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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)

SUPPLEMENTAL ANNOUNCEMENT FOR DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL OF THE ISSUED SHARE CAPITAL OF MAIDEN FAITH CAPITAL GROUP LIMITED (FORMERLY KNOWN AS GOLD CASTLE GROUP LIMITED)

Reference is made to the announcement dated 16 May 2019 (the "**Announcement**") of China Environmental Energy Investment Limited (the "**Company**"). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Purchasers A, B, C and D and their ultimate beneficial owner(s) are third parties independent of the other Purchasers as at the date of the Announcement. The Board would like to clarify that there is no relationship among the Purchasers and their respective ultimate beneficial owners.

PURCHASERS' INFORMATION

The identities of the Purchasers and their respective ultimate beneficial owners are as follows:

Purchaser A

Name: Extra Nice Limited
Name of ultimate beneficial owner: Success Dragon International Holdings Limited (1182.HK)

Purchaser B

Name: Mr. Chan Kam Kong

Purchaser C

Name: Mr. Tong Siu Ting

Purchaser D

Name: BC Asia Group Limited
Name of ultimate beneficial owner: Mr. Cheng Wai Lun

VALUATION METHOD AND MAJOR ASSUMPTIONS

Business Valuation of the Disposal Group

The valuation of the Disposal Group as at 31 March 2019 (the "**Date of Valuation**") was under asset-based approach. Under the asset-based approach, the independent professional valuer (the "**Valuer**") has assessed the nature of assets and liabilities of the Disposal Group as at the Date of Valuation and also considered the impact on value due to a lack of marketability of the Disposal Group by applying a discount of lack of marketability (the "**DLOM**"). After discussion with the Board and analyzing the nature of the property, plant and equipment, statutory deposits paid, deposit paid, trade receivables, other receivables, prepayments and deposits paid, client trust bank balance, bank balances and cash, trade payables, other payables and accruals and deferred tax liabilities, the Valuer has adopted the book values as the market values as at the Date of Valuation. Adjustments were made on the intangible assets – SFC License type 1,4,9 (hereinafter referred to as the "**Intangible Assets**"). The major adjustments on the Intangible Assets was DLOM of 15.8%

Intangible Assets Valuation

In the process of valuing the Intangible Assets, the Valuer has taken into accounts the Disposal Group's operation and the industry it is participating in. Also, the Valuer considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches. The Valuer has considered the adoption of the market-based approach in arriving at the market value.

Under the market-based approach, the Valuer has searched for relevant market transactions comparable to the Intangible Assets from April 2015 to March 2019. After reviewing the comparable transactions available, the Valuer shortlisted the most relevant transactions (hereinafter referred to as the "**Comparable Transactions**").

The Comparable Transactions were selected mainly with reference to the following selection criteria:

- The comparable company was primarily engaged in carrying out either type 1, type 4 and/or type 9 regulated activities under the SFO, which is similar to the principal business of the Disposal Group;

- The comparable company was loss making as at the announcement of the transaction, which is with similar operation status as the Disposal Group;

- The transaction was completed before the Date of Valuation; and

- The financial information of the transaction was available to the public.

Details of the Comparable Transactions were listed as below:

	Acquirer Company	Related stock code	Target Company	SFC Licenses held by Target Company	Date of Announcement	Consideration *(HKD)*	Net Asset Value of Target Company *(HKD)*
1	Wealth Anchor Holdings Limited	619.HK	South China Asset Management Limited	Type 4, 9	18/5/2015	5,600,000	5,600,000
2	China Seven Star Asset Management Limited	245.HK	Yuan Asset Management Limited	Type 4, 9	15/6/2015	5,300,000	1,276,526
3	Grand Sight Management Limited	1348.HK	Crosby Asset Management (Hong Kong) Limited	Type 4, 9	19/8/2015	4,000,000	3,500,000
4	China Seven Star Real Estate Operation Management Limited	245.HK	YGD Securities (HK) Limited	Type 1	27/8/2015	22,656,166	13,656,166
5	Bigfair International Limited	736.HK	J.A.F Brokerage Limited	Type 1	20/11/2015	12,612,000	5,277,000
6	Zhong Nan Investments Limited	8193.HK	IAM Group Inc.	Type 1	9/12/2015	80,750,000	11,862,000
7	Sea Horizon Global Limited	8192.HK	Hing Lee Securities Limited	Type 1	15/12/2015	20,070,000	11,270,000
8	China Precious Metal Resources Holdings Co., Ltd	1194.HK	Munsun Securities Limited	Type 1	20/4/2016	70,000,000	50,245,364
9	Ace Vantage Investments Limited	8046.HK	JTI Securities Limited	Type 1	7/6/2016	22,800,000	9,800,000
10	Merdeka Financial Services Group Limited	8163.HK	Heng Asset Management Limited	Type 4, 9	7/2/2017	10,000,000	5,165,255
11	Perfect Zone Holdings Limited	8057.HK	CVP Asset Management Limited	Type 4, 9	9/2/2017	14,000,000	744,380

The above figures were obtained from the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Intangible Assets was calculated by the median value of premium over the net asset value of the above Comparable Transactions.

Major Assumptions

The Valuer adopted certain specific assumptions in their valuation and the major ones are as follows:

- Given the target companies in the Comparable Transactions were loss making, it was assumed that consideration paid above the net asset values was mainly for purchasing the SFC License Type 1, 4 and/or 9 of the target companies. Thus, in the selection of Comparable Transactions, only loss making target companies were adopted;

- The management accounts of the Disposal Group as at 31 March 2019 can reasonably represent its financial position as at the Date of Valuation as an audited financial statement of the Disposal Group as at the Date of Valuation was not available;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Disposal Group operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff (including responsible officer) in the industry in which the Disposal Group operates, and the Disposal Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Disposal Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- The financial information in respect of the assets and liabilities on the management accounts of the Disposal Group has been prepared on a reasonable basis, which reflects estimates that have been arrived at after due and careful consideration by the Board;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Disposal Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Disposal Group;

- Interest rates and exchange rates in the localities for the operation of the Disposal Group will not differ materially from those presently prevailing; and

- Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the result of the restricted stock study published in "Stout Restricted Stock Study" by Stout Risius Ross, LLC, the DLOM of 15.80% was adopted in arriving at the market value of the Disposal Group as at the Date of Valuation.

The valuation did not constitute a profit forecast under Rule 14.61.

FINANCIAL EFFECTS OF THE DISPOSAL

The Board would like to supplement that the loss of approximately HK$8,996,000 is calculated by the Consideration of HK14,350,000 payable by the Purchasers to the Company for the Disposal pursuant to the SPAs less expenses attributable to the Disposal of HK$100,000 and less the unaudited net assets of the Disposal Group as at 31 March 2019 of HK$23,246,000.

Since the Group operates its financial services business in Hong Kong through the Disposed Company which has been in continued loss of around HK$7,000,000 each year and the revenue generated therefrom is not substantial, the Company considers it in the interest of the Company and its shareholders as a whole to dispose of the interest the Disposed Company even at a loss.

On 16 November 2015, the Company entered into a sale and purchase agreement with STI Financial Group Limited (the "**Original Owner**") in relation to the acquisition of First Fidelity Capital (International) Limited ("**FFCI**") (formerly known as CE Securities, which in turn was formerly known as STI Securities & Wealth Management Limited) (the "**Original Acquisition**") which becomes part of the Disposal Group upon completion. The acquisition of FFCI was completed on 9 August 2016.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is not any relationship, nor any written or verbal arrangement between the Purchasers and the Original Owner.

The Disposal Group has (i) generated unaudited revenue of approximately HK$1,306,000, HK$480,000 and HK$623,000 during the year ended 31 March 2017, 2018 and 2019, respectively; and (ii) incurred unaudited total loss before tax of HK$4,833,000, HK$7,035,000 and HK$8,050,000 during the year ended 31 March 2017, 2018 and 2019, respectively.

Under the SFO requirements, a licensed corporation should maintain a certain amount of liquid assets. Since FFCI was continually making loss, the Group had to inject capital into FFCI in a timely manner to avoid non-compliance of the SFO. The Group has invested HK$7,000,000, HK$5,950,000 and HK$10,400,000 during the year ended 31 March 2017, 2018 and 2019, respectively, i.e. total capital injection into FFCI of HK$23,350,000. The Directors have exercised their due consideration and care in making the capital injection decision to avoid non-compliance of the SFO and to maintain the licensed corporation position.

The Directors considered the strict funding requirement of FFCI and would like to focus its resources in pursuing development opportunities on the profitable segments (jewelry business and money lending business) in order to strengthen the Group's income stream and maximize return to the Shareholders. Therefore, the Company would like to dispose the Disposal Group.

The Disposal has been completed on 31 May 2019. The loss of approximately HK$8,996,000 disclosed in the Announcement was the Company's estimation on the financial effect of the Disposal if it has taken place as at 31 March 2019. As the Consideration was HK$14,350,000, the unaudited net assets of the Disposal Group as at 31 March 2019 was approximately HK$23,246,000 and expenses attributable to the Disposal was approximately HK$100,000, the loss will be recorded in the profit or loss of the Group.

For financial reporting purpose, since the Disposal has not completed during the end of the reporting period of 2019, the Group is required to record the impairment losses of goodwill and intangible assets relating to the Disposal Group to reflect the disposal loss for the year ended 31 March 2019. In accordance with Hong Kong Financial Reporting Standards, the carrying amount of goodwill and intangible assets are lower than the recoverable amount, i.e. the fair value less cost of disposal and its value in use. The amounts of the impairment losses of goodwill and intangible assets will be determined after conducting the annual audit of 2019. Generally speaking, the Group will only record loss of HK$8,996,000 (based on the unaudited net assets of the Disposal Group as at 31 March 2019) in this Disposal.

On 9 August 2016, the date of completion of Original Acquisition, the net assets value of the Disposal Group was approximately HK$17,034,000 (including goodwill). The unaudited net assets value of the Disposal Group was approximately HK$23,246,000 as at 31 March 2019. The increased net assets value was mainly net of increased share capital and the loss since the Original Acquisition.

The major asset items of the Disposal Group as at 31 March 2019 was intangible assets, client trust bank balance, bank balance and goodwill.

As disclosed in the Announcement, based on the historical operation record and considering the competition in the financial service business has been increased fiercely recently and that the financial resources requirement for operating FFCI is high in order to satisfy the financial resources rules according to the SFO, the Board considers that it is in the interest of the Company to streamline the principal activities of the Group and to focus its resources in pursuing development opportunities on the jewelry business and money lending business in order to strengthen the Group's income stream and maximize return to the Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

As disclosed in the Announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser C is a third party independent of the other Purchasers as at the date of the Announcement, and each of the Purchasers A, B, C and D and their ultimate beneficial owner(s) are third parties independent of the other Purchasers as at the date of the Announcement. Additionally, each of the SPAs is independent from and not conditional on the other SPAs. Based on the above, the Board did not consider the four disposal agreements to be a single transaction.

Save as disclosed above, all other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes. This supplemental announcement is supplemental to and should be read in conjunction with the Announcement.

By Order of the Board
China Environmental Energy Investment Limited
Zhou Yaying
Chairman

Hong Kong, 19 June 2019

As at the date of this announcement, the Board comprises four executive Directors, namely Ms. Zhou Yaying, Mr. Wei Liang, Mr. Tang Wing Cheung Louis and Ms. Hong Jingjuan; and three independent non-executive Directors, namely Mr. Tse Kwong Chan, Mr. Yiu To Wa and Mr. Lau Leong Yuen.

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

* *For identification purposes only*