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If you are in any doubt as to any aspect of this circular or as to action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Environmental Energy Investment Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

PROPOSED CAPITAL REORGANIZATION AND NOTICE OF THE SGM

Capitalized terms used in this cover page have the same meanings as those defined in this circular. A letter from the Board is set out on pages 6 to 18 of this circular.

A notice convening the SGM to be held at Falcon Room II, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 7 September 2012 at 9:30 a.m. or any adjournment thereof is set out on pages 19 to 21 of this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjourned meeting (as the case may be) should you so wish.

* For identification purpose only

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EXPECTED TIMETABLE

The expected timetable for the Capital Reorganization is set out below:

Event	Year 2012
Latest time for lodging the proxy forms for use at the SGM	9:30 a.m. on Wednesday, 5 September
Date of the SGM.	9:30 a.m. on Friday, 7 September
Announcement on results of the SGM.	Friday, 7 September
Effective date for the Capital Reorganization	Monday, 10 September
First day for free exchange of Existing Share Certificates for New Share Certificates	Monday, 10 September
Dealing in the Adjusted Shares commences	9:00 a.m. on Monday, 10 September
Original counter for trading in the Existing Shares in the board lot size of 10,000 temporarily closes	9:00 a.m. on Monday, 10 September
Temporary counter for trading in the Adjusted Shares (in the form of Existing Share Certificates) in the board lot size of 200 opens	9:00 a.m. on Monday, 10 September

EXPECTED TIMETABLE

Original counter for trading in the Adjusted Shares

(in the form of New Share Certificates)

in the board lot size of 10,000 re-opens 9:00 a.m. on Monday,
24 September

Parallel trading in the Adjusted Shares

in the form of New Share Certificates and

Existing Share Certificates commences 9:00 a.m. on Monday,
24 September

Designated broker starts to stand

in the market to provide matching services

for odd lots of the Adjusted Shares 9:00 a.m. on Monday,
24 September

Temporary counter for trading in the Adjusted Shares

(in the form of Existing Share Certificates)

in the board lot size of 200 closes 4:00 p.m. on Tuesday,
16 October

Parallel trading in the Adjusted Shares

in the form of New Share Certificates and

Existing Share Certificates closes Tuesday, 16 October

Designated broker ceases to stand

in the market to provide matching services

for odd lots of the Adjusted Shares 4:00 p.m. on Tuesday,
16 October

Last day for free exchange of Existing Share Certificates

for New Share Certificates Thursday, 18 October

Note: All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

DEFINITIONS

In this circular, the following terms and expressions shall have the following meanings unless the context otherwise requires:

“Announcement”	the announcement issued by the Company on 3 August 2012 in relation to the Capital Reorganization
“Acquisition CN”	the redeemable convertible notes in the principal amount of HK\$290 million to be issued by the Company to the vendors (or their nominee(s)) in accordance with the terms and conditions of the sale and purchase agreement dated 9 May 2011 and the supplemental agreement dated 14 September 2011, detail of which has been disclosed in the circular issued by the Company on 23 September 2011
“Adjusted Shares”	ordinary Share(s) of HK\$0.01 each in the share capital of the Company following the Capital Reorganization
“Board”	the board of the Director
“Business Day”	a day (excluding Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business in Hong Kong
“Bye-Laws”	the bye-laws of the Company, as amended from time to time
“Capital Reduction”	the proposed reduction of the issued share capital of the Company (i) by eliminating any fraction of a Consolidated Share in the issued share capital of the Company following the Share Consolidation in order to round down the total number of Consolidated Shares to a whole number; and (ii) by cancelling the paid-up capital of the Company to the extent of HK\$0.49 on each issued Consolidated Share so that the nominal value of each issued Consolidated Share will be reduced from HK\$0.5 to HK\$0.01
“Capital Reorganization”	the proposed capital reorganization of the Company comprising the Share Consolidation and the Capital Reduction

DEFINITIONS

“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Company”	China Environmental Energy Investment Limited (中國環保能源投資有限公司*), a company incorporated in Bermuda and the Shares of which are listed on the main board of the Stock Exchange
“Company Act”	The Companies Act 1981 of Bermuda
“Consolidated Share(s)”	ordinary share(s) of HK\$0.5 each in the issued share capital of the Company immediately after the Share Consolidation becoming effective
“Director(s)”	the director(s) of the Company from time to time
“Existing Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the Capital Reorganization
“Existing Share Certificates”	the certificates for the Existing Shares in green colour
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	13 August 2012, being the latest practicable date prior to the despatch of this circular for ascertain certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time

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DEFINITIONS

“New Share Certificates”	the certificates for the Adjusted Shares in blue colour
“Placing CN”	the redeemable convertible notes in the principal amount of HK\$110 million to be issued by the Company in accordance with the terms of the placing agreement dated 7 October 2011, details of which has been disclosed in the circular issued by the Company on 5 November 2012
“SGM”	the special general meeting of the Company to be convened for the Shareholders to consider, and if thought fit, to approve the Capital Reorganization
“Share(s)”	Existing Share(s), Consolidated Share(s) or Adjusted Share(s), as the context requires
“Share Consolidation”	the proposed consolidation of every fifty (50) Existing Shares in the issued share capital of the Company into one (1) Consolidated Share in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Chen Tong (*Chairman*)

Ms. Deng Hong Mei

Ms. Chan Ching Ho, Kitty

Mr. Xiang Liang

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Directors:

Ms. Yao Zhengwei

Mr. Wang Zhenghua

Head office and principal

place of business:

Room 2211, 22/F., Tower Two,

Lippo Centre, 89 Queensway

Hong Kong

Independent non-executive Directors:

Mr. Chan Ying Kay

Mr. Tse Kwong Chan

Ms. Zhou Jue

15 August 2012

To the Shareholders

Dear Sir or Madam,

PROPOSED CAPITAL REORGANIZATION

INTRODUCTION

On 3 August 2011, the Company announced the proposed Capital Reorganization, details of which have been set out in the Announcement. The purpose of this circular is to provide you with (i) further information relating to the Capital Reorganization; and (ii) the notice of the SGM to be convened and held for the purpose of considering and, if thought fit, approving the special resolution(s) to implement the proposal for the Capital Reorganization.

* For identification purpose only

LETTER FROM THE BOARD

PROPOSED CAPITAL REORGANIZATION

The Board proposed to reorganize the share capital of the Company under the Capital Reorganization in the following manner:

Share Consolidation

Every fifty (50) Existing Shares of HK\$0.01 each in the issued share capital of the Company will be consolidated into one (1) Consolidated Share of HK\$0.5 each in the issued share capital of the Company. Fractional Consolidated Shares will not be issued to individual Shareholders but will be aggregated and, if possible, sold for the benefit of the Company.

The basis of the Share Consolidation is determined after taking into account the following factors: (i) the closing price of the Shares of HK\$0.026 prior to the suspension of trading in the Shares on 29 June 2012, which had approached the extremities of HK\$0.01 under Rule 13.64 of the Listing Rules; and (ii) the performance of the price of the Shares after suspension of trading is unpredictable. Subsequent to the date of completion of the acquisition of 80% equity interests in Ideal Market Holdings Limited which is engaged in the waste paper recycling business, details of which has been disclosed in the circular of the Company dated 23 September 2011, by the Company on 4 November 2011, the price of the Shares decreased from HK\$0.16 as at 4 November 2011 to HK\$0.029 as at the Latest Practicable Date, representing a drastic decrease of approximately 81.88%. Such persistent declining trend led to an undesired non-compliance of Rule 13.64 of the Listing Rules. There are many factors which affect the performance of the Share price and it is not only unpredictable but also beyond the Company's control when such persistent declining trend would come to an end, therefore, the Board decides to proceed with the proposed consolidation basis in order to avoid its Share price approaching the extremity of HK\$0.01 and continually comply with the Rule 13.64 of the Listing Rules.

For illustrative purpose only, the market value of each board lot size of 10,000 Existing Shares was approximately HK\$290, based on the closing price of HK\$0.029 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date; while the market value of each board lot size of 10,000 Consolidated Shares will be approximately HK\$14,500, based on the theoretical price of approximately HK\$1.45 per Consolidated Share (based on the closing price of HK\$0.029 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date and adjusted for the effect upon the Share Consolidation).

Fractional Consolidated Shares will only arise if the entire shareholding of a Shareholder is not in integral multiple of fifty (50) regardless of the number of share certificates held by such Shareholder.

LETTER FROM THE BOARD

In order to alleviate the inconvenience of the fractional Adjusted Shares brought to the Shareholders whose shareholding is not in integral multiple of fifty (50), the Company will provide the temporary trading counter in the board lot size of 200 and engage an matching agent to provide the matching services for the odd lots holder(s). Those Shareholders can utilize the matching services to top up odd lots of the Adjusted Shares to a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares. These arrangements are made in accordance with the Guide on Trading Arrangements for Selected Types of Corporate Actions issued by the Stock Exchange on 28 November 2008 and be updated on 6 January 2012.

In light of the above, the Directors believe that the basis of the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

Capital Reduction

Forthwith upon the Share Consolidation taking effect, the issued share capital of the Company will be reduced (i) by eliminating any fraction of a Consolidated Share in the issued share capital of the Company following the Share Consolidation in order to round down the total number of Consolidated Shares to a whole number; and (ii) by cancelling the paid-up capital of the Company to the extent of HK\$0.49 on each issued Consolidated Share so that the nominal value of each issued Consolidated Share will be reduced from HK\$0.5 to HK\$0.01. The credit of approximately HK\$14.04 million arising from the Capital Reduction will be credited to the contributed surplus account of the Company.

As at the Latest Practicable Date, the Company has an authorized share capital of HK\$1,000,000,000 divided into 100,000,000,000 Existing Shares, of which 1,432,735,473 Existing Shares have been issued and are fully paid or credited as fully paid.

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Capital Reorganization becomes effective, the share capital structure of the Company will be as follows:

	As at the Latest Practicable Date	Immediately after the Capital Reorganization
Nominal value	HK\$0.01	HK\$0.01
Amount of authorized share capital	HK\$1,000,000,000	HK\$1,000,000,000
Number of authorized shares	100,000,000,000 Existing Shares	100,000,000,000 Shares
Amount of issued share capital	HK\$14,327,354.73	HK\$286,547.09
Number of issued Shares	1,432,735,473 Existing Shares	28,654,709 Adjusted Shares

LETTER FROM THE BOARD

The resulting Adjusted Shares of nominal value of HK\$0.01 each will rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the Company's Bye-Laws.

Conditions of the Capital Reorganization

The Capital Reorganization will be completed upon fulfilling all the following conditions:

- (a) the passing of the necessary resolution(s) by the Shareholders at the SGM to approve the Capital Reorganization;
- (b) compliance with the relevant procedures and requirements under Bermuda laws and the Listing Rules to effect the Capital Reorganization;
- (c) on the date on which the Capital Reduction is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they fall due; and
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganization.

Subject to the fulfillment of the above conditions, the Capital Reorganization will become effective on the Business Day following the date of the SGM.

REASONS FOR CAPITAL REORGANIZATION AND IMPACT ON THE COMPANY AND THE SHAREHOLDERS

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of the listed issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the listed issuer either to change the trading method or proceed with a consolidation or splitting of securities. Prior to the suspension of trading in the Shares on 29 June 2012, the trading price of the Shares has approached the extremities of HK\$0.01. The Board is of the opinion that the Capital Reorganization (i) would bring about a correspondence increase in the trading price of the Adjusted Shares; (ii) is in compliance with Rule 13.64 of the Listing Rules; and (iii) would give the Company greater flexibility in pricing the future issue of Shares. Accordingly, the Board considers that the Capital Reorganization is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Implementation of the Capital Reorganization will not, of itself, alter the underlying assets, liabilities, business, operations, management, financial position or the share capital of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Capital Reorganization will not have any adverse effect on the financial position of the Company and that on the effective date of the Capital Reorganization, there will be no reasonable grounds for believing that the Company is, or after the Capital Reorganization would be, unable to pay its liabilities as they become due. No capital of the Company will be lost as a result of the Capital Reorganization and, except for the expenses involved in relation to the Capital Reorganization, which are expected to be insignificant to the net asset value of the Company. The net asset value of the Company will remain unchanged before and after the Capital Reorganization becoming effective. The Capital Reorganization does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

APPLICATION FOR LISTING OF ADJUSTED SHARES

Application will be made to the Stock Exchange for granting the listing of, and permission to deal in, the Adjusted Shares and all necessary arrangements will be made for the Adjusted Shares to be admitted into the CCASS established and operated by HKSCC.

No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

The Adjusted Shares will be identical and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

ARRANGEMENT ON ODD LOT TRADING

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares, the Company will appoint a securities firm to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Adjusted Shares to make up a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares.

LETTER FROM THE BOARD

In order to alleviate the difficulties in the trading of odd lots of the Shares or the Adjusted Shares (if any) arising from the Capital Reorganization, the Company has appointed Cheong Lee Securities Limited as the agent to provide matching service to those Shareholders who wish to top-up or sell their shareholdings of odd lots of the Existing Shares or the Adjusted Shares on a best effort basis during the period from Monday, 24 September 2012 to Tuesday, 16 October 2012 (both days inclusive). The Directors believe that the length of the period for the matching services is sufficient and is in compliance with the Guide on Trading Arrangements for Selected Types of Corporate Actions issued by the Stock Exchange on 28 November 2008 and be updated on 6 January 2012.

Holders of the Existing Shares or the Adjusted Shares in odd lots who wish to take advantage of this facility either to dispose of their odd lots of the Existing Shares or the Adjusted Shares or to top-up their odd lots to a full new board lot may directly or through their broker contact Mr. Antony Kwok at telephone number: (852) 3426-6326 during the aforesaid period. Holders of the Existing Shares or the Adjusted Shares in odd lots should note that the matching of the sale and purchase of odd lots of the Existing Shares or the Adjusted Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the Existing Shares or the Adjusted Shares is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

ADJUSTMENTS TO THE CONVERSION PRICES OF THE OUTSTANDING CONVERTIBLE NOTES

As at the Latest Practicable Date, the Company has an outstanding (i) Acquisition CN of HK\$58,000,000, convertible into 255,506,607 Shares at HK\$0.227 per Share (subject to adjustment); and (ii) Placing CN of HK\$66,440,000, convertible into 604,000,000 Shares at HK\$0.11 per Share (subject to adjustment).

Should the Acquisition CN and the Placing CN be fully converted before the Capital Reorganization becoming effective, the credit arising hereof will be amounted to HK\$8.42 million, being the number of Shares issued upon the full conversion of the Acquisition CN and the Placing CN times the difference of par value of each issued Share before and after the Capital Reorganization, and will be transferred to the contributed surplus account of the Company and used to offset accumulated losses of the Company.

Save as disclosed above, the Company does not have any other outstanding share options, convertible notes or securities in issue which are convertible or exchangeable into Existing Shares as at the Latest Practicable Date. The Company will instruct its auditors or an approved merchant bank to certify and confirm the adjustments to the respective conversion prices of the Acquisition CN and the Placing CN and will inform the respective convertible notes holders of such adjustments accordingly.

LETTER FROM THE BOARD

Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

EXCHANGE OF SHARE CERTIFICATES

Should the Capital Reorganization become effective, Shareholders may, during the period from Monday, 10 September 2012 to Thursday, 18 October 2012 (both days inclusive) during business hours, submit Existing Share Certificates in green colour to the Company's branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for exchange, at the expense of the Company, for New Share Certificates in blue colour for the Adjusted Shares. It is expected that the New Share Certificates for the Adjusted Shares will be available for collection within 10 Business Days after the submission of the Existing Share Certificates to the branch share registrar of the Company for exchange. Thereafter, Existing Share Certificates will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each New Share Certificate. Existing Share Certificates will continue to be good evidence of legal title and may be exchanged for Certificates at any time at the expense of the Shareholders in question. The Existing Share Certificates are in green colour and the New Share Certificates will be in blue colour.

Warning

Shareholders and potential investors should also be aware of and take note that the Capital Reorganization is conditional upon satisfaction of the conditions precedent set out in the paragraph headed "Conditions of the Capital Reorganization" of this letter. Therefore, the Capital Reorganization may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares and Adjusted Shares, and if they are in any doubt about their position, they should consult their professional advisers.

POTENTIAL FUND RAISING ACTIVITIES

On 1 June 2012, the Company entered into the placing agreement with FT Securities Limited pursuant to which, FT Securities Limited agreed to procure placee(s), on a best effort basis, for the unconvertible bonds in the maximum principal amount of HK\$200,000,000, details of which please refer to the Company's announcement dated 1 June 2012. Up to the Latest Practicable Date, the Company has issued the unconvertible bonds in the principal amount of HK\$10,000,000.

LETTER FROM THE BOARD

On 26 June 2012, the Company entered into the subscription agreement with Pacific Plywood Holdings Limited pursuant to which the Company has conditionally agreed to issue, and Pacific Plywood Holdings Limited has conditionally agreed to subscribe for the convertible notes in the aggregate principal amount of HK\$95 million in cash (the “**Convertible Notes**”), details of which please refer to the joint announcement of the Company and Pacific Plywood Holdings Limited dated 26 June 2012. As at the Latest Practicable Date, the issue of the Convertible Notes has not yet been completed. The Company intends to use the proceeds from the issue of the Convertible Notes as to (i) not more than 10% of the proceeds for general working capital of the Group, including but not limited to working capital for the Group; and (ii) not less than 90% of the proceeds for the repayment of the outstanding promissory notes in principal amounts of HK\$216 million due in November 2012. If the holder(s) of such promissory notes agree to extend the maturity date of the promissory notes, the proceeds will be used to look for financing other investment opportunities to be identified by the Group.

Save for the aforementioned, the Company has no any arrangement, intention, understanding or negotiation about any possible fund raising exercises (both debt and equity financing) as at the Latest Practicable Date.

Assuming the issue of the Convertible Notes is completed and (i) based on the maximum conversion price of HK\$0.11 (equivalent to HK\$5.5 after the Capital Reorganization becoming effective) per conversion share, a minimum number of 863,636,363 conversion shares (equivalent to 17,272,727 conversion shares of the Company with par value of HK\$0.01 each after Capital Reorganization becoming effective) will be allotted and issued if the conversion rights attaching to the Convertible Notes are exercised in full, representing approximately 60.28% of the issued share capital of the Company as at the Latest Practicable Date and approximately 37.61% of the Company’s issued share capital as enlarged by the allotment and issue of the conversion shares in full; and (ii) based on the minimum conversion price of HK\$0.01 (equivalent to the par value of the Share) per conversion share, a maximum number of 9,500,000,000 conversion shares will be allotted and issued if the conversion rights attaching to the Convertible Notes are exercised in full, representing approximately 663.07% of the issued share capital of the Company as at the Latest Practicable Date and approximately 86.89% of the Company’s issued share capital as enlarged by the allotment and issue of the conversion shares in full.

LETTER FROM THE BOARD

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; (ii) as at the Latest Practicable Date assuming the Capital Reorganization becoming effective; (iii) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the adjusted maximum conversion price of HK\$5.5; (iv) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the adjusted maximum conversion price of HK\$5.5, assuming all the outstanding Acquisition CN and the Placing CN are converted in full; (v) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the minimum conversion price of HK\$0.01; (vi) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the minimum conversion price of HK\$0.01, assuming all the outstanding Acquisition CN and the Placing CN are converted in full; (vii) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes, while the holder(s) of the Convertible Notes do not hold more than 29.9% of the issued share capital of the Company; (viii) after allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes, while the holder(s) of the Convertible Notes do not hold more than 29.9% of the issued share capital of the Company, assuming all the outstanding Acquisition CN and the Placing CN are converted in full. The aforementioned scenarios (iii), (v) and (vi) are set forth below for illustrative purpose only and will not occur.

Shareholders	As at the Latest Practicable Date		As at the Latest Practicable Date assuming the Capital Reorganization becoming effective		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the adjusted maximum conversion price of HK\$5.5		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the adjusted maximum conversion price of HK\$5.5, assuming all the outstanding Acquisition CN and the Placing CN are converted in full		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the minimum conversion price of HK\$0.01		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes at the minimum conversion price of HK\$0.01, assuming all the outstanding Acquisition CN and the Placing CN are converted in full		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes, while the holder(s) of the Convertible Notes do not hold more than 29.9% of the issued share capital of the Company		After allotment and issue of the number of conversion shares upon full conversion of the Convertible Notes, while the holder(s) of the Convertible Notes do not hold more than 29.9% of the issued share capital of the Company, assuming all the outstanding Acquisition CN and the Placing CN are converted in full	
	Number of Existing Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage	Number of Adjusted Shares	Percentage
Lucky Start Holdings Limited (Note 1)	220,264,317	15.37%	4,405,286	15.37%	4,405,286	9.59%	4,405,286	6.98%	4,405,286	0.05%	4,405,286	0.05%	4,405,286	10.78%	4,405,286	6.74%
Cheung Chi Yin, Daniel together with Cheung Chu Yin, Agnes (Note 2)	205,033,171	14.31%	4,100,663	14.31%	4,100,663	8.93%	4,100,663	6.50%	4,100,663	0.04%	4,100,663	0.04%	4,100,663	10.03%	4,100,663	6.27%
Subscriber	-	-	-	-	17,272,727	37.61%	17,272,727	27.37%	9,500,000,000	99.70%	9,500,000,000	99.52%	12,222,193	29.90%	19,554,361	29.90%
Acquisition CN holder and Placing CN holder (Note 2)	-	-	-	-	-	-	17,190,132	27.24%	-	-	17,190,132	0.18%	-	-	17,190,132	26.28%
Public Shareholders	1,007,437,985	70.32%	20,148,760	70.32%	20,148,760	43.87%	20,148,760	31.91%	20,148,760	0.21%	20,148,760	0.21%	20,148,760	49.29%	20,148,760	30.81%
Total	1,432,735,473	100.00%	28,654,709	100.00%	45,927,436	100.00%	63,117,568	100.00%	9,528,654,709	100.00%	9,545,844,841	100.00%	40,876,902	100.00%	65,399,202	100.00%

LETTER FROM THE BOARD

Notes:

1. Lucky Start Holdings Limited is beneficially wholly owned by Zhao Zhenzhen.
2. Cheung Chu Yin, Agnes is Cheung Chi Yin, Daniel's child under 18. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, other than being substantial Shareholders, Cheung Chi Yin, Daniel and Cheung Chu Yin, Agnes have no relationship with the Company and its connected persons.
3. As at the Latest Practicable Date, there are (i) outstanding Acquisition CN of HK\$58,000,000, which can be converted into 255,506,607 conversion shares (equivalent to 5,110,132 conversion shares assuming the Capital Reorganization becoming effective) at the minimum conversion price of HK\$0.227; and (ii) outstanding Placing CN of HK\$66,440,000, which can be converted into 604,000,000 conversion shares (equivalent to 12,080,000 conversion shares assuming the Capital Reorganization becoming effective) at the conversion price of HK\$0.11.

BUSINESS REVIEW AND PROSPECTS

Consolidated turnover of the Group for the year ended 31 March 2012 was HK\$178,822,000, representing a 234.5% increase as compared with HK\$53,455,000 of the previous year. Operating profit after tax of the Group was HK\$8,891,000, which included a gain of HK\$77,658,000 on valuation of convertible notes and impairment loss of HK\$44,888,000 on investment in electric car battery business. Excluding the results of the above gain and loss, the Group experienced a loss of HK\$23,879,000 as compared with HK\$46,243,000 (excluding a gain of HK\$49,800,000 on the disposal of land and buildings in the Suzhou subsidiary in Mainland China and loss of HK\$7,001,000 on the disposal of sustained loss-incurring subsidiaries in the Group) of the previous year. The increase in turnover and improved results were attributable to the acquisition of the recycling business during the year.

Trading and manufacturing of printed circuit boards ("PCB")

For the year ended 31 March 2012, the PCB division recorded a turnover of HK\$42,253,000 (2011: HK\$49,860,000), which accounted for approximately 23.6% of the Group's total turnover and represented a decrease of 15.3% as compared with the previous year. Gross profit was HK\$7,218,000 and gross margin was 17.1%. The decrease in turnover was attributable to lower market demand arising from the European debts crisis, in the PCB market.

LETTER FROM THE BOARD

Trading and manufacturing of industrial laminates

During the year under review, the industrial laminate business achieved a turnover of HK\$541,000 (2011: HK\$4,692,000), representing approximately less than 1% of the Group's total turnover and a decrease of 88.5% as compared with last year. The industrial laminate division continued to sustain loss due to strong competition and weak market demand. Sales orders for the year persistently decreased. The industrial laminate operation in Suzhou, Mainland China during the year remained idle.

Investment in electric car battery business

The Company acquired 9.9% of the issued share capital of Swift Profit International Limited (“**Swift Profit**”) on 29 December 2010. Swift Profit has been granted an exclusive licence to apply the patent and the related technology for manufacturing electric car batteries. Due to the downturn in global investment market conditions, sales orders tumbled more than expected. The carrying value of the business was reduced by HK\$44,888,000 by reference to a business valuation as valued by a professional valuer.

Recycling business

On 9 May 2011, the Company entered into a sale and purchase agreement, pursuant to which the Company, as the purchaser, conditionally agreed to acquire the sale shares and the sale loans at consideration of HK\$850 million. The said sale shares represent 80% of the issued share capital of Ideal Market Holdings Limited. Ideal Market Holdings Limited indirectly holds Suzhou Baina Renewable Resources Co., Ltd. which is principally engaged in the recycling business of waste paper, scrap metal and consumable waste. The acquisition was completed on 4 November 2011. Since its acquisition, the recycling business recorded a turnover of RMB110,592,000 (equivalent to HK\$136,028,000), which accounted for approximately 76.1% of the Group's total turnover. Gross profit was RMB15,471,000 (equivalent to HK\$19,029,000) and gross margin came to 14.0%. Operating profit after tax was RMB4,264,000 (equivalent to HK\$5,245,000). After the completion of the said acquisition, the recycling business became the main source of income of the Group.

Outlook

The European debt crisis and stagnant economic growth in the United States have severely reduced the market demand of consumers. The management anticipates that the trading environment would be worsened and there would be pressure on the Group's costs and profit margin. The Company will continue to implement a more conservative approach in the procurement of resources to reduce operating costs. The acquisition of the waste paper recycling business during the year became a main source of income to the Group. We believe that the financial performance of the Group will improve.

LETTER FROM THE BOARD

LIQUIDITY AND FINANCIAL RESOURCES

In April 2011, the Company had implemented a rights issue of the new shares of the Company at the subscription price of HK\$0.068 per rights share on the basis of twenty six (26) rights shares for every one (1) share held. The rights issue became unconditional on 18 April 2011 and 3,030,531,634 new shares of HK\$0.001 each were issued by the Company pursuant to the terms of the rights issue, giving rise to gross proceeds of approximately HK\$206.08 million (before expenses).

On 27 May 2011, the Company proposed to implement a share consolidation scheme on the basis that every ten (10) issued and unissued shares of HK\$0.001 each in the share capital of the Company were consolidated into one (1) consolidated share of HK\$0.01 each in the issued share capital of the Company. The share consolidation was effected on 30 June 2011.

As at 31 March 2012, the Group's total cash and bank balances, cash deposit held by securities broker and pledged fixed deposits amounted to HK\$94,830,000 (2011: HK\$3,266,000). Total bank loans, other borrowings, convertible notes, financial liabilities designated at the fair value through profit or loss and promissory note payable increased from HK\$55,829,000 as at 31 March 2011 to HK\$323,021,000 as at 31 March 2012. The Group's gearing ratio, which is net debt divided by total shareholders' equity plus net debt, increased from 0.25 as at 31 March 2011 to 0.40 as at 31 March 2012. Net debt included bank and other borrowings, trade and bills payable, other payables and accruals, promissory note payable, financial liabilities designated at fair value through profit or loss and obligation under finance leases less cash and bank balances, cash deposits and pledged bank deposits. As at 31 March 2012, the Group had a current ratio of 0.52 (2011: 1.77) and net current liabilities of HK\$228,315,000 (2011: net current assets of HK\$74,972,000).

On 7 October 2011, the Company had entered into an agreement with a placing agent under which the placing agent conditionally agreed to the procurement, on a best effort basis, of placement of convertible notes with an aggregate principal amount of HK\$110 million to be issued by the Company for the estimated net proceeds of approximately HK\$106 million. The placement of convertible notes was approved by the shareholders of the Company on 29 November 2011. As at 31 March 2012, the Company has issued convertible notes in principal value of HK\$77 million.

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at Falcon Room II, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong, Hong Kong or any adjournment thereof is set out on pages 19 to 21 of this circular.

To the best knowledge of the Board, none of the Shareholders has a material interest in the Capital Reorganization and will be required to abstain from voting at the SGM in respect of the resolution relating to the Capital Reorganization.

Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

The Directors believe that the Capital Reorganization is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommended the Shareholders to vote in favour of the relevant special resolution(s) at the SGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By order of the Board

China Environmental Energy Investment Limited

Chen Tong

Chairman

NOTICE OF THE SGM



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)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of China Environmental Energy Investment Limited (the “**Company**”) will be held at Falcon Room II, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 7 September 2012 at 9:30 a.m. Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as a special resolution of the Company:

SPECIAL RESOLUTION

“**THAT** subject to compliance with the requirements under section 46(2) of the Companies Act 1981 of Bermuda (as amended) and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Adjusted Shares (as defined below), with effect from 9:00 a.m. on the business day following the day on which this resolution is passed by shareholders of the Company:

- (a) Every fifty (50) existing issued shares of HK\$0.01 (the “**Existing Share**”) in the issued share capital of the Company will be consolidated into one (1) consolidated share of HK\$0.5 each (the “**Consolidated Share**”) in the issued share capital of the Company (the “**Share Consolidation**”);
- (b) forthwith upon the Share Consolidation taking effect, the issued share capital of the Company will be reduced (i) by eliminating any fraction of a Consolidated Share in the issued share capital of the Company following the Share Consolidation in order to round down the total number of Consolidated Shares to a whole number; and (ii) by cancelling the paid-up capital of the Company to the extent of HK\$0.49 on each issued Consolidated Share so that the nominal value of each issued Consolidated Share will be reduced from HK\$0.5 to HK\$0.01 (the “**Adjusted Share**”) (the “**Capital Reduction**”) (together with the Share Consolidation, the “**Capital Reorganization**”);

* For identification purpose only

NOTICE OF THE SGM

- (c) the amount of credit arising from the Capital Reduction be transferred to the contributed surplus account of the Company and the directors of the Company (the “**Directors**”) be and are hereby authorized to apply amount standing to the credit of the contributed surplus account in such manner as they consider appropriate, including but not limited settling off against the accumulated losses of the Company from time to time (the “**Authorization**”);
- (d) any one or more of the Directors be and is/are hereby authorized for and on behalf of the Company to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things which he/they consider necessary, desirable or expedient for the implementation of, and giving effect to, the Capital Reorganization, the Authorization and the transaction(s) contemplated thereunder.”

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

Hong Kong, 15 August 2012

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal

place of business:
Room 2211, 22/F., Tower Two,
Lippo Centre, 89 Queensway
Hong Kong

NOTICE OF THE SGM

Notes:

- (1) Any shareholder of the Company (the “**Shareholder(s)**”) entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder.
- (2) The form of proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (3) Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM and in such event, the form of proxy shall be deemed to be revoked.
- (4) Where there are joint Shareholders, any one of such joint Shareholder may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint Shareholders are present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Shareholders of the Company in respect of the joint holding.
- (5) The form of proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof at which the person named in the form of proxy proposes to vote or, in the case of a poll taken subsequently to the date of the SGM or any adjournment thereof, not less than 24 hours before the time appointed for the taking of the poll and in default the form of proxy shall not be treated as valid.