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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018

The board of directors (the "Board") of China Environmental Resources Group Limited (the "Company") announces the annual audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2018 together with comparative figures for the year ended 30 June 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000* (Restated)
Revenue	*3*	**212,276**	13,971
Cost of sales		**(192,973)**	(6,755)
Gross profit		**19,303**	7,216
Other income	*5*	**2,302**	6,677
Administrative and operating expenses		**(60,624)**	(37,811)
Net loss on fair value changes on financial assets at fair value through profit or loss		**(164)**	(949)
Fair value gain on investment properties		**7,954**	14,938
(Loss)/gain on disposals of subsidiaries		**(11)**	17
Gain on deregistration of subsidiaries		**2,558**	4,864
Loss arising from changes in fair value less costs to sell of biological assets		**(174,687)**	(33,233)
Loss on settlement of promissory note		**(1,144)**	—
Loss from operations		**(204,513)**	(38,281)
Finance costs	*6*	**(548)**	(161)
Loss before tax		**(205,061)**	(38,442)
Income tax credit	*7*	**44,475**	9,238
Loss for the year	*8*	**(160,586)**	(29,204)
Other comprehensive income/(loss) after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**17,791**	(6,852)
Release of translation reserve upon deregistration of a foreign subsidiary		**39**	—
Other comprehensive income/(loss) for the year, net of tax		**17,830**	(6,852)
Total comprehensive loss for the year		**(142,756)**	(36,056)

	Notes	2018 *HK$'000*	2017 *HK$'000* (Restated)
Loss for the year attributable to:			
Owners of the Company		**(159,784)**	(27,673)
Non-controlling interests		**(802)**	(1,531)
		(160,586)	(29,204)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(142,235)**	(34,582)
Non-controlling interests		**(521)**	(1,474)
		(142,756)	(36,056)
Loss per share	*9*		
Basic (HK cents per share)		**(9)**	(2)
Diluted (HK cents per share)		**(9)**	(2)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 HK$'000	30 June 2017 HK$'000 (Restated)	1 July 2016 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment		**14,082**	4,087	5,765
Investment properties		**277,866**	267,592	171,000
Biological assets	*11*	**348,933**	506,022	547,224
Intangible assets		**125,760**	103,635	110,011
Goodwill		**1,087**	1,087	1,087
		767,728	882,423	835,087
Current assets				
Inventories		**40,152**	13,356	8,576
Trade and other receivables	*12*	**60,183**	28,602	22,051
Loans receivable		**25,646**	25,899	13,072
Financial assets at fair value through profit or loss	*13*	**1,098**	1,264	5,433
Refundable secured deposit		**12,000**	70,000	70,000
Cash and cash equivalents		**13,027**	13,015	81,359
		152,106	152,136	200,491
Current liabilities				
Trade and other payables		**23,016**	17,153	9,258
Current tax liabilities		**1,202**	3,460	7,976
		24,218	20,613	17,234
Net current assets		**127,888**	131,523	183,257
Total assets less current liabilities		**895,616**	1,013,946	1,018,344
Non-current liabilities				
Deferred tax liabilities		**112,661**	152,414	164,324
Promissory note		**—**	28,881	—
		112,661	181,295	164,324
NET ASSETS		**782,955**	832,651	854,020

	Notes	**30 June 2018**	30 June 2017	1 July 2016
		HK$'000	*HK$'000*	*HK$'000*
			(Restated)	(Restated)
Capital and reserves				
Share capital	*14*	**40,731**	33,943	33,943
Reserves		**729,811**	785,781	820,363
Equity attributable to owners of the Company		**770,542**	819,724	854,306
Non-controlling interests		**12,413**	12,927	(286)
TOTAL EQUITY		**782,955**	832,651	854,020

NOTES

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of biological assets which are carried at their fair values less costs to sell; and investment properties and financial assets at fair value through profit or loss which are carried at their fair values. The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

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

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2017. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard, and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. REVENUE

The Group's revenue, which represents sales of recycled metals, motor vehicles and related accessories, rental income from car parking spaces, loan interest income and commission income from selling motor vehicles, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Trading of recycled metals	**184,570**	—
Trading of motor vehicles and related accessories	**21,683**	8,431
Rental income	**3,751**	3,571
Loan interest income	**1,913**	1,969
Commission income	**359**	—
	212,276	13,971

4. SEGMENT INFORMATION

The Group has six reportable segments for the year ended 30 June 2018 as follows:

(i) Trading of recycled metals

(ii) Trading of motor vehicles and related accessories

(iii) Property investment

(iv) Provision of financial services

(v) Securities trading and investment

(vi) Sales of plantation materials and products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include gain or loss on disposals and deregistration of subsidiaries, loss on settlement of promissory note, interest income from refundable secured deposit, sponsor income, finance costs and income tax credit. Segment assets do not include refundable secured deposit. Segment liabilities do not include deferred tax liabilities and promissory note.

	Trading of recycled metals HK$'000	Trading of motor vehicles and related accessories HK$'000	Property investment HK$'000	Provision of financial services HK$'000	Securities trading and investment HK$'000	Sales of plantation materials and products HK$'000	Green technology advisory services HK$'000	Total HK$'000
Year ended 30 June 2018								
Revenue from external customers	**184,570**	**22,042**	**3,751**	**1,913**	**—**	**—**	**—**	**212,276**
Segment profit/(loss) comprising:	**1,937**	**(5,742)**	**7,230**	**1,897**	**(172)**	**(183,373)**	**—**	**(178,223)**
Loss arising from changes in fair value less costs to sell of biological assets	**—**	**—**	**—**	**—**	**—**	**(174,687)**	**—**	**(174,687)**
Fair value gain on investment properties	**—**	**—**	**7,954**	**—**	**—**	**—**	**—**	**7,954**
Depreciation and amortisation	**(1,462)**	**(654)**	**—**	**—**	**—**	**(5,059)**	**—**	**(7,175)**
Proceeds from disposal of listed securities	**—**	**—**	**—**	**—**	**2**	**—**	**—**	**2**
Costs of disposal of listed securities	**—**	**—**	**—**	**—**	**(2)**	**—**	**—**	**(2)**
Net unrealised losses on trading securities	**—**	**—**	**—**	**—**	**(164)**	**—**	**—**	**(164)**
At 30 June 2018								
Segment assets	**28,507**	**74,503**	**279,608**	**25,774**	**10,422**	**450,664**	**—**	**869,478**
Segment liabilities	**313**	**2,985**	**3,129**	**565**	**467**	**4,274**	**—**	**11,733**
Year ended 30 June 2017								
Revenue from external customers	—	8,431	3,571	1,969	—	—	—	13,971
Segment (loss)/profit comprising:	—	(5,511)	15,799	1,895	(1,424)	(43,189)	(284)	(32,714)
Loss arising from changes in fair value less costs to sell of biological assets	—	—	—	—	—	(33,233)	—	(33,233)
Fair value gain on investment properties	—	—	14,938	—	—	—	—	14,938
Depreciation and amortisation	—	(599)	—	—	(250)	(4,793)	—	(5,642)
Proceeds from disposal of listed securities	—	—	—	—	4,001	—	—	4,001
Costs of disposal of listed securities	—	—	—	—	(4,508)	—	—	(4,508)
Net unrealised losses on trading securities	—	—	—	—	(442)	—	—	(442)
At 30 June 2017								
Segment assets	—	32,966	271,872	26,478	5,784	609,729	—	946,829
Segment liabilities	—	903	2,917	343	467	1,197	—	5,827

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Revenue:		
Total revenue of reportable segments	**212,276**	13,971
Loss:		
Total loss of reportable segments	**(178,223)**	(32,714)
Other profit or loss:		
Finance costs	**(548)**	(161)
Gain on deregistration of subsidiaries	**2,558**	4,864
Income tax credit	**44,475**	9,238
Other income		
— Interest income from refundable secured deposit	**2,000**	5,830
— Sponsor income	**—**	400
Corporate and unallocated loss	**(30,848)**	(16,661)
Consolidated loss for the year	**(160,586)**	(29,204)
Assets:		
Total assets of reportable segments	**869,478**	946,829
Refundable secured deposit	**12,000**	70,000
Corporate and unallocated assets	**38,356**	17,730
Consolidated total assets	**919,834**	1,034,559
Liabilities:		
Total liabilities of reportable segments	**11,733**	5,827
Deferred tax liabilities	**112,661**	152,414
Promissory note	**—**	28,881
Corporate and unallocated liabilities	**12,485**	14,786
Consolidated total liabilities	**136,879**	201,908

Geographical information:

	Revenue		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)
The People's Republic of China (the "PRC")	**72,572**	—	**552,559**	687,249
Hong Kong	**139,194**	13,971	**215,169**	195,174
United Kingdom	**359**	—	**—**	—
Macau and others	**151**	—	**—**	—
	212,276	13,971	**767,728**	882,423

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

	2018	2017
	HK$'000	*HK$'000*
Trading of motor vehicles		
Customer A	**N/A***	1,800
Customer B	**72,572**	N/A
Customer C	**29,717**	N/A

Revenue from the above customers individually contributed more than 10% of the total revenue of the Group.

* Customer did not contribute more than 10% of the total revenue of the Group for the year ended 30 June 2018.

5. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income from refundable secured deposit	**2,000**	5,830
Sponsor income	**—**	400
Others	**302**	447
	2,302	6,677

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on promissory note	**443**	161
Interest on loans and overdrafts	**105**	—
	548	161

7. INCOME TAX CREDIT

	2018	2017
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**510**	313
Over-provision in prior years	**(49)**	(30)
Deferred tax	**(44,936)**	(9,521)
Income tax credit	**(44,475)**	(9,238)

Hong Kong Profits Tax has been provided at a rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year ended 30 June 2018.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Reconciliation between income tax credit and accounting loss at applicable tax rate

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Loss before tax	**(205,061)**	(38,442)
Tax calculated at applicable tax rate of 25% (2017: 25%)	**(51,265)**	(9,611)
Effect of different tax rates of the subsidiaries	**1,927**	1,265
Tax effect of expenses that are not deductible	**6,504**	3,046
Tax effect of income that are not taxable	**(2,420)**	(4,902)
Tax effect of temporary differences not recognised	**(713)**	(105)
Tax reduction	**(197)**	—
Over-provision in prior years	**(49)**	(30)
Tax effect of tax losses not recognised	**1,738**	1,099
Income tax credit	**(44,475)**	(9,238)

8. LOSS FOR THE YEAR

This is stated at after charging/(crediting) the following:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Amortisation of intangible assets	**5,125**	4,793
Auditor's remuneration	**950**	850
Cost of inventories sold	**192,973**	6,755
Depreciation	**3,276**	1,893
Gain on disposals of property, plant and equipment	**(7)**	—
Loss on write-off of property, plant and equipment	**—**	11
Operating lease charges on land and buildings	**6,120**	3,923
Staff costs (including directors' remuneration):		
— salaries, bonuses and allowances	**15,044**	10,679
— retirement benefits scheme contributions	**419**	274
— equity-settled share-based payments	**8,920**	—
	24,383	10,953

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$159,784,000 (2017: HK$27,673,000) and the weighted average number of ordinary shares of 1,777,106,333 (2017: 1,697,138,114) in issue during the year.

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 30 June 2018 and 2017.

10. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 30 June 2018 and 2017.

11. BIOLOGICAL ASSETS

	Standing timbers *HK$'000*
At 1 July 2016	547,224
Changes in fair value less costs to sell	(33,233)
Exchange differences	(7,969)
At 30 June 2017 and 1 July 2017	506,022
Changes in fair value less costs to sell	(174,687)
Exchange differences	17,598
At 30 June 2018	348,933

The Group's biological assets represent standing timbers on plantation land of approximately 30,000 Chinese Mu with a lease term of 30 years, expiring in 2038. The standing timbers comprise mostly poplar trees (accounting over 99% of the total standing timbers), mixed with a very small portion of other species of deciduous trees such as elm and willow. During the year, the Group did not harvest or sell any standing timbers (2017: Nil).

The Group's standing timbers as at 30 June 2018 were independently valued by Roma Appraisals Limited ("Roma") which comprises a group of independent professional valuers with experience and expertise in relation to biological assets valuation. Their team consists of professional valuers and agricultural experts who work together in a wide array of biological assets to ensure the reliability and fairness of their valuation results. Accordingly, the directors are of the view that Roma is independent and competent to determine the fair value of the Group's biological assets.

Roma has adopted a market approach for the valuation of standing timbers. The method uses the present market value in terms of price per unit cubic meter of round logs and the total merchantable volume of timbers on the plantation land as at 30 June 2018 as a basis for calculating the fair value less costs to sell of the biological assets. Roma has adopted the measured merchantable volume of standing timbers as indicated by the forest manager of the Group and also verified the market price per cubic meter of logs by referencing to the market price lists, after taking into account of local timber manufacturing factories as well. The principal assumptions adopted are as follows:

1. no material changes in the existing political, legal, technological, fiscal, economic conditions, climate and any other natural condition; and

2. the movements of the price of the timber, the setup fee and maintenance fee for tree plantation will move in line with the price index of forestry product in the PRC.

Nature risk

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

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**21,424**	772
Prepayments, deposits and other receivables	**38,759**	27,830
	60,183	28,602

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 180 (2017: 30 to 180) days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0–90 days	**20,289**	758
91–180 days	**220**	10
181–360 days	**765**	2
Over 360 days	**150**	2
	21,424	772

The ageing analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Not yet past due	**12,303**	758
0–90 days past due	**8,071**	10
91–180 days past due	**491**	—
181–360 days past due	**559**	4
	21,424	772

Receivables that were past due but not impaired relate to a number of independent customers who have no recent history of default and have kept good track records with the Group. The Group does not hold any collateral over these balances. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there are no significant change in their respective credit quality and the balances are still considered fully recoverable.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**1,098**	1,264

The fair value of the listed equity securities was determined based on the quoted market bid prices of the corresponding listed equity securities.

14. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000
Issued and fully paid:		
2,036,538,114 (2017: 1,697,138,114) ordinary shares of HK$0.02 each	**40,731**	33,943

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

	Number of shares	**Amount**
		HK$'000
At 1 July 2016, 30 June 2017 and 1 July 2017	1,697,138,114	33,943
Placement of new shares *(note)*	339,400,000	6,788
At 30 June 2018	2,036,538,114	40,731

Note:

Placement of new shares

On 12 March 2018, the Company entered into a placing agreement with a placing agent in respect of the placement of 339,400,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.255 per share. The placement was completed on 6 April 2018 and the premium on the issue of shares amounting to approximately HK$77,345,000, after net of share issue expenses of approximately HK$2,414,000, was credited to the Company's share premium account.

BUSINESS AND OPERATION REVIEW

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

By way of a forestry management and undertaking agreement, the Group through its wholly-owned subsidiary acquired timber cutting right over a plantation land of approximately 30,000 mu (Chinese Mu) in Shihezi City, Xinjiang for a period of 30 years commencing on 1 July 2008.

The underground water level of the region in Shihezi City, Xinjiang dropped drastically in recent years due to over-exploitation of farmland, resulting in a shortage of water resources.

The irrigation in Xinjiang relies heavily on underground water, because the supply of surface water is far below the demand for plantation irrigation, thus creating difficulties for hydraulic engineering projects for plantation areas and driving up the operating costs.

The Group has made several attempts to enhance the value of the plantation business ("Plantation Business") including (i) negotiation with other plantation owners to swap the Company's plantation land ("Plantation Lands") with other forestry assets which are in better condition, enabling the Company to rationalize its investment in the Plantation Business and generate better return on investment and (ii) reconstruction and upgrade of Plantation Land ("Reconstruction") where the Group had considered to enhance the plantation irrigation by investing approximately RMB194 million for the construction of irrigation system to ensure sufficient water supply from other water sources to regenerate suitable condition for the plantation growth.

As referred to the announcement dated 20 August 2018, due to the extreme climate in Shihezi City, the Group considered that it would be appropriate to obtain a comprehensive understanding of the current condition of the Plantation Land by conducting a feasibility study before any further negotiation of Assets Swap to prevent the Group from exposing to excessive warranties. Indeed, the recent negative responses from the vendor of target forestry had also raised the management's concern over the condition of the Plantation Land.

The Group has engaged Malcolm & Associates Appraisal Limited ("Malcolm") to conduct an update of a feasibility study of Reconstruction. In preparing the update of a feasibility study, Malcolm has sent professionals to visit of site where our Plantation Land located and visit the Water Resources and Forestry Bureau* 石河子林農業局 in the Shihezi People's Government* in order to obtain sufficient information to be incorporated in the feasibility study.

The Group owns industrial properties which comprise 2 parcels of land with a site area of about 72,335.99 sq. m. and various buildings and ancillary structures erected thereon with a total gross floor area of approximately 28,814.66 sq. m. located at Longchuanzhou, Renzhou Village, Shatian, Dongguan City, Guangdong Province, the PRC.

The Group owns 95 car parking spaces located in Kennedy Town, Hong Kong. In view of recent surge in real property market price in Hong Kong, the prospect of car parking spaces in Hong Kong remain positive.

For the financial year ended 30 June 2018, turnover of the Group increased by 1,419% to approximately HK$212.28 million with gross profit of approximately HK$19.30 million, represented an increase of approximately 168%. Loss for the year amounted to HK$160.59 million mainly attributed to the increase in administrative and operating expenses and loss arising from changes in fair value less costs to sell of biological assets.

BIOLOGICAL ASSETS

In the process of valuing the biological assets, Roma adopted the Market-Based Approach to estimate the fair value of the biological assets. The fair value of the biological assets was computed using the formula:

The fair value of biological assets = (Total volume of standing timbers x Recovery rate) x Market price of timber − Cutting cost + Scrap sale income

According to 農業資產估值報告 prepared by Forestry Manager, random sampling has been performed in order to estimate the total volume of standing timbers on the Plantation Land based on "中華人民共和國國家標準原木材積表 GB/T 4814-2013". During each time of the sampling process, there were 20 sampling areas with an area of about 0.5 Mu. The following inputs, coming from the projection of the results of sampling process have been adopted in this valuation based on the opinions as stated in 農業資產估值報告 prepared by Forestry Manager:

- Total volume of standing timbers = 566,179 m^3
- Recovery rate = 80%
- Cutting cost = 5% of revenue
- Scrap sale income = 5% of revenue

With reference to observable market price of timber of similar species in China, the adopted market price was RMB650 per cubic meter.

To determine how the different values of an independent variable would impact a particular dependent variable under a given set of assumptions, Roma carried out sensitivity analysis on the fair value of the biological assets in respect of the recovery rate and adopted market price. The results of the sensitivity analysis are as follows:

Absolute Change in Recovery Rate	**Applied Recovery Rate**	**Fair Value of the Biological Asset** *(RMB)*
+10%	90%	311,350,000
+5%	85%	311,350,000
+0%	80%	294,413,000
−5%	75%	276,012,000
−10%	70%	257,611,000

% Change in Adopted Market Price	**Adopted Market Price** *(RMB/m³)*	**Fair Value of the Biological Asset** *(RMB)*
+10%	715	323,854,000
+5%	683	309,133,000
+0%	650	294,413,000
−5%	618	279,692,000
−10%	585	264,972,000

The directors are of the view that the fair value of the biological assets is under a significant impact from changes in market price per m^3 of logs. If the market price per m^3 of logs increases/decreases, the fair value of the biological assets would be higher/lower proportionately, holding other inputs and assumptions used in the valuation techniques remained unchanged.

For the financial year ended 30 June 2018, growth and volume of the biological assets were affected by reasons stated. The Group recorded a decrease to approximately HK$348.93 million (2017: HK$506.02 million) in the fair value of the poplar trees of biological assets. The Group considers that the decrease is non-cash in nature and will not have material adverse effect on the financial position of the Group.

During the financial year ended 30 June 2018, the Group recognized aggregate losses arising from the major non-current assets of approximately HK$179.8 million (2017: HK$38 million). This represents the combined effect of the amortization of intangible assets and the loss arising from changes in fair value less costs to sell of biological assets.

Metal Recycle Business

The Group started its metal recycle business in November 2017. Since the commencement of the business and during the year ended 30 June 2018, the Group recorded from recycled metal materials trading revenue of approximately HK$184,570,000 (2017: Nil). It is the main revenue generator of the Group.

The Group has leased a manufacturing base at Pat Heung, Yuen Long which operates as waste metal materials collection and warehouse. Requisite machineries and equipments have been installed at the base to facilitate some primary processing works be done to wasted metal materials collected.

The Group is adopting a conservative approach for the development of the recycled metal materials collection and trading business. Whilst most of the recycled metal materials tradings were local trades, it is understood that a large proportion, in terms of monetary value, of them were for importation to the PRC. In the first half of 2018, the PRC government authorities implemented various new regulations and policies on importation of wasted materials. One of the objectives of these new regulations and policies is to ensure imported recycled metal materials are being processed at certain level to mitigate environmental pollution. These new rules have increased the processing costs.

There are other factors affecting the Group's consideration of the PRC market. Downward fluctuation of Renminbi would have adverse effect on profit margin and even lead to loss. The trade war between the PRC and the United States of America with its unknown duration and magnitude will definitely affect production industries in the PRC.

The Group is looking into opportunities of exporting recycled metal materials to other South East Asia countries to alleviate reliance on the PRC market.

Benefited from the policy of reducing excess capacity enforced by the PRC government, many companies and factories affected by this policy relocated their production plants from the PRC to South East Asia countries. Also, the Belt and Road Initiative adopted and promoted by the PRC government positively creates investments in these countries. The initial focus of the Belt and Road Initiative has been infrastructure investment, construction materials, railway and highway, automobile, real estate, power grid, and iron and steel. Already, some estimates list the Belt and Road Initiative as one of the largest infrastructure and investments in history, covering more than 68 countries, including almost all South East Asia countries. Many of these countries recorded a shape increase in importation of recycled metal materials. The Group's strategy is to locate reputable end users or importers of recycled metal materials and supply or trade with them directly.

Motor and Motor Accessories Business

During the year, the Group maintained business on sale of the super car "BAC Mono" and motorcycle "Norton" and "Bimota". Sales on this motor trading segment had been slowed down and underperformed but revenue of the whole business had been compensated by the growth in the motor accessories trading.

The "Öhlins" motorcycle components were able to maintain their sales level to the expectation of the Group. The breakthrough came in January 2018 when we, after lengthy discussions and negotiations, became an authorised distributor of "Pirelli" motorcycle tyres for the China market. "Pirelli" is one of the leading prestigious tyre manufacturers for motor vehicles and motorcycles. We concluded that it would be a good business to distribute "Pirelli" motorcycle tyres after learning "Pirelli" had modified its market strategy to build and operate a tyre factory in Indonesia to produce motorcycle tyres catering for the upper-lower and middle price ranges. Our move proved to be sound and correct. The Group started trading with "Pirelli "motorcycle tyres from April 2018 and, for a short period of less than two months, it contributed over half of the revenue for this business segment. The Group will put more efforts to consolidate and expand the "Pirelli" motorcycle tyres business.

For the year ended 30 June 2018, revenue from motor and motor accessories business was approximately HK$22,042,000 (2017: HK$8,431,000).

Car Parking Spaces Rental

The car parking spaces continued to provide a stable revenue and cash flow to the Group. Refurbishment of the car parking spaces to enhance the property value and/or operate the car parking spaces by the Group itself to enhance rental revenue are still under consideration. For the year ended 30 June 2018, rental income recorded was approximately HK$3,751,000 (2017: HK$3,571,000).

Money Lending Business

The Company operates money lending business through a wholly-owned subsidiary of the Group, which is a holder of money lender's license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group has adopted money lending policies and procedures for handling and/or monitoring the money lending business in compliance with the Money Lenders Ordinance.

The Group will continue to balance its internal resources for different business segments and will continue to operate the money lending business with internally generated cash flow.

During the year, the Group recorded loan interest income of approximately HK$1,913,000 (2017: HK$1,969,000) from granting loans to both corporate and individual clients, representing a relatively stable development of the money lending segment. The outstanding principal amount of loan receivables as at 30 June 2018 was approximately HK$24,843,000 (2017: HK$25,010,000). During the year, the Group did not record any doubtful or bad debt in its money lending business.

Trading and Investment Business

Due to the market uncertainty and fluctuation in 2018, the Group was prudent in the trading and investment business. For the year ended 30 June 2018, the net loss on fair value changes on financial assets at fair value through profit or loss of approximately HK$164,000 was recorded (2017: net loss of HK$949,000).

Green Technology

There was no revenue on the green technology for the year (2017: Nil). The operation has been ceased from 1 June 2018.

Investment Properties in the PRC

During the year ended 30 June 2017, the Group has acquired industrial properties in Dongguan City, the PRC. The Group considers that the Belt and Road Initiative promoted by the Central Government of the PRC and the Guangdong-Hong Kong-Macao Greater Bay Area development will support economic development of the Dongguan City as an international trade hub in the Southern China.

Planning to the best usage or redevelopment of the industrial properties had been delayed because of publication of a new town zoning plan by the Dongguan government authority. Under the new zoning plan a new highway was being mapped and part of the land of the industrial properties would be used as or affected by an exit and its connected roads from the highway for Shatian Town. The Group had petitioned to the Dongguan City government authorities requesting amendments to the plan to save the industrial properties from being affected. The Group will closely monitor the development and work on the best possible solution in the circumstances.

Plantation Sales Business

For the year ended 30 June 2018, there was no revenue generated from plantation sales business (2017: Nil).

The Group has been maintaining a Plantation Land (the "Plantation Land") of approximately 30,000 mu (Chinese mu) in Shihezi, Xinjiang of the PRC with which the Group is keen to have it be effectively used to rejuvenate the plantation sales business.

As the water level of the underground water resource for the Plantation Land and nearby regions being the main supply of the irrigation system has continued to drop in recent years. Therefore, the supply of surface water is much below the demand for plantation irrigation, resulting in difficulties for conducting hydraulic engineering projects for the Plantation Land and driving up of operating costs.

In order to rejuvenate the plantation sales business, the Group has engaged Shihezi Technology Development Limited (石河子創和科技開發有限公司) to conduct a feasibility study in relation to the construction and upgrade the plantation land in 2014. The total costs for the construction as stated in the feasibility study report was approximately RMB194 million. In addition, the Group has also been actively exploring other alternatives such as asset swap of the Plantation Land with other forestry assets. The above details have been given in an announcement of the Company dated 14 February 2018.

However, due to the recent extreme climate in Xinjiang, the Group considers that there might be negative impact on the total costs of the construction plan. As such, the Group engaged Malcolm & Associates Appraisal Limited ("Malcolm") to conduct a further feasibility study in June 2018 in order to (i) obtain an updated information of the current condition of the Plantation Land; and (ii) assess the sufficiency of the budget cost of approximately RMB194 million as stated in the feasibility study report in 2014. For details, please refer to the announcement of the Company dated 20 August 2018.

In performing the further feasibility study, the representatives of Malcolm had conducted a site visit and inspection of the Plantation Land, and also visited the Water Resources and Forestry Bureau* 石河子林農業局 to collect relevant information in relation to the forestry in the local region, including but not limited to water resources, impact of extreme climate on forestry, harvest of the forestry etc..

Based on the feasibility study report issued by Malcolm, total budget costs for the construction plan may escalate to approximately RMB232 million due the increase in the unit rates of the material and labour. However, Malcolm is of the view that such amount is still insufficient to rejuvenate the plantation sales business of the Group due to the following reasons:

(a) extreme shortage of water resources for the drip irrigation system

With the site inspection and relevant information obtained from the local government department, Malcolm understands that the nearby river, as the main supply of the drip irrigation system for the Plantation Land, has been drying up over the past years as a result of the frequent earthquakes in Xinjiang. Besides, the underground water resources through the existing wells cannot meet the demand to irrigate the Plantation Land. As such, Malcolm considers that the drip irrigation system for the Plantation Land may involve material risks of the extreme shortage of water resources and the construction plan would be subject to further substantial investments in enhancing water resources for the Plantation Land, such as constructing additional wells or extracting water from other nearby rivers.

(b) soil degradation and broken ecosystem

Due to the extreme water shortage in recent years as mentioned above, the soil on the surface of the Plantation Land has commenced to deteriorate leading to soil degradation and salinization. During the site inspection, Malcolm noticed no sign of the plantation ecosystem, i.e. species and insects, in the Plantation Land which would further deteriorate the soil barren problems. Therefore, Malcolm is of the opinion that the Plantation Land is not suitable for planting unless a suitable ecological environment for the forestry could be recreated, which requires enormous amount of additional capital and time for the Company.

Save for the above, Malcolm also highlighted in the feasibility report the legal and regulatory restrictions in the forestry industry. According to the regulation on the implementation of the Forestry Law of the PRC, the PRC government has implemented a system which, in general term, restricts the volume of timber as the harvest quota to be harvested annually. With reference to the public information published by the PRC government (http://www.gov.cn/gongbao/content/2016/content_5045985.htm), under the 13th Five-Year Plan, the total approved harvest quota of timbers for Xinjiang Production and Construction Corps. (新疆生產建設兵團) (the "XPCC") is approximately 637,000 m^3 per annum during 2016 to 2020.

In this regard, Malcolm considers that the construction plan is subject to a material risk and high level of uncertainty on the production as the entitled harvest quota of timber for the Group might be significantly lower than its expectation once the Plantation Land has to share the limited quotas with other forestry in the XPCC.

In conclusion, Malcolm is of the view that there is no economic and commercial justification to implement the construction of the Plantation Land.

Mainly due to the reasons as stated above, the Group recorded (i) a significant loss on change in fair values less costs to sell of biological assets of the Group from approximately HK$506.0 million as at 30 June 2017 to approximately HK$348.9 million as at 30 June 2018; and (ii) a significant increase in the loss of the Group for the year ended 30 June 2018, representing a loss for the year of approximately HK$160.59 million.

Having considered that the Plantation Land has no commercial value based on facts and circumstances as stated in Malcolm's report, the Board is of the view that neither the construction of Plantation Land nor asset swap is in the interests of the Company and the Shareholders as a whole and will proceed at this stage. The Group will examine all alternatives and work out the best possible use of the Plantation Land as soon as possible.

Golden Flower Tea Products

Golden flower, known academically as Camellia Nitidissima Chi, is a world-famous economic and ornamental plant with golden yellow flowers. It has been classified as one of the rarest and most endangered plants in China. According to research, golden flower contains ingredients of various health efficacy, such as conditioning against hyperdipemia, strengthening digestive and immune systems and treating hematechzia and profuse menstruation.

In May 2018, the Group had completed an acquisition by which the Group had secured an exclusive right from 廣東南多萬金農業發展有限公司 (the "廣東南多萬金") for the distribution and sale of products associated with its golden flower plantation for a period of 30 years. 廣東南多萬金 is principally engaged in the production and sale of golden flower tea products and has one of the largest golden flower plantation in the world.

The Group has engaged 廣東騰南網絡信息科技有限公司, which is a subsidiary of Shenzhen Tencent Computer System Company Limited, to plan and support promotion programmes for the golden flower tea products. Being a genuine health tea product and the engagement of professional networking promotion company, the Group is of the view that the golden flower tea products business would reinforce our strategy in diversifying our business portfolio by tapping into the PRC tea products market and create additional income stream for the Group.

PROSPECTS

Looking forward, the world economy especially that of the PRC and Hong Kong is full of uncertainties and likely entering into a slow down or even downward trend. The situation is attributable to, inter alia, the trade war between the PRC and the United States of America, measures taken by the United States of America, the European Union and other countries to counter the rise of the PRC's political influence in the world and notably the South China Sea and Asia Pacific region especially through her Belt and Road Initiative and the highly likely gradual rise in bank interest rate. Hopefully, the Guangdong-Hong Kong-Macao Greater Bay, which has advanced from a concept to national strategy level, will bring more investment and business opportunities to Hong Kong enterprises.

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

During the year, the Group had a remarkable increase in its revenue. In view of the business and economic environment are becoming more challenging and unstable, the Group is of the view that it would be wise to adopt an approach of consolidation and careful expansion for its existing businesses. We are aiming at consolidating our revenue generating businesses to improve their profitability and plan their expansion carefully. As for those non or minimal revenue generating businesses and assets, the Group shall closely scrutinise the worth of their continuation and, if continuation is warranted, cut their running or maintenance costs and expenses to a level commensurate with their worth. However, this approach shall not affect our business strategy to seek and consider viable good and valuable potential investment opportunities. The directors of the Company consider that a combination of consolidation and careful expansion for existing businesses and investing only at viable good and valuable new ventures are proper and prudent manners to be adopted especially in the present economic situation in order to enhance the value of the Group for the benefit of the shareholders of the Company.

FINANCIAL REVIEW

For the year ended 30 June 2018, turnover of the Group increased by 1,419% to HK$212,276,000 (2017: HK$13,971,000) and gross profit of the Group increased by 168% to HK$19,303,000 (2017: HK$7,216,000). Loss for the year ended 30 June 2018 increased to HK$160,586,000 as compared to loss of HK$29,204,000 of last corresponding year. The increase in both of turnover and gross profit for the year was mainly due to the newly launched recycled material trading business and the newly introduced tyre products of the Group. The loss for the year was mainly due to the increase in administrative and operating expenses and loss arising from the change in fair value less costs to sell of biological assets. The Group considers that the change in fair value is non-cash in nature and will not have material adverse effect on the financial position of the Group.

For the year ended 30 June 2018, basic and diluted loss per share were HK9 cents (2017: HK2 cents). Loss from changes in fair value of biological assets was approximately HK$174,687,000 (2017: HK$33,233,000). Fair value gain on investment properties was approximately HK$7,954,000 (2017: HK$14,938,000).

For the year ended 30 June 2018, the finance costs were approximately HK$548,000 (2017: HK$161,000).

Administrative expenses from operations for the year ended 30 June 2018 increased to approximately HK$60,624,000 (2017: HK$37,811,000). It included major items such as amortization of intangible assets of approximately HK$5,125,000, salaries and directors' emoluments of approximately HK$24,383,000, operating lease charges on land and buildings of approximately HK$6,120,000, forest plantation maintenance fee of approximately HK$3,500,000. Income tax credit was recorded at approximately HK$44,475,000 (2017: HK$9,238,000). Exchange gain on translating foreign operations was recorded at HK$17,791,000 (2017: loss HK$6,852,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the total assets of the Group were approximately HK$919,834,000 (2017: HK$1,034,559,000), including cash and bank balances of approximately HK$13,027,000 (2017: HK$13,015,000). The directors of the Company are of the view that the Group has sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future.

CAPITAL RAISING AND EXPENDITURE

As at 30 June 2018, details of movements in the issued share capital of the Company is stated in note 14.

BUSINESS ACQUISITION AND DISPOSAL

On 31 May 2018, the Group completed the acquisition of the entire share capital of Reward Pinnacle Limited, which have secured exclusive rights for distribution and sales of products associated with the golden flower tea business in PRC for a period of 30 years. Further details can be referred to the announcements made by the Company on 2 May 2018 and 31 May 2018 respectively. Save as disclosed above, the Group had neither any material acquisition nor disposal during the year.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, the Group had 49 employees (2017: 26 employees) in both Hong Kong and the PRC. The Group implements remuneration policy, bonus and share options scheme to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration.

CHARGES ON THE GROUP ASSETS

As at 30 June 2018, the car parking spaces with aggregate carrying amount of HK$200,000,000 were pledged to a bank to secure bank loans granted to the Company. A deed of assignment of rental income from the car parking spaces was executed in the favour of the bank (2017: Nil).

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 30 June 2018 (2017: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting will be held on 12 November 2018. For the purpose of determining the entitlement of the shareholders of the Company to attend and vote at the annual general meeting, the register of members of the Company will be closed from 7 November 2018 to 12 November 2018 (both days inclusive), during which period no transfer of share(s) will be effected. In order to be eligible to attend and vote at the annual general meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with Union Registrars Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on 6 November 2018.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Since most of the transactions, income and expenditure of the Group are denominated in Great British Pound ("£"), Renminbi ("RMB"), United States dollar ("USD") and Hong Kong dollar ("HK$"), no hedging or other arrangements to reduce the currency risk have been implemented.

CONTINGENT LIABILITIES

As at 30 June 2018, the directors of the Company are not aware of any material contingent liabilities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rule Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 30 June 2018, except the followings:

Code provision A.2.1 of the CG Code provides that the roles of chairman of the board and chief executive should be separate and should not be performed by the same individual. This code provision also stipulate, inter alia, the role and responsibility of the chairman of the board and the chief executive.

Mr. Yeung Chi Hang was appointed as chairman of the Board and the chief executive officer of the Company on 27 January 2015. Thereafter, Mr. Yeung Chi Hang has assumed both roles, The directors were of the view that the vesting of the roles of chairman of the Board and chief executive officer in the same person can provide the Group with strong and consistent leadership and allow for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The directors were also of the view that the present structure was considered to be appropriate under the circumstances of the Company. The Board would keep review of its current board structure from time to time.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Mr. Yeung Chi Hang was unable to attend the annual general meeting of the Company held on 8 November 2017 due to business trips. Mr. Wong Po Keung, an executive director, was elected and acted as chairman of the said annual general meeting.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's Code of Conduct regarding director's securities transactions. Having made specific enquiry, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2018.

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee") with the term of references in accordance with the Listing Rules. The Audit Committee currently comprises three independent non-executive directors, namely, Mr. Ong Chi King (Chairman), Mr. Wong Kwai Sang and Mr. Heung Chee Hang, Eric. Mr. Ong Chi King has appropriate accounting and related financial management expertise as required under Rule 3.10 of the Listing Rules.

The Audit Committee has reviewed and discussed with the external auditor the auditing and financial reporting matters including the annual consolidated results of the Group for the year ended 30 June 2018.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 30 June 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2018. The work performed by ZHONGHUI

ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange.

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

Hong Kong, 28 September 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.

* *For identification purpose only*