**ENERGY INTERNATIONAL INVESTMENTS HOLDINGS LIMITED**
**能源國際投資控股有限公司** *

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 353)**

# SUPPLEMENTAL ANNOUNCEMENT ON IMPAIRMENT LOSSES ON OIL PRODUCTION ASSETS

Reference is made to the annual report (the "**Annual Report**") of Energy International Investments Holdings Limited (the "**Company**") containing the Company's consolidated financial statements for the year ended 31 December 2017 (the "**2017 FS**"). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as defined in the Annual Report.

As disclosed on pages 6 and 148 of the Annual Report, the Company recognised in the 2017 FS impairment losses (the "**Impairments**") on the assets of the Group's oil production business under the Songliao Contract (collectively, the "**Oil Production Assets**") in relation to the cash-generating unit ("**CGU**") to which the Oil Production Assets belong (the "**Oil Production CGU**"), comprising the property, plant and equipment ("**Oil PPE**"), exploration and evaluation assets ("**Oil E&E**") and interests in oil production sharing contract ("**Oil Contract Interests**"). As disclosed on page 148 of the Annual Report, for the year ended 31 December 2017, the impairment losses on the Oil PPE, Oil E&E and Oil Contract Interests amounted to HK$5,469,000, HK$266,000 and HK$170,444,000, respectively. Further details of the Impairments were already disclosed on pages 8 to 11 of the Annual Report.

As disclosed in the Annual Report, the Company has engaged an independent valuer to conduct a valuation (the "**Valuation**") on the oil production business to determine the recoverable amount of the Oil Production CGU as at 31 December 2017. The Company would like to provide the following additional information on the reasons for the decrease in the projected volume of crude oil, the inputs, bases and assumptions of the Valuation, and the reasons for using value-in-use ("**VIU**"):

* *For identification purpose only*

## REASONS FOR THE DECREASE IN THE PROJECTED VOLUME OF CRUDE OIL

As disclosed on page 142 of the Annual Report, the impairment on the Oil PPE was resulted from the write-off of property, plant and equipment relating to the infrastructure of certain oil wells which were required by the municipal government to be closed.

The closure of oil wells was resulted from the administrative decision of the government (the "**Decision**") to extend the area of the Chagan Lake National Nature Reserve in an effort to protect the natural environment. As disclosed in the Company's announcement dated 2 February 2018, the Decision caused a reduction of the project area of the Oil Production CGU by approximately 24.7 square kilometers (the "**Affected Area**") or approximately 32% of the total contract area of approximately 77.2 square kilometers of the Songliao Contract, affecting 11 oil wells out of 173 oil wells in the entire project area belonging to the Group and approximately 0.708 million metric tonnes ("**MMT**") of estimated quantities of proved crude oil reserves of the Affected Area (out of 3.648 MMT as at 31 December 2016 prior to the receiving of the Decision).

As disclosed in the Annual Report, an impairment loss of HK$170,444,000 was charged pro rata to the Oil Contract Interests as a result of the accumulative decrease in the projected volume of drilling and extraction and sales of crude oil. The decrease in crude oil extraction was projected to be approximately 2.62 MMT in total volume, which was principally resulted from (a) the exclusion of proved crude oil reserves of the Affected Area in the estimated quantity of approximately 0.708 MMT; and (b) the effect of production volume decrease due to the adjusted drilling and extraction schedules. As disclosed on page 10 of the Annual Report, the principal reasons for adjusting the drilling and extraction schedules included the additional time required to be spent on geographical, structural and oil reserve studies and the higher capital investment of new oil wells drilling to provide for environmental protection and restoration measures intended to be carried out by the Group in response to the Decision.

## INPUTS, BASES AND ASSUMPTIONS OF THE VALUATION

The key inputs, bases and assumptions used in the Valuation were already disclosed on pages 8 to 11 of the Annual Report. In particular:

1. The annual oil production volumes were based on the production capacity of existing oil wells, adjusted by (a) the reduction resulted from the closure of 11 oil wells in the Affected Area in response to the Decision as explained on page 8 of the Annual Report; (b) the future projections of crude oil price, such that lower volume is produced at lower oil price level to maximise profit because of the fixed costs associated with oil production; and (c) the adjustment of drilling and extraction schedules from 791 new wells to 114 new wells for the remaining contractual period of the Songliao Contract until year 2031, as explained on page 10 of the Annual Report.

2. As disclosed on page 9 of the Annual Report, the crude oil price as at the date of the Valuation was based on the current market price quotation of New York Mercantile Exchange WTI at the end of 2017. The oil price projections between years 2018 and 2020 were based on the forecast of Bloomberg. For years 2021 to 2031, an annual growth rate of 3% was assumed for the oil price, reflecting the long-term average growth rate for China, being the country in which the Oil Production CGU operates.

3. As disclosed on page 11 of the Annual Report, the pre-tax discount rate of 17.7% and post-tax discount rate of 13% were used to discount the free cash flows to the Oil Production CGU in the Valuation, by reference to the weighted-average-cost-of-capital ("**WACC**") derived from the cost of equity and the cost of debt. The cost of equity is calculated using the Capital Assets Pricing Model ("**CAPM**") based on the risk-free rate of 3.90% per annum (by reference to China sovereignty bond yield), the expected market return (by reference to the internal rate of return of China stock markets), the equity risk premium (being the difference between the expected market return and the risk-free rate), the small company risk premium (by reference to research results of international consulting firms), the relevered beta (by reference to the average unlevered beta and average debt to equity ratio of market comparable companies listed in Hong Kong engaging in similar industries) and the tax rate of 25% in China. The cost of debt is calculated using the standard long-term (for loans with a term of over five years) lending rate quoted by the People's Bank of China of 4.90% per annum, after 25% tax.

4. As disclosed on page 9 of the Annual Report, the operating costs of the oil field were projected on the basis of annual growth rate of 3%, which reflects the long-term average growth rate for China, being the country in which the Oil Production CGU operates.

5. As disclosed on page 147 of the Annual Report, the discounted cash flow ("**DCF**") analysis on the Oil Production CGU was based on cash flow projection for a period of 14 years up to 2031, being the year of expiry under the fixed contractual term of the Songliao Contract unless extended.

6. As disclosed on page 9 of the Annual Report, the exchange rates of RMB1.00 = HK$1.20 and US$1.00 = RMB6.51 were used in the Valuation.

## REASONS FOR USING VIU IN THE VALUATION

As disclosed on page 96 of the Annual Report, during an impairment testing of assets (other than financial assets), the recoverable amount should be the greater of (i) the fair value less costs of disposal, and (ii) the VIU. After assessing both the VIU and the fair value, the Valuation opted for the VIU because it was the greater between the two figures. As disclosed on page 97 of the Annual Report, VIU is based on the estimated future cash flows expected to be derived from the asset or CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. As stated on page 9 of the Annual Report, in assessing the recoverable amount of the Oil Production CGU as at 31 December 2017, the Company calculated the VIU derived by the DCF analysis. In determining the fair value less costs of disposal, due to the lack of marketability and limited transactions of comparable CGU in Hong Kong and China stock markets, and the lack of reasonable basis for making a reliable estimate of the price at which an orderly transaction to sell the CGU would take place between market participants at the valuation date under the then prevailing current market condition, the market approach had not been adopted. As a result, another methodology, DCF method under the income approach, had been adopted and a marketability discount was applied to calculate the fair value less costs of disposal, which resulted in an amount below the VIU. The Company's management noted that the use of VIU in the Valuation is in compliance with Hong Kong Accounting Standard 36 Impairment of Assets.

By order of the Board
**Energy International Investments Holdings Limited**
**Lan Yongqiang**
*Chairman*

Hong Kong, 17 August 2018

*As at the date of this announcement, the executive directors of the Company are Mr. Lan Yongqiang (Chairman), Ms. Wang Meiyan, Mr. Chan Wai Cheung Admiral, Ms. Jin Yuping, Mr. Cao Sheng and Mr. Yu Zhiyong; and the independent non-executive directors of the Company are Mr. Lee Hoi Yan, Mr. Wang Jinghua and Mr. Fung Nam Shan.*