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CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED

中國環境資源集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1130)

VOLUNTARY ANNOUNCEMENT REJUVENATION OF PLANTATION SALES BUSINESS

This announcement is made by China Environmental Resources Group Limited (the “**Company**” together with its subsidiaries collectively referred as the “**Group**”) on a voluntary basis to inform its shareholders and potential investors of the latest business development of the Group.

RECONSTRUCTION AND UPGRADE OF PLANTATION LAND

As disclosed in the interim report of the Company for the six months ended 31 December 2016, the Group has been operating a plantation land of approximately 30,000 mu (Chinese Mu) in Shihezi, Xinjiang of the PRC (the “**Plantation Land**”). As the underground water level of the region dropped in recent years, the supply of the surface water is below the demand for plantation irrigation, resulting in difficulties for conducting hydraulic engineering projects for the plantation area.

In order to rejuvenate the plantation sales business of the Group, the Company plans to reconstruct and upgrade the facilities of the Plantation Land with a total cost of RMB194 million based on the following construction schedule which has been agreed by BMI Appraisals Limited, an independent appraisal firm engaged by the Company to endorse the reconstruction plan.

Construction Schedule for the Plantation Land

(1) Phase 1: Planning and preparation of the construction work

Proposed commencement date: the third quarter of 2018

Required timeframe: by the third quarter of 2018

Details of works to be performed:

In this phase, the Company will start with an immediate enhancement and maintenance for the existing irrigation system to support the current irrigation for the Plantation Land in order to avoid further loss of poplar trees.

The subsequent works to be performed in this phase include (i) the planning work in relation to dividing the Plantation Land into 80 units of drip irrigation systems, choosing the location for pumping wells drilling, hiring relevant workers and deploying relevant machines and equipment for the construction work; and (ii) the preparation work in relation to cleaning up and flattening of construction sites, enhancing the roads to access the construction sites, building warehouse for storing construction materials, so as to prepare the areas for those planned construction work in later phases.

(2) Phase 2: Upgrade of the infrastructure and installation of electrical facilities

Proposed commencement date: the second quarter of 2019

Required timeframe: by the second quarter of 2019

Details of works to be performed:

In this phase, it is proposed to build 100 kilometers high-voltage cables for electricity supply, electricity voltage transformers and distribution boxes for operating the underground pressure pumps in wells and other machines and equipment.

(3) Phase 3: Construction of water pumping, filtration components of the irrigation system

Proposed commencement date: the third quarter of 2019

Required timeframe: by the third quarter of 2019

Details of works to be performed:

In this phase, 80 wells are proposed to be drilled and reinforced in the Plantation Land.

The underground pressure pumps are installed to allow water to convey along the water pipes through the filters and fertilizer injectors with backflow prevention valves which are installed to avoid backflow of water to these devices.

Water and pressure meters are also installed before and after filters and fertilizer injectors to monitor the change in pressure which may cause damage to the pipes and tubes and affect the performance of the irrigation system.

(4) Phase 4: Reconstruction of water distribution network of the irrigation system

Proposed commencement date: the second quarter of 2020

Required timeframe: by the second quarter of 2020

Details of works to be performed:

The distribution system is to convey the water from the source to the plantation. In this phase, (i) main water pipes of polyvinyl chloride (“PVC”) or polyethylene (“PE”) plastics are built above the ground to surround each unit of irrigation areas; (ii) submain water pipes are then divided and connected to drip irrigation tubes that are layout along the Poplar trees in grid format; (iii) each line of drip irrigation tubes is separated from others by 2 meters; and (iv) pressure compensated integral drippers with 8 liters per hour are attached along the drip irrigation tubes with 1.5 meter spacing.

(5) Phase 5: Modification and completion of irrigation system

Proposed commencement date: the third quarter of 2020

Required time: by the third quarter of 2020

Details of works to be performed:

In this phase, the Company will (i) test and monitor the irrigation system to check if it is operated as expected; (ii) pay attention to see if there is any unexpected change in water output, loss or pressure change in the system; and (iii) collect and investigate the data to determine if modification or adjustment to the irrigation system are required.

Based on the above construction schedule, the Company expects that, upon completion of phase 1 of the reconstruction and upgrade of Plantation Land by the end of the third quarter of 2018, the plantation sales business of the Group could resume its operations, and a stream of revenue is expected to be generated from the plantation sales business to the Group by the end of the first quarter of 2019.

Funding for the reconstruction and upgrading works

The Board believes that the Company would have sufficient funds for the whole plan of reconstruction and upgrade of the Plantation Land due to the following reasons:

- (i) As at the date of this announcement, the Company has been granted a banking facility by a bank in the amount of approximately HK\$50 million;
- (ii) A substantial shareholder of the Company has undertaken to provide the Group with an unsecured and interest-free loan in the amount of HK\$100 million at any time when called upon to do so to support the business operations of the Group;
- (iii) The Company expects that a portion of the working capital of the Company would be utilised for the reconstruction and upgrade of the Plantation Land; and
- (iv) The Company may consider conducting an equity fundraising by the second quarter of 2020 in order to finance the remaining construction and upgrading works.

ASSETS SWAP

Save for the reconstruction and upgrade of Plantation Land as stated above, the Company has also been actively exploring other alternatives, such as the swap of the Company's Plantation Land with other forestry assets (the "**Assets Swap**").

In August 2017, the Company has approached an expert, who has extensive networks and resources in the forestry industry in the PRC, in order to search for an appropriate forestry for Assets Swap. Leveraging on the expert's networks and resources, in October 2017, the Company has identified a target forestry located in northern China based on the following criteria of the Company:

- (i) The target asset should be similar in nature to the Plantation Land i.e. plantation or agriculture;
- (ii) The target asset should be currently in operation with reasonable track records; and
- (iii) The target asset should be similar in the value with the forestry assets of the Group.

The Company has been in the process of preliminary negotiation with the vendor of the target forestry (the "**Vendor**"), and has obtained certain documents including (i) the background information on the target forestry and the Vendor and (ii) the financial statements of the Vendor for the three years ended 31 December 2016 for reference.

To further proceed with the Assets Swap,

- (i) the Company intends to collect more information on the target forestry and its holding company, such as the type and the volume of plantation products in the target forestry and the lease agreements with the local Forestry Bureau etc., by the end of March 2018;
- (ii) in the event that the target forestry meets all the basic requirements of the Company, the Board will prepare a comprehensive due diligence (legal, financial and commercial) for the target forestry in February 2018, which will take about 3 months for completion;
- (iii) While performing the due diligence for the target forestry, the Company will negotiate the relevant terms and conditions in the Assets Swap; and
- (iv) A conclusion in relation to the Assets Swap is expected to be made by the Company in June 2018.

In the event that the Assets Swap could not proceed after the conclusion of feasibility study by the Company by June 2018, the reconstruction and upgrade works of the Plantation Land will be commenced in the third quarter of 2018 according to the construction schedule proposed by the Company.

Reasons for and benefits of the Assets Swap

As the target forestry has been currently in operation with reasonable track records, upon completion of the Assets Swap, the target forestry could immediately generate revenue to the Group without any further capital commitment, which is more beneficial to the Group and in the interests of the Company and the Shareholders as a whole.

Information on the Vendor and target forestry

The Vendor is a company established in 2004 in the PRC and is mainly engaged in plantation, gardening, import of plants from overseas, in particular, for rare species as stated in the following paragraph, processing and sale of stones for gardening and organic fertilizer etc..

The Vendor currently operates a number of different forestry assets in the PRC, including the target forestry. The target forestry includes 3 to 4 plantation bases located in northern China with about 200 species of plants including the rare species imported from North America and Europe. With the technology of plant tissue culture, cottage and grafting, the Vendor intends to cultivate and sell high grade trees based on the demand in the market.

Shareholders and potential investors of the Company should note that this announcement is published as a voluntary disclosure to allow the public to understand the latest development of the Company. Certain transactions in relation to the Assets Swap remain subject to the execution of definitive agreements and may or may not materialise as described or at all. In the event that any definitive agreement is entered into, the Company will comply with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange in respect thereof and make further announcement(s) as and when appropriate. Shareholders and potential investors of the Company should thus exercise caution when dealing in the shares of the Company.

By order of the Board
China Environmental Resources Group Limited
Yeung Chi Hang
Chairman and Chief Executive Officer

Hong Kong, 14 February 2018

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