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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)**

**MAJOR TRANSACTION  
IN RELATION TO  
ACQUISITION OF A FOREST PLANTATION BUSINESS**

**THE SALE AND PURCHASE AGREEMENT**

The Board is pleased to announce that on 7 December 2011 after trading hours, the Purchaser, a wholly owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Share and Sale Loan at a total consideration of HK\$180,000,000, which will be satisfied as to (i) HK\$12,000,000 by way of cash and (ii) HK\$168,000,000 by way of issue of the Promissory Note.

Based on the relevant percentage ratios calculations under the Listing Rules, the Acquisition constitutes a major acquisition of the Company and therefore are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

**GENERAL**

The Circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) accountants' report of the Target Group; (iii) pro forma financial information on the Group upon Completion; (iv) valuation report on the Target; (v) the letters from the financial adviser of the Company and the auditors of the Company in respect of the valuation of the Target and (vi) notice of the EGM, will be despatched to the Shareholders on or before 6 January 2012 and in compliance with the Listing Rules, so as to allow sufficient time for the preparation of the relevant information for inclusion in the Circular.

## **THE SALE AND PURCHASE AGREEMENT**

The Board is pleased to announce that on 7 December 2011 (after trading hours), the Purchaser and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the Sale Share, representing 100% of the entire issued share capital of the Target, and the Sale Loan at the total consideration of HK\$180,000,000.

### **Date**

7 December 2011

### **Parties**

1. The Purchaser: Mega Choice Holdings Limited, a wholly owned subsidiary of the Company
2. The Vendor: Mr Hu Chao

To the best of the Directors' information and belief after having made all reasonable enquiries, as at the date of this announcement, the Vendor is a third party independent of the Company and its connected persons.

### **Subject**

The Sale Share, representing 100% of the entire issued share capital of the Target, and the Sale Loan, being all sums owed by the Company to the Vendor as at Completion.

### **Consideration**

Pursuant to the terms of the Sale and Purchase Agreement, the Consideration of HK\$ 180,000,000 shall be settled in the following manners:

1. HK\$2,000,000 in cash has been paid prior to the date hereof pursuant to the MOU;
2. HK\$10,000,000 in cash shall be paid upon signing of the Sale and Purchase Agreement;
3. HK\$168,000,000 to be satisfied by way of issue of the Promissory Note to the Vendor or its nominees upon Completion.

The Consideration has been arrived at after arm's length negotiations between the Purchaser and the Vendor and was determined with reference to, including but not limited to, the preliminary valuation on the Target prepared by Castores Magi Asia Limited, an independent professional valuer, according to which the market value of the Target was approximately HK\$190 million as at 30 November 2011.

The preliminary valuation was based on income approach and discounted cash flow method was adopted for valuation. The material assumptions used in the valuation

of the Target includes the following:

- The continuous operation of the Target Group;
- The financial forecasts of the Target Group are achievable;
- There will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Target Group currently runs or intends to run its business which will materially affect its operation;
- There will be no substantial market fluctuation in the industry and jurisdictions or states in which the Target Group currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;
- There will be no substantial market fluctuation in current interest rates and foreign currency exchange rates in the jurisdictions or states in which the Target Group currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders;
- The management of the Target Group will not make any decision which is harmful to the revenue generation ability of its business; and
- The operator of the Target Group will allocate sufficient resources to keep abreast of its future expansion.

The valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. Details of the formal valuation report together with the letters from the financial adviser of the Company and the auditor of the Company in respect of the valuation will be set out in the Circular to be despatched to the Shareholders.

The Directors are of the view that the Acquisition at the Consideration is fair and reasonable and in the interest of the Shareholders as a whole.

### **Conditions precedent**

Completion shall be conditional upon satisfaction or waiver as applicable of each of the following conditions precedent:-

- (a) the Purchaser being reasonably satisfied with the results of the due diligence review of the Target Group to be conducted;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser and the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereby having been obtained;
- (c) all necessary waiver, consent, approval, licence, authorisation, permission, order and exemption (if required) from the relevant governmental or regulatory authorities or other third parties which are necessary in connection with the Sale and Purchase Agreement and the transactions contemplated thereby having been obtained;
- (d) the approval by the Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder;

- (e) a PRC legal opinion (in form and substance reasonably satisfactory to the Purchaser) in relation to the transactions contemplated under the Sale and Purchase Agreement having been obtained; and
- (f) the warranties by the Vendor contained in the Sale and Purchase Agreement remaining true and accurate in all respects.

If any of the conditions precedent has not been satisfied (or waived by the Purchaser in respect of (a), (e) or (f) only) at or before 5:00 p.m. on 31 March 2012 or such later date as the Vendor and the Purchaser may agree, the Sale and Purchase Agreement shall cease and determine and the Vendor shall forthwith return to the Purchaser all moneys paid under the Sale and Purchase Agreement (without interest or compensation) and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof. Although the Purchaser is entitled to waive the conditions (a), (e) and (f) above, the Purchaser has no intention of waiving the same and will not do so which would adversely affect the interest of the Company.

### **Completion**

Completion shall take place on the third Business Day after the day on which all the conditions precedent of the Sale and Purchase Agreement are satisfied in full (or the case may be, waived by the Purchaser), or such other date as the Vendor and the Purchaser may agree in writing.

### **Promissory Note**

The principal terms of the Promissory Note are as follows:

Issuer:	The Purchaser.
Principal amount:	HK\$168,000,000
Maturity date:	the 3 <sup>rd</sup> anniversary of the date of issue of the Promissory Note (the “ <b>Maturity Date</b> ”)
Interest:	2.5% per annum
Repayment:	The principal may be repaid in full or in part by the Purchaser at any time without penalty prior to the Maturity Date. All outstanding principal together with interest shall be repaid on the Maturity Date
Transferability:	The holder of the Promissory Note may freely assign or transfer the Promissory Note whether in whole or in part to any person (other than a connected person (as defined in the Listing Rules) of the Company).

## **INFORMATION ON THE TARGET GROUP**

The Target is an investment holding company incorporated in the British Virgin Islands with limited liability. Other than the holding of the entire equity interest in the HK Subsidiary, the Target has not carried on any business after incorporation.

The HK Subsidiary is a company incorporated in Hong Kong with limited liability. Other than the holding of the equity interest in the PRC Subsidiary, the HK Subsidiary has not carried on any business after incorporation.

The PRC Subsidiary is a wholly foreign owned enterprise established in the PRC and is a wholly owned subsidiary of the HK Subsidiary. The PRC Subsidiary is principally engaged in forest plantation in the PRC. Subject to the issuance of the relevant forest ownership certificates, the PRC Subsidiary is entitled to exercise :

1. the Rights over the forest plantation area in Xia Gui Lake, Huang Sha Jing, Shaoguan, Guangdong Province, PRC with a total area of 4550 Chinese Mu for a term of 24 years and 2 months commencing from 1 January 2012; and
2. the Rights over the forest plantation area in Song Luo Keng and Hou Zi Shi, Shaoguan, Guangdong Province, PRC with a total area of not less than 1,200 Chinese Mu for a term of 20 years commencing from 1 January 2012.

According to the audited financial statements of the PRC Subsidiary which has been prepared in accordance with PRC GAAP, the net profit for the period from 18 January 2010 (date of incorporation) to 31 December 2010 before and after taxation is both nil.

According to the unaudited financial statements of the PRC Subsidiary which has been prepared in accordance with PRC GAAP, the net profit for the 11 months ended 30 November 2011 before and after taxation is both nil . The net asset of the PRC Subsidiary as at 30 November 2011 is approximately RMB3,165,192.

## **REASONS FOR AND BENEFIT OF THE ACQUISITION**

The Group is currently engaged in the green businesses of research, development and application of technologies and solutions, manufacture, sale and trading of products, materials, systems and services for green market segments including the environmental markets, agricultural markets, organic markets, green medical 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 and viable green businesses serving both the mankind and the environment.

The Acquisition represents the Group's expansion into the upstream environmental market segment of forest plantation, timber production and trading. Given the continued steady economic growth of the PRC, the prospects of market demand for timber as a raw material is promising. The PRC government has been encouraging afforestation to increase forest coverage for decades. It is also the government's

emphasis in recent years to mitigate carbon emission and to enhance natural environment. The Directors consider that the Acquisition is consistent with the Group's dedication to develop sustainable and viable green businesses. In view of the favourable industry environment and government policies, the Acquisition will enable the Group to capture the opportunity in the sustainable development and utilization of forest resources.

Upon Completion, the Target Group will become a wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group's financial statements.

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but limited to the issue of the Promissory Note) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Based on the relevant percentage ratios calculations under the Listing Rules, the Acquisition constitutes a major acquisition of the Company and therefore is subject to reporting, announcement and shareholder's approval requirements under Chapter 14 of the Listing Rules.

In this connection, an EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the relevant resolutions in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' information and belief, having made all reasonable enquiries, as at the date of this announcement, no Shareholder has a material interest in the Acquisition which is different from the other Shareholders. Therefore, no Shareholder would be required to abstain from voting on the proposed resolutions in relation to the Acquisition at the EGM.

## **GENERAL**

The Circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) accountants' report of the Target Group; (iii) pro forma financial information on the Group upon Completion; (iv) the valuation report on the Target; (v) the letters from the financial adviser of the Company and the auditor of the Company in respect of the valuation of the Target; and (vi) notice of the EGM, will be despatched to the Shareholders on or before 6 January 2012 and in compliance with the Listing Rules, so as to allow sufficient time for the preparation of the relevant information for inclusion in the Circular.

## **DEFINITIONS**

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the Sale Share and Sale Loan pursuant to the Sale and Purchase Agreement
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Circular”	the shareholders’ circular to be issued by the Company in accordance with the Listing Rules in respect of the Sale and Purchase Agreement and the transactions contemplated thereby
“Company”	China Environmental Resources Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the transactions contemplated under the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of HK\$180,000,000 payable by the Purchaser for the Sale Share under the Sale and Purchase Agreement
“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 terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK Subsidiary”	Zhongheng International Trade Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Target
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“MOU”	The memorandum of understanding made between the Vendor and the Purchaser dated 18 November 2011 relating to the Acquisition
“PRC”	The People’s Republic of China
“Promissory Note”	the promissory note in the sum of HK\$168,000,000 to be issued by the Purchaser to satisfy part of the Consideration
“Purchaser”	Mega Choice Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Rights”	the forest land use right, forest tree ownership right and forest tree use right
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the agreement to acquire the Sale Share entered into between the Purchaser and the Vendor dated 7 December 2011
“Sale Share”	1 ordinary share in the Target representing 100% of the total issued share capital of the Target
“Sale Loan”	All sums owed by the Company to the Vendor as at Completion
“Share(s)”	ordinary share(s) in the Company of HK\$0.05 each
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Eugene Finance International Limited, a company incorporated in the British Virgin Islands and is wholly owned by the Vendor
“Target Group”	collectively the Target, HK Subsidiary and PRC Subsidiary
“Vendor”	Mr Hu Chao
“%”	per cent



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

Hong Kong, 7 December 2011

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