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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 ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the annual report of Enviro Energy International Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (“**FY2020**”) (the “**2020 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2020 Annual Report.

AUDIT QUALIFICATIONS

As disclosed in the 2020 Annual Report, the auditor of the Company (the “**Auditor**”) issued a qualified opinion on the Company’s consolidated financial statements for the year ended 31 December 2020 (the “**Audit Qualifications**”), the details of which were described in the paragraph headed “Basis of Qualified Opinion” of the independent auditor’s report contained in the 2020 Annual Report.

The Board would like to provide further information in relation to the management’s and audit committee’s view on the Audit Qualifications to supplement the relevant disclosures made in the 2020 Annual Report.

The Audit Qualification in relation to trade receivables, loan receivables, interest receivables, prepayments, consideration receivables and interest income from loan receivables (“Qualification on Receivables”)

The Qualification on Receivables were related to (i) the trade receivables of approximately HK\$19.4 million (the “**Trade Receivables**”); (ii) prepayments of approximately HK\$311.9 million (the “**Prepayments**”); (iii) the loan receivables of approximately HK\$178.2 million (the “**Loan Receivable**”) and related interest receivables of approximately HK\$39.7 million (the “**Interest Receivable**”); and (iv) the consideration receivables of approximately HK\$139.2 million (the “**Consideration Receivables**”) of the Group as at 31 December 2020 (collectively, the “**Outstanding Receivables**”).

A. Prepayments and Trade Receivables

The Prepayments mainly represented prepayments made by Qianhai Shitong Supply Chain (Shenzhen) Company Limited* (前海世通供應鏈(深圳)有限公司) (“**Qianhai Shitong**”) in relation to certain building materials to its suppliers in 2018.

The Trade Receivables represented (1) sales recorded by Qianhai Shitong in relation to certain sales of building materials to its customers; and (2) rental agreements entered into by the Group during the year ended 31 December 2018.

(i) *Reasons leading to the audit qualification*

After the reorganisation of the Board on 29 June 2020, the Company has at its best endeavors, taken numerous measures in recovering the Outstanding Receivables. In early September 2020, the Company has through its PRC lawyer issued letters to the respective counterparties in demanding immediate repayment of the outstanding Prepayments and Trade Receivables. However, based on the delivery record of China Postal Express & Logistics Company Limited, majority of the letters failed to reach the counterparties.

Based on the legal opinion issued by the PRC lawyer prior to the publication of the annual results of the Company for the year ended 31 December 2020 (the “**Annual Results**”), there is no evidence on majority of the counterparties of the Prepayments and Trade Receivables that they do not have the financial capability in repaying the respective Prepayments and Trade Receivables.

Given the Prepayments and Trade Receivables remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Auditor was yet to be satisfied on the recoverability of the Prepayments and the Trade Receivables.

(ii) *Details of audit evidence as requested by the Auditor*

The Auditor has requested the audit evidence in relation to (1) all documents demonstrating the making of the Prepayments, and the sales transactions leading to the Trade Receivables; (2) arrangement of audit confirmation; and (3) evidence of subsequent settlements of the Prepayments and Trade Receivables that may be received by the Group.

The Company had provided all available evidence to the Auditor of (1) the Group’s making of the Prepayments to, and its receipt by, the respective counterparties; (2) the agreements, delivery notes and agreements in relation to the sales transactions and rental agreement with the counterparties; and (3) arranged audit confirmation. The Company did not receive any subsequent settlements of the Prepayments and Trade Receivables.

(iii) Management position and assessment prior to the publication of the Annual Results

After the reorganisation of the Board on 29 June 2020, the Board has been proactively investigating the Prepayments and Trade Receivables and seeking legal advices in view of recovering the Prepayments and the Trade Receivables. Nevertheless, the Board adopted a prudent approach by seeking mitigation through negotiating with the counterparties, but will pursue litigation or arbitral proceedings as last resort, when necessary.

Taking into account of the above, the Board considered that the Company may explore recovery of the Prepayments and Trade Receivables through negotiations or legal means, therefore it is premature to evaluate whether any portion of the Prepayments and Trade Receivables is recoverable. As such, the Company did not record any impairment on the Prepayments and Trade Receivables as at 31 December 2020.

Given the Prepayments and Trade Receivables remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Board understand that the Auditor was yet to be satisfied on the recoverability of the Prepayments and Trade Receivables.

(iv) View of the Audit Committee

Taking into account of the above and after discussion with the Auditor, the Audit Committee agreed with the Board's view.

(v) Proposed action plan in addressing the audit qualification

The Company has not conducted any further transactions with the counterparties of the Prepayments and Trade Receivables since 2019.

The Company was assessing the feasibility of commencing litigation and the financial capability of the counterparties. Nevertheless, as the majority of the Prepayments and the Trade Receivables were conducted by Qianhai Shitong, the Group may only commence legal actions against the counterparties upon the completion of the Nullification (as defined below) by the relevant authority, which was only completed recently in July 2021 and the Group is preparing relevant documents and procedures for commencing any legal actions if necessary.

In addition, the Company has been exploring debt restructuring proposal with independent third parties in relation to certain Prepayments and Trade Receivables. The Company is assessing the cost and benefit of such proposals as compared to recovering such balances through other means.

In the event (1) the Company recovers all or part of the Prepayments and Trade Receivables based on the above action plan; or (2) the Company may consider to provide impairment on or write off of the respective Prepayments and Trade Receivables if they are concluded as irrecoverable through (a) conclusion of any legal actions; or (b) the respective counterparty is in financial difficulties with

proven default records, the Company is of the view that the audit qualification in relation to the Prepayments and Trade Receivables will not be carried forward for the year ending 31 December 2021 (“FY2021”).

B. Loan Receivable and Interest Receivable

The Loan Receivable were related to a finance lease agreement (the “**Finance Lease Agreement**”) entered into between a subsidiary of the Company with Shenzhen Aquatic Products Co., Ltd* (深圳市水產有限公司) (“**Shenzhen Aquatic**”), an independent third party, in 2017, pursuant to which the Group should lease a property in Shenzhen (the “**Shenzhen Property**”), which was acquired by the Group from the same counterparty in 2017 at a consideration of RMB150 million, to Shenzhen Aquatic for a term of three years up to the end of December 2020. Upon maturity of the Finance Lease Agreement, the counterparty should return the principal of RMB150 million to the Group.

The Interest Receivable represented the interest of 9% per annum payable quarterly by Shenzhen Aquatic to the Group pursuant to the Finance Lease Agreement.

(i) Reasons leading to the audit qualification

As (1) the Loan Receivable was only matured on 27 December 2020; and (ii) Shenzhen Aquatic is a sizeable enterprise established over 50 years ago, the Group considered there is no evidence that Shenzhen Aquatic is unable to repay the Loan Receivable and Interest Receivable.

Given the Loan Receivable and Interest Receivable remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Auditor was yet to be satisfied on the recoverability of the Loan Receivable and Interest Receivable.

(ii) Details of audit evidence as requested by the Auditor

The Auditor has requested the audit evidence of (1) the Finance Lease Agreement; (2) the making of the loan; (3) arrangement of audit confirmation; and (4) evidence of subsequent settlement of the Loan Receivable and Interest Receivable that may be received by the Group.

The Company had provided all available evidence to the Auditor of (1) the Finance Lease Agreement; (2) the making of the loan; and (3) arrangement of audit confirmation. The Company did not receive any subsequent settlement of the Loan Receivable and Interest Receivable.

(iii) Management position and assessment prior to the publication of the Annual Results

Upon the reorganization of the Board composition since 29 June 2020, the Board has been proactively investigating the Loan Receivable and Interest Receivable and seeking legal advices in view of recovering the Loan Receivable and Interest

Receivable. Nevertheless, the Board adopted a prudent approach by seeking mitigation through negotiating with Shenzhen Aquatic, but will pursue litigation or arbitral proceedings as a last resort, when necessary.

The Board considered that the Company may explore recovery of the Loan Receivable and Interest Receivable through negotiations or legal means. As the Loan Receivable was only matured on 27 December 2020, therefore it is premature to evaluate whether any portion of the Loan Receivable and Interest Receivable is recoverable. As such, the Company did not record any impairment on the Loan Receivable and Interest Receivable as at 31 December 2020.

Given the Loan Receivable and Interest Receivable remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Board understood that the Auditor was yet to be satisfied on the recoverability of the Loan Receivable and Interest Receivable.

(iv) View of the Audit Committee

Taking into account of the above and after discussion with the Auditor, the Audit Committee agreed with the Board's view.

(v) Proposed action plan in addressing the audit qualification

The Company was assessing the feasibility of commencing litigation against Shenzhen Aquatic. Based on the legal advice receive by the Company in May 2021, the Company may commence litigation against Shenzhen Aquatic and apply to the court for seizure of the Shenzhen Properties in view of recovering the Loan Receivable and Interest Receivable.

As at the date of this announcement, the Group has filed the relevant document to the court to apply for seizure of part of the Shenzhen Properties from Shenzhen Aquatic. It is expected that the court will hand down the judgement on the seizure before the end of 2021.

In the event (1) the Company recovers all or part of the Loan Receivables and Interest Receivables through legal means based on the above action plan; or (2) the Company may consider to provide impairment on or write off of the Loan Receivables and Interest Receivables if they are concluded as irrecoverable through (a) conclusion of any legal actions; or (b) the counterparty is in financial difficulties with proven default records,, the Company is of the view that the audit qualification in relation to the Loan Receivable and Interest Receivable will not be carried forward for FY2021.

C. Consideration Receivables

The Consideration Receivables of approximately HK\$139.2 million represented (1) consideration receivable of approximately HK\$49.6 million in relation to the disposal of certain residential properties in Yingkou (the “**Residential Properties**”) by the Group to four independent third parties in 2018; and (2) consideration receivable of approximately HK\$89.6 million in relation to the disposal of certain commercial properties in Dalian (the “**Commercial Properties**”) by the Group to two independent third parties in 2018.

(i) Reasons leading to the audit qualification

Given the Consideration Receivables remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Board understood that the Auditor was yet to be satisfied on the recoverability of the Consideration Receivables.

(ii) Details of audit evidence as requested by the Auditor

The Auditor has requested the audit evidence in relation to (1) the sales and purchase agreements for the Commercial Properties and the Residential Properties; (2) arrangement of audit confirmation; and (3) evidence of subsequent settlement of the Consideration Receivables that may be received by the Group.

The Company had provided all available evidence to the Auditor of (1) the Finance Lease Agreement; and (2) arrangement of audit confirmation. The Company did not receive any subsequent settlement of the Consideration Receivables.

(iii) Management position and assessment prior to the publication of the Annual Results

In respect of the Consideration Receivables in relation to the Commercial Properties, the Board considered that it is possible to recover through (1) litigation proceedings in view of applying to the court for granting court orders to seize the Commercial Properties; and (2) through negotiations with the independent third party who introduced the purchasers to the Group for a debt restructuring proposal.

In respect of the Consideration Receivables in relation to the Residential Properties, the Company understood that the purchasers have difficulties in the settlement of the respective Consideration Receivables in a timely manner due to the impact of COVID-19. The Company is negotiating with the purchasers for the settlement schedule.

As a result, the Board considered that it is premature to evaluate whether any portion of the Consideration Receivables is recoverable. As such, the Company did not record any impairment on the Consideration Receivables as at 31 December 2020.

Given the Consideration Receivables remained outstanding as at 31 December 2020 and their recoverability is subject to the outcome of any negotiations or litigations which are yet to materialise, the Board understood the Auditor was yet to be satisfied on the recoverability of the Consideration Receivables.

(iv) View of the Audit Committee

Taking into account of the above and after discussion with the Auditor, the Audit Committee agreed with the Board's view.

(v) Proposed action plan in addressing the audit qualification

In respect of the Consideration Receivables in relation to the Commercial Properties, the Group has been negotiating with an independent third party in exploring debt restructuring proposals, which has preliminarily agreed with such proposal, subject to the entering of formal agreements with respective counterparties. It is expected that formal agreements may be entered in the second half of 2021.

In respect of the Consideration Receivables in relation to the Residential Properties, the Group is in the process of negotiating with the respective purchasers on the settlement schedule, or the Group may request the return of the Residential Properties from the respective purchasers to the Group through further negotiations or legal means. It is expected that the parties will arrive at a settlement plan in the second half of 2021.

In the event (1) the Company recovers the Commercial Properties or Residential Properties based on the above action plan; or (2) the Company may consider to provide impairment on or write off of the respective Consideration Receivables if Consideration Receivables are concluded as irrecoverable through (a) conclusion of any legal actions; or (b) the respective counterparty is in financial difficulties with proven default records, the Company is of the view that the audit qualification in relation to the Consideration Receivables will not be carried forward for FY2021.

Reasons that the Qualification on Receivables remained unresolved in FY2020

After the reorganisation of the Board on 29 June 2020, the Board has, at its best endeavors, swiftly taken numerous measures in investigating the background of the Outstanding Receivables and seeking legal opinions for exploring possible legal actions, in view of recovering the Outstanding Receivables, including but not limited to the followings:

- (i) the Company has engaged a PRC lawyer for the purpose of assessing the feasibility in commencing legal actions against the relevant counterparties in the PRC in view of recovering the Outstanding Receivables;
- (ii) the Company has been actively negotiating with various independent third parties on debt restructuring proposals in relation to the Outstanding Receivables; and

(iii) prior to the publication of the Annual Results, the Company has obtained preliminary legal opinion from its PRC lawyer in relation to the financial capability of the counterparties of the Prepayments and Trade Receivables in assessing the recoverability of such balances.

Despite the implementation of the above measures, the Unauthorised Dilution (as defined below) of Qianhai Shitong has significantly hindered the progress of the Company's action plan, given (i) substantially all of the Prepayments and Trade Receivables were conducted by Qianhai Shitong; and (ii) the Group at the material time did not possess the company chop of Qianhai Shitong as a result of the Unauthorised Dilution, the Group could not commence any legal actions against the counterparties of the Prepayments and Trade Receivables.

As the legal actions are yet to commence and the outcome of which are still remote, the Company is of the view that it is premature to evaluate whether any portion of the Outstanding Receivables is recoverable. As such, the Company did not record any impairment on the Outstanding Receivables as at 31 December 2020. As a result, the Auditor could not satisfy itself with the recoverability of the Outstanding Receivables as at 31 December 2020 as detailed above and the Qualification on Receivables remained unresolved for FY2020.

The Audit Qualification in relation limited books and records of Qianhai Shitong

Reference is made to the announcement of the Company dated 26 August 2020 and 14 September 2020 (the “**Suspected Forgeries Announcements**”) in relation to the suspected forgery or unauthorised use of the company chop of Qianhai Shitong, an indirect wholly-owned subsidiary of the Company, and Sincere Venture Limited, a direct wholly owned subsidiary and the immediate holding company of Qianhai Shitong (the “**Suspected Forgeries**”).

Reasons leading to the audit qualification

As disclosed in the Suspected Forgeries Announcements, as a result of the Suspected Forgeries, the Company's shareholding in Qianhai Shitong has been diluted from 100% to 25%, where new shares were issued by Qianhai Shitong to Shenzhen Aquatic, an independent third party (the “**Unauthorised Dilution**”). As a result of the Unauthorised Dilution, the purported shareholding structure of Qianhai Shitong was owned as to 75% by Shenzhen Aquatic and 25% by the Group at the material time.

In September 2020, the Board has reported the case to Market Supervision Administration of Shenzhen Municipality* (深圳市市場監督管理局) (the “**SZ Market Supervision Administration**”) in relation to withdrawing and nullifying the Unauthorised Dilution (the “**Nullification**”).

On 10 March 2021, the SZ Market Supervision Administration issued a decision on the Nullification, where the SZ Market Supervision Administration would only formally proceed with the Nullification after its publication of an announcement in relation to the Nullification for 60 days. Accordingly, the Nullification has yet to be completed by the SZ Market Supervision Administration prior to the publication of the Annual Results.

As such, the Company has difficulties in accessing the books and records of Qianhai Shitong at the material time and therefore could not provide the same to the Auditor as audit evidence. Given the SZ Market Supervision Administration has confirmed that Qianhai Shitong remained as an indirect wholly-owned subsidiary of the Group, the financial results of Qianhai Shitong were consolidated into the consolidated financial statements of the Company based on the management account of Qianhai Shitong maintained by the Group.

The Board understood the Auditor was unable to carry out audit procedures on Qianhai Shitong to satisfy itself in relation to the income and expenses, assets and liabilities and related disclosure in relation to Qianhai Shitong in the consolidated financial statements of the Company.

Details of audit evidence as requested by the Auditor

The Auditor has requested for (i) the books and records of Qianhai Shitong; and (ii) site visit to the office of Qianhai Shitong.

Due to the Unauthorised Dilution, the Company has difficulties in accessing the books and records of Qianhai Shitong and therefore could not provide the same to the Auditor as audit evidence or arrange the Auditor to perform site visit.

Management position and assessment prior to the publication of the Annual Results

As the Group has reported the Unauthorised Dilution to the SZ Market Supervision Administration and it has confirmed that Qianhai Shitong remained as an indirect wholly-owned subsidiary of the Group at the material time, the financial results of Qianhai Shitong were consolidated into the consolidated financial statements of the Company based on the management account of Qianhai Shitong maintained by the Group.

View of the Audit Committee

Taking into account of the above and after discussion with the Auditor, the Audit Committee agreed with the Board's view.

Proposed action plan

Upon completion of the Nullification by the SZ Market Supervision Administration in July 2021, the Group has regained the legal ownership and company chop. The Group is in the process of retrieving the books and records of Qianhai Shitong. As such, the Company expects that the audit qualification in relation to the limited books and records of Qianhai Shitong will be removed from the auditor's report for FY2021.

By order of the Board
Enviro Energy International Holdings Limited
Li Gang
Chairman and Executive Director

Hong Kong, 6 August 2021

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Li Gang (Chairman), Mr. Pan Lihui and Mr. Jiang Senlin and three Independent Non-executive Directors, namely Mr. Zhong Jian, Mr. Du Hongwei and Mr. Liu Qin.

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

** For identification purpose only*