of the Directors

(a) Name and address of the Directors

Name	Address
<i>Executive Directors</i>	
Mr. Zhou Hongbo (<i>Chairman and Chief Executive Officer</i>)	2/F., Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Mr. Kwok Wai, Wilfred	2/F., Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Mr. Leung Kwong Choi	2/F., Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
<i>Independent non-executive Directors</i>	
Mr. Wong Kwai Sang	9B, Tower 3, Parc Regal 19 Homantin Hill Road Kowloon, Hong Kong
Mr. Christopher David Thomas	Flat C, 17/F, Tower 1 Lebleu Deux Coastal Skyline No. 12, Tung Chung Waterfront Road Tung Chung, Lantau
Mr. Chan Ka Yin	Flat D, 40/F, Tower 10 Park Central, 9 Tong Tak Street Tseung Kwan O, New Territories

(b) Profiles of Directors

Executive Directors

Mr. Zhou Hongbo, aged 42 was appointed as Executive Director and Chairman of the Board on 1 June 2012. Mr. Zhou received a Bachelor of Business Management Degree. Mr. Zhou is certified with a qualification in forestry administrative enforcement of law and administration engineer by the State Forestry Administration. Mr. Zhou has 17 years of experiences in forestry production and operation management. He was a business manager and deputy manager of Forestry Storage Plant in the Forestry Bureau of Jidong County, Heilongjiang Province, as well as a manager of Forest Protection Plant in the State Forestry Administration. He was responsible for the operation and fire protection for eight forest zones under the Jidong Forestry Bureau. Save as disclosed above, Mr. Zhou has not held any directorship for any listed company in Hong Kong or overseas over the past three years and he does not hold any other position in the Company or any subsidiary of the Company.

Mr. Kwok Wai, Wilfred, aged 40, was appointed as Executive Director on 7 April 2009. Mr. Kwok possesses over 10-year frontier experiences in business and marketing in China. Mr. Kwok served the publicly listed Vertex group and introduced international media projects into China market in 2002. In 2003, Mr. Kwok partnered the publicly listed King Fook group to form exclusive Hong Kong company serving privileged airport ground services in major Chinese airports. Mr. Kwok has a decade of green business development. With strong connection in China, he specialises in project merge and acquisition and negotiation with central government, local governments and corporations. Save as disclosed above, Mr. Kwok has not held any directorship for any listed company in Hong Kong or overseas over the past three years and he does not hold any other position in the Company or any subsidiary of the Company.

Mr. Leung Kwong Choi, aged 57, was appointed as Executive Director on 6 October 2008. He is a member of the investment committee of the Company. He was appointed as Director of CER Management Limited, a wholly subsidiary of the Company, on 6 October 2008. Mr. Leung holds a Bachelor of Social Science Degree from the Chinese University of Hong Kong. He had been working for 10 years in the marketing department of Hang Lung Development Ltd. since graduation. Mr. Leung had also served the positions of executive director of Top Glory Holdings Ltd., China Food Ltd. and Cheung Tai Hong Holdings Ltd., all of which are companies with shares listed on The Stock Exchange of Hong Kong Limited. Mr. Leung has over 28 years of real estate and business experience in Hong Kong and the PRC concentrating in property investment and development, acquisition and merger, deal marking and investment projects arrangement. Save as disclosed above, Mr. Leung has not held any directorship for any listed company in Hong Kong or overseas over the past three years and he does not hold any other position in the Company or any subsidiary of the Company.

Independent non-executive Directors

Mr. Wong Kwai Sang, aged 61, was appointed as an Independent Non-executive Director on 2 March 2009 and is a member of the audit committee, remuneration committee and nomination committee of the Company. He is a property consultant. Mr. Wong had been an Independent Non-executive Director, member of audit committee and member of remuneration committee of the Company since 3 July 2002. He resigned on 4 July 2008 as he himself had a long term personal assignment stationed in Shanghai. Mr. Wong has now completed his assignment in Shanghai and returned to Hong Kong. He holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Real Estate Administrators and the Australian Institute of Building respectively. Save as disclosed above, Mr. Wong has not held any directorship for any listed company in Hong Kong or overseas over the past three years and he does not hold any other position in the Company or any subsidiary of the Company.

Mr. Christopher David Thomas, aged 35, was appointed as Independent Non-executive Director on 4 May 2009 and is a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Thomas graduated from Johns Hopkins University School of Advanced International Studies with a Master Degree in International Relations — Concentration in International Finance and Asian Studies. Mr. Thomas joined Deutsche Bank in 2001 to serve as the Analyst in Telecommunication Investment Banking. From 2002 to 2004, Mr. Thomas worked as an Analyst in Media and Technology Mergers and Acquisitions for Signal Hill Capital Group LLC, the boutique investment bank founded by former Global Head of Telecommunications at Deutsche Banc

Alex. Brown, Inc. Mr. Thomas is currently the Regional Vice President (North America Division) of Snowland Tibetan Medicine Company which is a leading Tibetan medicine company in the herbal medicine market. Mr. Thomas has over 9 years experience in clientele development, sales and marketing to nationwide distributors and individual customers. Save as disclosed above, Mr. Thomas has not held any directorship for any listed company in Hong Kong or overseas over the past three years and he does not hold any other position in the Company or any subsidiary of the Company.

Mr. Chan Ka Yin, aged 39, was appointed as Independent Non-executive Director on 8 March 2013 and is the chairman and member of audit committee, remuneration committee and nomination committee of the Company. Mr. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan received a bachelor's degree in Business Administration in Accounting and Finance of The University of Hong Kong. He has ample experience in auditing, accounting, financial management and company secretarial practices in respect of listed companies. Mr. Chan is currently the general manager of a corporate services company in Hong Kong. Save as disclosed above, Mr. Chan has not held any directorship for any listed company in Hong Kong or overseas over the past three years and save as disclosed above, he does not hold any other position in the Company or any subsidiary of the Company.

The Directors are not related and none of them has any of the relationships as set out below with any other Directors. The relations are spouse, person cohabiting as a spouse, relative meaning a child or step-child regardless of age, a parent or step-parent, a brother, sister, step-brother or a step-sister, a mother-in-law, a father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law.

None of the Directors is a director or employee of a company which has an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

15. Miscellaneous

- (a) The registered office of the Company is situated at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business of the Company in Hong Kong is situated at 2/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (b) The principal share registrar and transfer office of the Company is Maples Fund Services (Cayman) Limited at PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Lo Tai On. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lo has over 20 years of experience in the field of company secretarial services.

- (e) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

16. Documents available for inspection

Copies of the following documents are available for inspection at the principal place of business of the Company at 2/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this Circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 24 of this Circular;
- (c) the letter from Enerchine to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 25 to 40 of this Circular;
- (d) the report from Elite Partners CPA Limited in respect of the unaudited pro forma financial information of the Group in Appendix II of this Circular;
- (e) the annual reports of the Company for the financial years ended 30 June 2010, 2011 and 2012 and the interim report of the Company for the six months ended 31 December 2012;
- (f) the written consents referred to in the paragraph headed “Experts and Consents” to this appendix;
- (g) the material contracts referred to in the paragraph headed “Material Contracts” to this appendix; and
- (h) this Circular.

NOTICE OF EGM



CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1130)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “EGM”) of China Environmental Resources Group Limited (the “Company”) will be held at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, on Friday, 18 October 2013 at 11:00 a.m. for the purpose of considering, and if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 30 September 2013 (the “Circular”)):

ORDINARY RESOLUTION

“**THAT** subject to the fulfillment of the conditions set out in the Underwriting Agreement dated 12 August 2013 entered into between the Company and the Underwriter in respect of the Open Offer (a copy of the Underwriting Agreement has been tabled at the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification):

- (a) the allotment and issue of not less than 602,988,342 Offer Shares but not more than 607,773,342 Offer Shares by way of open offer at the subscription price of HK\$0.27 per Offer Share to the Qualifying Shareholders on the basis of thirty-three Offer Shares for every ten Shares held on the Record Date, other than the Excluded Shareholders whom the Directors, after making relevant enquiry as required under the Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient on account of either the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, and on the terms and conditions as set out in the Circular, and such other terms and conditions as may be determined by the Directors be and is hereby approved;
- (b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and any Directors be and is hereby authorised to do such acts or execute such documents which may be necessary, desirable or expedient in his or her opinion to carry into effect or to give effect to the terms of the Underwriting Agreement;
- (c) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and is hereby approved, confirmed and ratified; and

NOTICE OF EGM

- (d) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer and to do all such acts and things and execute all such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to or in connection with the Open Offer or any transactions contemplated thereby.”

By Order of the Board
China Environmental Resources Group Limited
Zhou Hongbo
Chairman and Chief Executive Officer

Hong Kong, 30 September 2013

Notes:

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

As at the date of this notice, the Board comprises of Mr. Zhou Hongbo (Chairman and Chief Executive Officer), Mr. Kwok Wai, Wilfred and Mr. Leung Kwong Choi as executive directors, Mr. Wong Kwai Sang, Mr. Christopher David Thomas and Mr. Chan Ka Yin as independent non-executive directors.