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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)

**DISCLOSEABLE TRANSACTION
IN RELATION TO THE ACQUISITION OF EQUITY INTEREST
IN STARFAME INVESTMENTS LIMITED
AND
ISSUE OF DEBT SECURITIES**

THE AGREEMENT

The Board is pleased to announce that on 12 May 2014 (after trading hours) the Company and the Vendor entered into the Agreement pursuant to which the Vendor conditionally agreed to sell and the Company conditionally agreed to acquire the Sale Shares, representing 9.9% equity interest in the Target Company, for a consideration of HK\$30,000,000 which shall be settled by way of the issue of the Promissory Note.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Acquisition exceed 5% but fall below 25%, the Acquisition constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that Completion is subject to the satisfaction of the conditions set out under the paragraph headed “Conditions precedent” of the section headed “The Agreement” of this announcement. As the transactions contemplated by the Agreement may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

The Board is pleased to announce that on 12 May 2014 (after trading hours) the Company as purchaser and the Vendor as vendor entered into the Agreement pursuant to which the Vendor conditionally agreed to sell and the Company conditionally agreed to acquire the Sale Shares for a consideration of HK\$30,000,000. The principal terms of the Agreement are set out below:

THE AGREEMENT

Date

12 May 2014 (after trading hours)

Parties

Vendor: Main Global Group Limited

Purchaser: the Company

Target Company: Starfame Investments Limited

Asset to be acquired

The Sale Shares represent 9.9% of the entire issued share capital of the Target Company. Details of the Target Company are set out in the paragraph headed “Information on the Target Group” below.

Consideration and Subscription Price

The Consideration for the Sale Shares payable by the Company to the Vendor shall be the sum of HK\$30,000,000 and will be settled on the Completion Date by way of the issue of the Promissory Note, details of which are set out in the section headed “Principal Terms of the Promissory Note” below.

The Consideration was determined after arm’s length negotiations between the Company and the Vendor with reference to (i) the business valuation of the Target Group by an independent professional valuer; (ii) the financial performance of the Target Group; and (iii) the reasons for the Acquisition as disclosed herein below.

The Consideration shall be funded through a combination of internal resources and issue of the Promissory Note.

Principal Terms of the Promissory Note

Pursuant to the Agreement, the Company will issue the Promissory Note, the principal terms of which are summarised as follows:

Principal amount:	HK\$30,000,000
Issue price:	100% of the aggregate principal amount of the Promissory Note
Issue date:	Completion Date
Interest:	The Promissory Note will bear a simple interest from the Completion Date at the rate of 8% per annum on the outstanding principal amount of the Promissory Note, payable in arrears on maturity or redemption, as the case may be
Maturity date:	One year from the issue date of the Promissory Note

Redemption: The Company may at its option repay or redeem the Promissory Note prior to the Maturity Date. The holder of the Promissory Note may not redeem the Promissory Note prior to the Maturity Date save and except in the occurrence of an event of default set out below

Events of default: The Promissory Note contains certain events of default, including, among others:

1. any failure to pay the principal and Interest of the Promissory Note when due and such failure continues for a period of ten (10) Business Days;
2. any default made by the Company in the performance or observance of any undertaking, warranty or representation given by it under the terms of the Note Instrument (other than the covenant to pay the principal and Interest in respect of the Promissory Note) and such default is incapable of remedy (in which event no such notice as is referred to below shall be required), or if capable of remedy is not remedied within thirty (30) Business Days of service by any holder of the Promissory Note on the Company of notice requiring such default to be remedied;
3. a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction;
4. proceedings shall have been initiated against the Company under any applicable bankruptcy, reorganisation or insolvency law, and such proceedings shall not have been discharged or stayed within thirty (30) Business Days thereafter in relation to the jurisdiction concerned;

5. it is or becomes unlawful for the Company to perform or comply with any of its obligations under the Note Instrument or any Promissory Note, or due to no fault on the part of any holder of the Promissory Note any such obligation is not or ceases to be enforceable or is claimed by the Company not to be enforceable;
6. any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Note Instrument, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Promissory Note or Note Instrument admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done by the requisite time;
7. any breach of the representations, warranties and undertakings made by the Company to the holder of the Promissory Note; and
8. any event occurs which has an analogous effect to any of the events referred to in paragraphs 1 to 7 above.

If any event of default pursuant to the terms and conditions of the Note Instrument occurs, the holder of the Promissory Note shall be entitled to serve a notice on the Company and demand the Promissory Note to become due and payable immediately in whole but not in part and be entitled to redeem the Promissory Note at the Redemption Price.

Rankings:

The Promissory Note constitutes direct, general, unsecured and unsubordinated obligations of the Company and rank *pari passu* without any preference amongst themselves.

Listing: No application will be made for a listing of the Promissory Note on any stock exchange.

Transferability: Subject to the compliance with the applicable laws, the Promissory Note is freely transferable in whole or in part to any third party at any time during the term of the Promissory Note provided that a duly completed transfer form in respect of the transfer shall be served on the Company.

Conditions precedent

Completion is conditional upon:

1. completion of the due diligence exercise on the Target Company to the reasonable satisfaction of the Company that the Warranties are true and correct in all material respects;
2. all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Agreement having been obtained by the respective parties to the Agreement (including but not limited to the necessary consent from the Stock Exchange, if any); and
3. none of the Warranties and other provisions of the Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or (in respect of any of the Warranties) is misleading or untrue in any material respect.

The Company may, at its absolute discretion, waive any of the Conditions (except the Condition set out in paragraph 2 above which cannot be waived). Each of the Company and the Vendor shall use their respective best endeavours to procure the fulfilment of all the Conditions.

Completion

Completion shall take place on the seventh Business Day after the fulfillment or waiver of the Conditions or such other date as may be agreed by the parties to the Agreement.

Profit guarantee

Notwithstanding the Completion of the Sale Shares, the Vendor irrevocably covenants, warrants and guarantees to the Company that the Beijing Company shall have an audited profit after tax of at least HK\$24,000,000 for the financial period commencing 1 January 2014 and ending 31 December 2014 (“**Profit Guarantee**”). If the Beijing Company fails to achieve the Profit Guarantee, the Vendor shall pay to the Company a sum equivalent to the profit shortfall multiplied by a percentage equivalent to the shareholding in the Target Company of the Company within seven (7) Business Days from the date of issuance of the audited accounts of the Beijing Company.

Information on the Vendor

The Vendor is a company incorporated in British Virgin Islands with limited liability and, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, is an Independent Third Party.

Information on the Target Group

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiry, the Target Company is an investment holding company and indirectly and beneficially owns the Beijing Company, which is a large comprehensive trading company with wholesale and distribution products encompassing various aspects of production and livelihood. The Beijing Company traditionally operates in the sales of petrochemical products, with the main focus on petrochemical products of PetroChina Company Limited* and China Petroleum & Chemical Corporation*, including polypropylene, general materials for polyethylene, special materials for BOPP, special materials for CPP and special materials for pipes, etc., and plans to step up the sales of new products including rubber and asphalt. At the same time, the Beijing Company also cooperates with large companies including PetroChina Company Limited* on the development of other projects, and has been designated by the Soluxe Hotel Group as the sole distributor of Changyu red wine pursuant to a purchasing agreement made with the Soluxe Hotel Group in 2009. Currently, enterprises with long-term liquor business cooperation with the Beijing Company include Yantai Changyu Pioneer Wine Company Limited*, The Great Wall Group Co., Ltd. Guangdong*, foreign red wine import companies as well as Qinghai Huzhu Qingke (Highland Barley) Liquor Co., Ltd.*. The Beijing Company also signed a strategic cooperation agreement with PetroChina Company Limited* in 2012, involving a nationwide system of about 18,000 convenience stores at gas stations. Currently, some of the products distributed by the Beijing Company are already

available at convenience stores in the Heilongjiang Province and Qinghai Province, the PRC, and it is expected that all products distributed by the Beijing Company would be available at convenience stores at gas stations operated by PetroChina Company Limited* in large cities of Northeast China and Northern China in 2013. In addition, the Beijing Company has set up a “Window of Qinghai” project in collaboration with the Department of Commerce of the Qinghai Province and Qinghai Federation of Logistics and Purchasing* for the sale of famous and local products of the Qinghai Province.

According to the audited accounts of the Beijing Company as at 31 December 2013, the total assets value and net assets value of the Beijing Company are RMB129,468,077 and RMB65,096,637 respectively. The net profit and loss before and after taxation and extraordinary item of the Beijing Company for two financial years ending 31 December 2013 are as follows:–

	As at 31 December 2012 (RMB)	As at 31 December 2013 (RMB)
Turnover	219,664,387	200,716,021
Net profit before taxation	28,185,085	30,802,086
Net profit after taxation	21,138,814	23,101,565

REASONS FOR THE ACQUISITION

The Group is principally engaged in waste paper, scrap metal and consumable wastes recycling. Whilst the Group remains focused on developing its existing businesses, 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 and engage in a new line of business with growth potential.

After due consideration of the current market of the petrochemical sector and the steady growth of the needs and demands of the petrochemical products, the Directors consider that the prospect of provision of petrochemical products in PRC would be promising and believe that the Acquisition provides a prime opportunity for the Group to enter the petrochemical business in PRC and diversify the revenue stream of the Group which is expected to increase the Shareholders’ value and benefit the Company and the Shareholders as a whole.

In view of the above, the Directors are of the view that the terms of the Agreement are fair and reasonable and the Acquisition is in the interest of the Company and its shareholders as a whole.

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:–

“Acquisition”	the purchase of the Sale Shares by the Company pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement in respect of the Acquisition dated 12 May 2014 and entered into by the Company and the Vendor
“Beijing Company”	北京吉仁弘暉商貿有限公司, a company incorporated under the laws of the PRC with limited liability which is indirectly and beneficially owned by the Target Company
“Board”	the board of directors of the Company

“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which commercial banks are generally open for business in Hong Kong
“Company”	China Environmental Energy Investment Limited (中國環保能源投資有限公司*), a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the provisions of the Agreement
“Completion Date”	the seventh Business Day after the fulfillment or waiver of the Conditions or such other date as the Parties may agree
“Conditions”	the conditions set out under the paragraph headed “Conditions precedent” of the section headed “The Agreement” of this announcement
“Consideration”	HK\$30,000,000, being the consideration for the sale of the Sale Shares
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	a party which is independent of the Company and its connected persons (as defined under the Listing Rules)
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“Note Instrument”	the instrument constituting the Promissory Note to be executed by the Company on the Completion Date
“PRC”	The People’s Republic of China
“Promissory Note”	the fixed coupon promissory note of a principal amount of HK\$30,000,000 at the simple interest rate of 8% per annum to be issued by the Company to the Vendor pursuant to the Agreement
“Redemption Price”	in respect of any Promissory Note, means a price equivalent to the sum of (i) the outstanding principal amount of the Promissory Note; and (ii) all unpaid interest on the outstanding principal amount
“RMB”	Renminbi, the lawful currency of PRC for the time being
“Sale Shares”	99 issued and fully-paid ordinary shares of US\$1.00 each in the capital of the Target Company representing 9.9% of the issued and fully paid up share capital of the Target Company prior to Completion
“Share(s)”	ordinary share(s) of HK\$0.0005 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Starfame Investments Limited, a company incorporated under the laws of British Virgin Islands with limited liability whose registered office is situate at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
“Target Group”	The Target Company and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America

“Vendor”	Main Global Group Limited, a company incorporated under the laws of British Virgin Islands with its registered office situate at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
“Warranties”	the representations, warranties and undertakings made by the Vendor under the Agreement
“%”	per cent.

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

Hong Kong, 12 May 2014

As at the date of this announcement, the Board comprises four executive Directors, namely Ms. Chen Tong (Chairman), Ms. Chan Ching Ho, Kitty, Mr. Xiang Liang and Ms. Li Lin; two non-executive Directors, namely Ms. Yao Zhengwei and Mr. Wang Zhenghua; and three independent non-executive Directors, namely Mr. Ong King Keung, Mr. Tse Kwong Chan and Ms. Zhou Jue.

The English text of this announcement prevails over the Chinese text in case of any discrepancy.

** *For identification purposes only*