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China Environmental Energy Investment Limited

中國環保能源投資有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 986)

CLARIFICATION ANNOUNCEMENT RELATING TO THE ANNUAL REPORT 2016

Reference is made to the annual report 2016 of China Environmental Energy Investment Limited (the “**Company**”) as published on 28 July 2016 (the “**Annual Report**”). Unless otherwise defined, words and expressions used herein shall have the same meanings as those used in the Annual Report.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company refers to Note 21(b) of the Annual Report and wishes to provide additional information on the unlisted available-for-sale investment and the related impairment as stated in the revised paragraphs below:–

“(b) Pure Power

On 29 April 2014, the Group acquired 10% of the issued share capital of Pure Power from a third party for a consideration of HK\$125,000,000 which was satisfied by (i) the promissory note with the principal amount of HK\$123,200,000 issued by the Company (Note 30(b)) and (ii) the convertible bonds with the principal amount of HK\$1,800,000 (Note 32). Pure Power is an investment holding company and, through its wholly-owned subsidiary incorporated in the USA, is principally engaged in the exploration and exploitation of natural resources in the USA.

On 29 January 2016, the Company further acquired 39.41% of the issued share capital of Pure Power from third party for a consideration of HK\$163,000,000 (i.e., approximately HK\$414 million x 39.41%) which was agreed between the Company and the vendor. Pure Power becomes the associate of the Company on acquisition date. The Company appointed Steinberg Appraisal and Consulting (Hong Kong) Limited

* *For identification purposes only*

(“**Steinberg**”) as an independent valuer to perform the valuation of Pure Power. According to the valuation report prepared by Steinberg, Steinberg adopted the market approach to arrive at the fair value of Pure Power. This method was chosen after taken into account the uniqueness of Pure Power’s operation, the industry it is participating, and the availability of information and market data. Under such approach, components of comparable transactions such as oil price (USD82 – 94/barrel), forecasted net profit margin (31% – 33%) and net profit (USD25 – 31/barrel) together with adjustment factors (33% – 39%) have been taken into account. According to the valuation report and the further acquisition, the Company recognized impairment of approximately HK\$75 million. Such impairment was made on the 10% shares acquired before, which was based on the fair value as at 31 March 2015 (i.e., approximately HK\$116 million) minus the fair value as at 31 March 2016 (i.e., approximately HK\$41 million (being 10% of approximately HK\$414 million)).

The valuation method adopted for the acquisition was different from the income-based approach adopted in previous years. Income-based approach was considered appropriate for the valuation conducted in 2015 because the purpose of it was to enable the management to form a basis for impairment on the investment as at 31 March 2015, following the substantial drop in oil price during that year. However, the purpose of the valuation prepared by Steinberg in 2016 was to assist the management on the acquisition of a further 39.41% of the shares of Pure Power. For this purpose, and as agreed with the vendor, the Company considered that it was more appropriate to adopt the market approach, which took into account comparable transactions in the market as well as the change in market price of oil in recent years. It also reflected the fair value for the additional shares of Pure Power being acquired by the Company during the year.”

Except as stated above, all the other information and matters as stated in the Annual Report remain unchanged.

By Order of the Board
China Environmental Energy Investment Limited
Chen Tong
Chairman

Hong Kong, 28 February 2017

As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Chen Tong (Chairman) and Mr. Xiang Liang; and three independent non-executive Directors, namely Ms. Zhang Ruisi, Mr. Tse Kwong Chan and Ms. Zhou Jue.

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

In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.