Enviro Energy International Holdings Limited
環能國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1102)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2017 ANNUAL REPORT

This announcement is made at the request of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Reference is made to the announcement of Enviro Energy International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 2 April 2018 (the "**Annual Results Announcement**") in respect of the 2017 annual results of the Company and the annual report of the Group for the year ended 31 December 2017 (the "**Annual Report**") published on 27 April 2018 and the announcement of the Company dated 25 October 2017 in respect of the placing of new shares (the "**Placing**"). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Annual Report.

As disclosed in the Annual Report, the Group recorded consolidated revenue of approximately HK$54.5 million from its continuing operations, of which 90.9% were contributed by the trading of building materials segment for the year ended 31 December 2017. Further as disclosed in the Annual Report, the Company also included in the Annual Report a brief description of the Placing, which was completed during the year.

In addition to the information disclosed in the Annual Report, the board (the "**Board**") of directors (the "**Director(s)**") of the Company would like to provide shareholders of the Company (the "**Shareholders**") and the market with additional information in relation to (a) the various business segments of the Group, as well as some updates on the performance of some of these business segments during the first half of 2018; and (b) the use of proceeds from the Placing as at 31 December 2017 set out below:

ADDITIONAL INFORMATION IN RELATION TO REVIEW BY BUSINESS SEGMENTS OF CONTINUING OPERATIONS

1. Trading of building materials

During the year ended 31 December 2017, the revenue from the trading of building materials business amounted to approximately HK$49.6 million, representing 90.9% of the total revenue from the continuing operations of the Group.

As part of the Group's trading of building materials business, the Group principally sourced building materials such as (a) aluminum, steel products, timber logs, base metals etc. which are primarily used at the early stages of construction projects or for manufacturing of building or surfacing materials; and (b) tiles, toilet utensils, soft and office furniture and equipment etc., which are primarily used at the later stages of building construction projects or property refurbishment. These building materials were all sourced from suppliers in the People's Republic of China (the "**PRC**") and were provided to customers located in the PRC. Generally, as part of the Group's trading of building materials business, the Group not only supplies building materials to its customers, but also provides advice to customers regarding the latest market trend, types of building materials to be used and/or logistics management.

During the year ended 31 December 2017, as the trading of building materials business had been newly commenced, the Group only secured a low number of customers under this business segment, namely contractors for providing building materials and vendors or contractors for providing interior decoration services in the PRC, and none of these customers had prior trading history with the Group. Due to the short period of conducting this new business, it would take time to develop trading relationship with these and other new customers and to steadily expand its customer base in the long term.

In relation to the sales of products, the Company would reach out to potential customers through its business connections and referrals by the local management of its subsidiaries in the PRC. When the customers place their orders with the Group, they would usually indicate the specifications of the orders including type, price and quantity of building material products. The Group, through the local management of its subsidiaries in the PRC, would then reach out to its contacts and source the required building materials from potential suppliers that suit the customers' needs.

The Group aims to source quality products at competitive prices to fulfill the needs of its customers. The Company selected suppliers based on a number of factors, including but not limited to their track records, prices, product quality and timely delivery. The Company did not enter into any long-term agreement with any suppliers or customers.

During the year ended 31 December 2017, the Company had a team of eight which was led by the general manager who was mainly involved in identifying potential customers, providing advice to customers, procuring building materials and handling customer services.

On 15 September 2017, Mr. Suen Cho Hung, Paul resigned from the positions of executive Director and Chairman of the Company, while Mr. Li Sen ("**Mr. Li**") was appointed as an executive Director and the Chairman of the Company on the same day. There were also a few other changes relating to the board composition and senior management of the Company, details of which are set out in the Company's announcement dated 15 September 2017. Following such changes in September 2017, the Board decided in November 2017 to carry out the trading of building materials business in the Southeast region instead of the Northeast region of the PRC, because (a) the Group foresees that the economy in Guangdong-Hong Kong-Macau Greater Bay Area (粵港澳大灣區) ("**Greater Bay Area**") will benefit from the recent PRC national policies promulgated by the government of the PRC for the region; and (b) Mr. Li had extensive business network in Shenzhen City and the Greater Bay Area, and the Group may leverage its business from such network.

The management of the Group considers that the Group has the following competitive strengths in respect of this business segment:

Extensive industry knowledge

Mr. Li has over 10 years of experience in the property development industry in the PRC. As disclosed in the Company's announcement dated 15 September 2017, he is president of Shenzhen City Oriental Ginza Group Company Limited* (深圳市東方銀座集團有限公司) ("**Oriental Ginza**"), a company established in the PRC which is principally engaged in, among other things, property development, hotel management and property management in the PRC. He has accumulated extensive industry knowledge and established business network in the PRC, in particular, in Shenzhen, through his property development and property management experience. Being a property developer in the PRC, the management team of Oriental Ginza (including Mr. Li) has (i) a good understanding of the needs and preferences of end-customers of building materials; (ii) established business relationship with manufacturers and suppliers of building materials in the PRC; and (iii) a good grasp of the latest development of the PRC property market.

Good understanding of customers' needs

The Group carries out its trading of building materials business in the PRC, mainly involving vendors or construction contractors (which manufacture and/or on-sell building materials or provide fitting out and renovation services in the PRC), and sourcing agents or trading companies for building materials or their raw materials in the PRC. The Group's sales and marketing team is led by Mr. Li and the team possesses solid experience and knowledge in the trading business/property development business, with clear understanding of the needs and strengths of suppliers as well as customers' needs and preferences in the building materials industry in the PRC. The team is therefore able to identify potential customers and provide business proposals for them to meet their expectations and requirements. By regularly visiting the Group's existing customers, team members have a good understanding of the customers' needs and source the building materials from suppliers accordingly. This team also liaises with manufacturers and suppliers of building materials for updates on their requirements, capabilities, inventory levels and sales trends, all of which could place the Group in a better position to generate business opportunities both in the supply side – by procuring customers for them, and in the sale side – by procuring materials for them.

Extensive network of suppliers

The Group is able to secure the supply of reliable and high quality building and other materials from suppliers through a variety of sourcing channels in the PRC. The Company believes that by engaging the Group, its customers can save time and efforts in dealing with a large number of suppliers for each type of building and other materials and/or other products they require. Through its extensive network of suppliers, the Group is able to provide its customers with a wide spectrum of building and other materials and/or products through organised logistics arrangements that meet construction and manufacturing timetables.

As mentioned in the Company's announcement dated 22 June 2018, for the five months ended 31 May 2018, the Group's revenue from the trading of building materials segment amounted to over RMB150.3 million (equivalent to approximately HK$184.9 million), representing an increase by approximately HK$135.3 million (or 273%) from HK$49.6 million in respect of the same business segment for the year ended 31 December 2017 (and the Group's total revenue for the year ended 31 December 2017 amounted to about HK$54.5 million). During the same period, the Group had over 10 key customers, all of which are third parties independent of and not connected with the Company and its connected person(s) (within the meaning ascribed to such term in the Listing Rules) ("**Independent Third Parties**"). Among these customers, two are subsidiaries of companies listed in Hong Kong and/or in the PRC. During the same period, the Group had about 15 key suppliers, all of which are Independent Third Parties. Among these suppliers, two are subsidiaries of companies listed in Hong Kong and/or in the PRC.

The Group is optimistic about the prospect of this new business segment because when the demand for properties grows in the Greater Bay Area, the demand for building materials is expected to increase correspondingly. The Company plans to continue developing this business segment by recruiting additional staff and adopt more proactive approach to select and solicit quality customers and suppliers.

2. Properties Investment

As at 31 December 2017, the Group had various investment properties located in the Northeast region of the PRC, for rental or value appreciation purposes with fair value amounting to approximately HK$424.4 million. During the year ended 31 December 2017, the Group entered into sale and purchase agreements to sell certain of the said investment properties with a carrying value of HK$41.2 million, comprising of 17 retail shops located at Laihai Garden, Bayuguan district, Yingkou city, Liaoning province, the PRC.

As at 31 December 2017, 17 units were rented to individual tenants who, to the best knowledge of the Company, were all Independent Third Parties. According to the relevant lease agreements entered into between the Group and tenants, all leases will expire during the period from April 2020 to September 2020.

During the year ended 31 December 2017, the Group had a team of five who (being led by the general manager of Huan Neng International Trading (Yingkou) Company Limited, an indirect wholly-owned subsidiary of the Company) were mainly involved in identifying suitable investment properties, property management and handling accounting and treasury function.

As at 31 December 2017, the following land/buildings remained vacant since they were acquired by the Company in the second half of 2016:

1. the fourth floor and the fifth floor of a building situated in Dalian City, which the Group still looked for tenants;

2. two parcels of land located at Bai Sha Wan, Bayuquan District of Yingkou City, Liaoning Province, which the Group intended to reserve for future plan and fund;

3. a piece of land with gross usage area of approximately 5,000 sq. meters and two blocks of buildings with gross usage area of approximately 5,022 sq. meters; which has been indirectly disposed by the Group in May 2018 by the disposal of the equity interest in Yingkou Haida Property Service Company Limited* (營口海達物業服務有限公司) ("**Haida**") in order to improve the cash position of the Group; and

4. Kunlun Building (or known as Wuzi Composite Building) situated at South of Huanghe Road, Bayuguan District, Yingkou City, Liaoning Province, the PRC, which is a twelve-storey building situated on a parcel of land with a total site area of approximately 4320 sq. meters.

The acquisition of the above investment properties were undertaken by the then Board and management team of the Group with completion in the second half of 2016. At the relevant time, the Group's investment properties portfolio were focused in the northeast region ("**Northeast Region**") of the PRC and in Dalian City, which has the largest harbour in the Northeast Region. The then Board and management team of the Group contemplated that there would be growing demand for commercial properties in such areas. However, subsequent to completion of acquisition of the investment properties of the Group in the second half of 2016, the economy development of Liaoning Province did not grow as expected, and lagged behind the national economy growth. The gross domestic product ("**GDP**") of Liaoning Province decreased by 2.5% during 2016, as compared to 6.7% of the PRC as a whole. As observed by the local management of the Group, growth in Liaoning Province and the rest of the Northeast Region remained weak in 2017 as the region suffered from structural problems such as industrial over-capacity. In such connection, certain investment properties had been vacant for some time due to macroeconomic factors. In 2017, the Group did not acquire any investment properties in the Northeast Region.

During the year ended 31 December 2017, local management based in the Northeast Region contacted various local real estate agents and entities with commercial relationships to solicit potential tenants in attempt to lease out the investment properties.

The Group will continue to develop its properties investment business segment given its vast potential and opportunity. Following the changes in Chairman and composition of the Board in September 2017, the Group has been evaluating the portfolio of its investment properties. Driven by the market potential in the Greater Bay Area and taking advantage of the extensive business network of Mr. Li, the Group has been and is reviewing its property investment portfolio with the aim to seize new properties investment opportunities in Shenzhen City and Greater Bay Area. As such, on 18 May 2018, the Group entered into an agreement for the disposal of all its equity interest in Haida (as detailed in the Company's announcement dated 18 May 2018), whose principal business is property service, property leasing and sale of self-owned properties in the Northeast Region, so that the Group can realise its investment from properties investment and improve the liquidity and the cash and cash equivalent position of the Group to fund other potential properties investment projects as and when opportunities arise.

Management of the Group has also been in discussion with some Independent Third Parties about possible acquisitions of investment properties (or companies which hold investment properties) which are located in Guangdong province (including Hong Kong) and the Greater Bay Area. Due diligence work in connection with such potential acquisitions is in progress. If the due diligence results are considered by the management to be satisfactory and the parties may reach common consensus to terms in respect of any of such potential acquisitions, the Group will enter into acquisition agreement(s) in order to expand its portfolio of investment properties.

3. **Investment Holding**

Mr. Li, with the assistance from financial controller of the Group, is principally in charge of the investment holding segment.

As at 31 December 2017, all investments in securities or bonds were disposed of. Going forward, the Company has been, and will continue, actively exploring the potential for other strategic investments and capturing the opportunities in a prudent manner and balance the investment risks.

ADDITIONAL INFORMATION IN RELATION TO THE AUDIT QUALIFICATIONS MADE BY THE FORMER COMPANY'S AUDITORS AS DISCLOSED IN THE ANNUAL REPORT AND THE ANNUAL RESULTS ANNOUNCEMENT

As mentioned in pages 16 to 18 and pages 62 to 65 of the Annual Report, PwC (the Company's former auditors) issued a qualified opinion on prepayments for purchases of approximately HK$230.7 million to certain material suppliers as at 31 December 2017. In addition to the information disclosed in the Annual Report, the Company would like to provide Shareholders and the market with additional information in relation to the transactions which are the subject of such qualified opinion:

Prepayment in respect of the Procurement Agreement A

In connection with Prepayment A, in order to increase the rental yield of the Properties (which are situated in Baoyuquan district, Yingkou city, Liaoning province, and consist of 40 retail shops with a total gross floor area of approximately 14,182 square meters), the Group originally planned to refurbish the Properties ("**Refurbishment Project**"). In May 2017, the Group decided to engage a third party to procure purchase of construction materials.

In line with the Company's general policy, management of local subsidiaries were delegated by the Company with procurement function, on the basis that local management generally had better local knowledge and business connection. In connection with the Refurbishment Project, the Directors of Subsidiary A reached out to their business connections and identified Supplier A which possessed the relevant construction materials needed for the Refurbishment Project. Generally, before entering into any written agreement with the suppliers, the Group would normally verbally confirm with supplier candidates (i) whether such supplier candidates are connected persons of the Company; (ii) the asking prices of the materials that Group intends to purchase; and (iii) the terms of payment. Prior to entering into Procurement Agreement A, management team of Subsidiary A conducted company searches on the National Enterprise Credit Information Publicity System online to identify the ultimate shareholders and directors of Supplier A, and made and obtained oral enquiries with Suppler A on whether it was related to any directors or substantial shareholders of the Group ("**Search and Enquiry**"). Based on the above results and as far as the Directors are aware (after having all reasonable enquiries), Supplier A is an Independent Third Party. After several rounds of discussions, on 13 June 2017, Subsidiary A and Supplier A entered into Procurement Agreement A for the purchase of construction materials with contractual amount of RMB93 million. On 21 June 2017, Prepayment A in the sum of RMB79 million was made by Subsidiary A to the Supplier A as partial prepayment in accordance with Procurement Agreement A.

As indicated above, from the beginning of 2017 onward, local management of the Group based in the Northeast Region made efforts to contact local real estate agents and entities with commercial relationships to solicit potential tenants in attempt to lease out the Group's investment properties. However, some of the investment properties held by the Group in the Northeast Region remained vacant after months of such efforts. In August 2017, the Group decided to suspend the Refurbishment Project because of a change in the then market conditions, and a change in Group's business plan from improving the property conditions (by way of refurbishment) in order to increase rental yield to the plan of disposing of some of such properties.

As the Refurbishment Project was suspended, Subsidiary A did not procure any construction materials from Supplier A under Procurement Agreement A. For such reasons, the Group has never received any construction materials from Supplier A.

Immediately after the change in business plan as mentioned above, Subsidiary A commenced discussion with and demanded Supplier A to refund the entire Prepayment A. On 18 August 2017, upon Subsidiary A's demand, Supplier A made a partial refund of the Prepayment A in the sum of RMB1.5 million to Subsidiary A. After further negotiation with Supplier A, on 25 August 2017, Subsidiary A and Supplier A entered into a supplemental agreement, which specified the Group's right of refund of Prepayment A at a later stage.

On 20 September 2017, a tri-partite agreement was entered into between Subsidiary A, Supplier A and a PRC company (the "**Assignee**") at the request of Supplier A and as part of its financing arrangement. As far as the Directors are aware (after having all reasonable enquiries), the Assignee is an Independent Third Party. Prior to entering into such tri-partite agreement, management team of Subsidiary A made the Search and Enquiry in respect of the Assignee. Pursuant to such agreement, the remaining balance of Prepayment A in the sum of RMB77.5 million was assigned by Subsidiary A to the Assignee, and the Assignee has agreed to pay to Subsidiary A the same amount of RMB77.5 million.

On 21 September 2017, the Assignee paid a sum of RMB2.27 million to Subsidiary A. On 21 March 2018, the Assignee repaid the remaining portion of Prepayment A (which amounted to RMB75.2 million) to Subsidiary A. Accordingly, as at 31 March 2018, the full amount of Prepayment A was repaid back to the Group. It took several months for the Group to receive the repayment from the Assignee because the Assignee had been holding back such repayment, while the Group considered that commencing legal proceedings might jeopardize the relationship with the Assignee and could result in further delay in such repayment, and accordingly the Group only attempted to convince, in an amicable manner, the Assignee to make repayment as early as practicable.

During the period from October 2017 to December 2017, Subsidiary A received three payments which amounted to approximately RMB6.7 million in total from another company affiliated to the Assignee ("**Company A**"). To the best knowledge and information of the Company, such payments were intended to be partial repayments of Prepayment A. However, due to miscommunication between the local management and the accounting staff of Subsidiary A, after Company A having made the Transfer to Subsidiary A, the Transfer was recorded mistakenly by the accounting staff of Subsidiary A as "other payables due to Company A". The Group did not record such payments as overpayment until March 2018, when the full amount of Prepayment A was received by Subsidiary A in March 2018. As Company A did not seek repayment from Subsidiary A for repayment of these sums, the reconciliation of balances was not completed until April 2018. As at the date of this announcement, the Group completed the reconciliation of the balance with the Assignee and Company A, but such balance has not yet been paid to Company A as at the date of this announcement, since the Company has been occupied by other business matters (for example, handling annual results related work) since March 2018. The outstanding balance with them is expected to be settled within July 2018.

On 21 March 2018 (i.e. the date of repayment of RMB75.2 million by the Assignee to the Group), the amount received from the Assignee was used to partially fund the Group's prepayments of about RMB87.1 million for purchases of construction materials and leather materials from two other suppliers, which were Independent Third Parties and which were independent from each other. Such prepayments were made in connection with the Group's trading of building materials. Following the Company's decision made in the fourth quarter of 2017 to change the business focus for its building materials trading business to Shenzhen City, the Group began to conduct a business strategy review, implement the business strategy and communicate within the Group, including the local management of Subsidiary A in the first quarter of 2018. As the local management of Subsidiary A was accustomed to follow instructions from the former Board members and the change of business focus had indirect effect on the incentive arrangement originally enjoyed by the local management of Subsidiary A, in order to ensure smooth transition, certain communications with the management of Subsidiary A had to be made through some of the former Board members, which demanded more time to be spent. During the transition period, the local management of Subsidiary A continued to conduct the trading of building materials business in the Northeast Region. The Group requested for refund as soon as it became aware of the transaction. On 28 March 2018, these prepayments were refunded back in full from these two suppliers to the Group.

Prepayment in respect of the Procurement Agreement B

During the year ended 31 December 2017, the Group commenced its trading of building materials business, and such business was originally planned to be pursued in the Northeast Region. In line with the Company's general policy, management of the subsidiaries were delegated by the Company with procurement function on the basis that local management generally had better local knowledge and business connection. Subsidiary B (through its local management) reached out to potential suppliers through their local contacts. Supplier B was identified by Subsidiary B.

Prior to entering into Procurement Agreement B, management team of Subsidiary B made the Search and Enquiry in respect of Supplier B. So far as the Directors are aware (after having all reasonable enquiries), Supplier B is an Independent Third Party. After discussions and negotiations, on 17 August 2017, Subsidiary B and Supplier B entered into Procurement Agreement B for the purchase of aluminum materials for a contractual amount of RMB125.8 million. During the period between August and November 2017, Prepayment B in the total amount of RMB117 million was made by Subsidiary B to Supplier B in five instalments in accordance with Procurement Agreement B.

As mentioned above, following changes of the Board and senior management, the Board decided to pursue the Group's trading of building materials business in Shenzhen City and the Greater Bay Area, instead of the Northeast Region. Immediately after the change in business plan, Subsidiary B commenced discussion with and demanded Supplier B to refund the entire Prepayment B. On 25 November 2017, Subsidiary B and Supplier B entered into a supplemental agreement to suspend Procurement Agreement B. (For clarify purpose, such suspension was only in connection with procuring aluminum materials from Supplier B under Procurement Agreement B, and the Group did not suspend its trading of building materials business). As the above change took place shortly after the signing of Procurement Agreement B and the above supplemental agreement was subsequently entered into to put Procurement Agreement B on hold, the procurement service of aluminum materials under Procurement Agreement B has not yet been carried out by Supplier B. For such reasons, the Group has never received any aluminum materials from Supplier B.

On 20 March 2018, Supplier B made a full refund to Subsidiary B of Prepayment B (in the aggregate amount of RMB117 million). It took several months for the Group to receive the refund from Supplier B because Supplier B had been holding back such refund, while the Group considered that commencing legal proceedings might jeopardize the relationship with Supplier B and could result in further delay in such refund, and accordingly the Group only attempted to convince, in an amicable manner, Supplier B to make refund as early as practicable. Subsidiary B subsequently made a transfer ("**Transfer**") of RMB117 million to another company which, so far as the Company is aware (after having made all reasonable enquiries), is an Independent Third Party. It was noted by the Company (after due enquiry with the local management of Subsidiary B) that the Transfer was made in accordance with the instruction of the then deputy general manager ("**DGM**") of Subsidiary B, whose principal place of business was located in the Northeast Region, in connection with another building materials purchase agreement for the Group's trading of building material business in the Northeast Region. The DGM ordered the Transfer for securing a business opportunity prior to the execution of the procurement agreement. Upon discovery of the Transfer, the Company immediately requested for a refund, and the refund was made on the same day. The DGM was subsequently dismissed in accordance with the internal policies of the Group. The Company concluded that all assets of the Group were safeguarded and there was no loss of assets. On 20 March 2018, the refund was used by Subsidiary B to repay its outstanding bank loan.

Board's assessment of Prepayment A, Prepayment B and related arrangements

The Directors are of the view that Prepayment A, Prepayment B and other related arrangements mentioned above are normal commercial arrangements made during the Group's ordinary course of business. To the best knowledge of the Company, the Company is not aware of any adverse impact to the Company and the Shareholders' interests arising from the above arrangements because (i) Prepayment A and Prepayment B were settled in accordance with the agreements made with Supplier A, the Assignee and Supplier B (as the case may be) under the Group's business activities, and (ii) Prepayment A and Prepayment B were fully received by the Group subsequent to changes in Procurement Agreement A and Procurement Agreement B. For such reasons, the Directors consider that such arrangements (i) are in the interest of the Company and the Shareholders as a whole, and (ii) did not result in any non-compliance of the Listing Rules. Though it might appear having taken a relatively long time to obtain the refunds of the Prepayments A and B, the Company believes that the Group's assets have been properly safeguarded, as no dispute was raised by the other contracted parties nor any material costs were incurred by the Group as a result of the cancellation of the Prepayments A and B, which could have otherwise caused the Group substantial amount of time, effort and legal costs to settle the disputes with the contracted parties. Further, the reputation of the Group has been safeguarded as the Group resolved with the contracted parties amicably on the cancellation of the Prepayments A and B.

It is noted by the Company that despite it having provided the underlying procurement agreements, bank transfer advices and verbal explanations, the audit qualification was made mainly due to the lack of sufficient written documents (such as email trails and communication records) as audit evidence. The Company considered that such audit qualification did not affect the underlying business rationale and commercial substance of the respective transactions (excluding the Transfer). The Audit Committee of the Board had discussion with the executive Directors of the Board to look into the possibility of providing the written documents requested to satisfy the former auditor's concerns and/or other alternative supporting documents. However, due to lack of written records, the Company could not satisfy the former auditor's concerns. Based on its discussions with the former auditors, the Audit Committee also agreed that the audit qualification was mainly due to the lack of sufficient written documents as audit evidence. Based on the underlying procurement agreements, bank transfer advices and its discussions with the then senior management and Directors of the Board, the Audit Committee is of the view that the audit qualification did not affect the underlying business rationale and commercial substance of the respective transactions (excluding the Transfer). To its belief and best knowledge, the Company is not aware of any material incidents which PwC raised any questions on the business rationale and commercial substance of the transactions conducted by the Group in the past, which the Company could not satisfactorily answer.

The Board is of the view that there were internal control weaknesses revealed by the incident, mainly relating to lack of formal reporting system and record keeping procedures. It is in the process of enhancing its internal control system to prevent similar incidents in the future. Prior to the audit in connection with the Group's annual results for the year ended 31 December 2017, the Company was not aware of these internal control deficiencies, as (i) there was no similar concern raised by the auditors in the past; and (ii) there was no loss of assets arising from similar incident of the Group in the past.

To the best knowledge of the Company (after having made all reasonable enquiries including making and perusing online search results against the various entities concerned), save that Supplier A and Company A (i.e. the Assignee) were associated with each other, all the counterparties to the above prepayment or transactions (i.e. Supplier A, Supplier B, Supplier C, Supplier D and Company A) are not connected to each other.

Insofar the Transfer is concerned, the Transfer was due to an unauthorized act of the DGM. Upon discovery of the incident, the Group had immediately taken actions to rectify the situation and safeguarded the assets of the Group.

Proposed plans to prevent audit qualifications in future financial reports and to enhance internal control

In view of the qualified opinion of the auditors, the Company understands the importance of improving its internal control procedures in respect of making any prepayment to suppliers and record keeping to strengthen the Group's corporate governance and to avoid any audit qualification in the Company's future financial reports.

As interim measures, the Company has adopted and implemented the following steps to enhance its internal control procedures in the following aspects to prevent similar audit qualification in the future:

1. all material contracts with contractual amount exceeding RMB10 million, supported by detailed business plans and proposal, and the payment of any prepayment arising thereon, if any, shall be approved by the chief financial controller and the board of Directors;

2. the relevant subsidiaries shall conduct an assessment on suppliers from various aspects (such as creditworthiness, qualification, supply timetable, prepayment requirement and other factors), before entering into any contract with any supplier. Such assessment shall be prepared in report format and presented to the Board for consideration;

3. each member of the Group shall retain proper record in relation to business transactions; and

4. the Company shall conduct review of its internal control policies and to report to the board of Directors regularly.

The Company also notes that the key reasons for the audit qualification include the lack of supporting documents provided to the auditors and certain records not being properly kept. As such, the reporting systems and retaining of proper written records of material contracts, business plans and assessment reports will be further enhanced.

Further, to enhance the internal control function of the Group and to prevent similar audit qualification in the future, the Company has engaged AVISTA PRO-WIS Risk Advisory Limited ("**AVISTA**") as its internal control consultant to carry out a review of the internal control system of the Company and its subsidiaries (the "**IC Review**") to identify the Group's internal control deficiencies and to formulate new policy to enhance the internal control functions of the Group.

As part of the IC Review, AVISTA will perform review of the Group's policies in relation to the Listing Rules. In addition to the review to identify internal control weaknesses and areas of improvement, AVISTA will also provide implementation guidance and training to the Group's management to ensure the enhanced controls and policies are implemented as planned.

In addition, notwithstanding that there are current internal control policies in place to identify connected persons in place, the Group is in the process of enhancing its internal control as a whole, including policies and measures in identifying and reporting connected persons and connected transactions. As an interim measure, the Board has strengthened the internal control measures in identifying connected persons and connected transactions with immediate effect:

1. all Directors, chief executives and substantial shareholders of the Company and its subsidiaries are required to fill in a form disclosing his/her/its associates annually and update such from time to time;

2. the Company Secretary of the Company shall be responsible for maintaining and updating the master list of connected person(s) of the Company;

3. the master list of connected person(s) will be circulated to the responsible person of each subsidiary of the Company and all business unit shall cross check and map against the identity of the counter-party before entering into any agreement; and

4. a written independent confirmation should be obtained for all major transactions.

The IC Review commenced in June 2018 and is currently in the stage of carrying out fieldwork. It is expected that the initial review will be completed by the end of August 2018 and the suggested control measures will be implemented in September 2018. Key findings and conclusion of the IC Review will be included in the Company's interim and annual reports.

ADDITIONAL INFORMATION IN RELATION TO THE PLACING

As disclosed in the Annual Report, on 7 November 2017, 1,507,900,000 ordinary shares were issued at the subscription price of HK$0.13 per share by way of placement.

The net proceeds (the "**Net Proceeds**") received by the Company from the placement were approximately HK$196.0 million. As disclosed in the announcement of the Company dated 25 October 2017 in respect of the said placement, the Company intended to use the net proceeds to finance the expansion of the investment holding business, facilitate future projects or investment and as the general working capital of the Group.

Details of the actual use of the Net Proceeds, as at 31 December 2017 and as at 30 June 2018 are respectively as follows:-

	(i) As at 31 December 2017		**(ii) As at 30 June 2018**	
Actual use of Net Proceeds	Amount of Net Proceeds *(HK$)*	% of the total Net Proceeds *(approx.)*	**Amount of Net Proceeds *(HK$)***	**% of the total Net Proceeds *(approx.)***
To inject into Qianhai Shitong Supply Chain (Shenzhen) Company Limited* (前海世通供應鏈(深圳)有限公司) ("**Qianhai Shitong**"), an indirect wholly-owned subsidiary of the Company, as its registered capital *(Note)*	20 million	10.20%	**160 million**	**81.62%**
To finance the operation and capital requirement of Qianhai Guoxing Finance Lease (Shenzhen) Company Limited (literal translation of 前海國興融資租賃(深圳)有限公司), an indirect wholly-owned subsidiary of the Company	20 million	10.20%	**20 million**	**10.20%**

Actual use of Net Proceeds	(i) As at 31 December 2017 Amount of Net Proceeds *(HK$)*	% of the total Net Proceeds *(approx.)*	**(ii) As at 30 June 2018 Amount of Net Proceeds** ***(HK$)***	**% of the total Net Proceeds** ***(approx.)***
To apply as general working capital	3.25 million (HK$545,000 of which was used as professional fees)	1.66%	**9 million (HK$3,712,000 of which was used as professional fees)**	**4.59%**
Unutilized	approx. 152.8 million	77.94%	**approx. 7 million**	**3.57%**

Note: The total registered capital of Qianhai Shitong is HK$200,000,000.

CLARIFICATION OF CLERICAL ERROR

The Board also wishes to clarify that there was an inadvertent typographical error on page 8 of the Annual Report headed "REVIEW BY BUSINESS SEGMENTS OF CONTINUING OPERATIONS — Properties investment".

The sentence that reads as:

> "In January 2018, 4 commercial units have been contracted to dispose to other two unrelated parties for total consideration of RMB13,139,000."

should instead be read as:

> "In September 2017, 4 commercial units have been contracted to dispose to other two unrelated parties for total consideration of RMB13,139,000."

Save for the clerical error as disclosed above in this announcement, the above additional information does not affect other information contained in the Annual Report, and the content of the Annual Report remains unchanged.

By Order of the Board
Enviro Energy International Holdings Limited
Li Sen
Chairman, Chief Executive Officer and executive Director

Hong Kong, 24 July 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Li Sen (Chairman and Chief Executive Officer), Mr. Zhou Xuesheng and Mr. Wei Junqing and three independent non-executive Directors, namely Mr. Wen Guangwei, Mr. Chiang Bun and Dr. Chiao Li.

Unless otherwise stated, translation of RMB into HK$ is based on the approximate exchange rate of RMB1.00 to HK$1.13 for information purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

*　*Literal translation of the Chinese name*

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.