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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)

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE POSSIBLE ACQUISITION

This announcement is made by Enviro Energy International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

INTRODUCTION

The board of directors of the Company (the “**Directors**”) is pleased to announce that on 17 March 2021 (after trading hours), the Company (the “**Purchaser**”) entered into a memorandum of understanding (the “**MOU**”) with Mr. Cheung Wai Wa (the “**Vendor**”). Pursuant to the MOU, the Company intends to purchase, and the Vendor intends to dispose 51% of the issued shares (the “**Sale Shares**”) of a company incorporated in Hong Kong (the “**Target Company**”), which is wholly-owned by the Vendor (the “**Acquisition**”).

THE MOU

The principal terms of the MOU are set out as below:

Purchaser:	The Company
Vendor:	Mr. Cheung Wai Wa
Assets to be acquired:	The Sale Shares, being 51% of the issued shares of the Target Company
Due diligence:	Upon signing of the MOU, the Purchaser and its professional advisers may conduct due diligence on the Target Company. The Vendor shall provide all the necessary information and documents in a timely and holistic manner.
Exclusivity:	From the date of MOU to 30 June 2021 (or such later date as maybe agreed in writing between the Company and the Vendor)(the “ Exclusivity Period ”), the Vendor has agreed that the Vendor shall not, directly or indirectly, solicit or initiate any proposals or offers from any third parties, or participate in any discussions or negotiations with any third parties, relating to sale and purchase, charge or disposal of any equity securities or assets of the Target Company, or issuance of any equity securities of the Target Company.
Formal sale and purchase agreement	<p>The Vendor and the Purchaser will use their respective best efforts to negotiate and enter into the definitive sale and purchase agreement (the “Definitive Agreement”) within the Exclusivity Period.</p> <p>In the event the Definitive Agreement is not entered into by the Company and the Vendor during the Exclusivity Period, the MOU shall be terminated and cease to have any force or effect. Upon the entering into of the Definitive Agreement, the Definitive Agreement shall supersede the MOU.</p>
Consideration:	The consideration is expected to be HK\$39,000,000 (the “ Consideration ”), subject to further determination and adjustment based on the fair value of the Target Company from a valuation report to be prepared by an independent valuer.

Payment terms:

The Consideration shall be settled in the following manner:

- (i) an initial payment of HK\$4,000,000 in cash as deposit (the “**Deposit**”) within 5 days upon the signing of the Definitive Agreement.
- (ii) the remaining balance of the Consideration shall be settled by way of the issuance of promissory notes with a principal amount of HK\$35,000,000 by the Company to the Vendor (subject to adjustment under the Profit Guarantee (as defined below)) (the “**Promissory Notes**”). The Promissory Notes will bear interest at 6% per annum and mature on the second anniversary date of the date of the Definitive Agreement.

It is expected that:

- (1) subject to the fulfillment of the Profit Guarantee for the year ending 31 December 2021, the Promissory Notes with principal amount of HK\$15,000,000 (the “**Promissory Notes A**”) will be redeemed by 15 April 2022 (after the issuance of the audited financial statements of the Company for the year ending 31 December 2021) together with the respective interest of HK\$900,000; and
- (2) subject to the fulfillment of the Profit Guarantee for the year ending 31 December 2022, the Promissory Notes with principal amount of HK\$20,000,000 (the “**Promissory Notes B**”) will be redeemed by 15 April 2023 (after the issuance of the audited financial statements of the Company for the year ending 31 December 2022) together with the respective interest of HK\$1,200,000.

- (iii) (1) Upon the fulfilment of the Profit Guarantee (as defined below) for the year ending 31 December 2021 after ascertaining the audited net profit of the Target Company, the Company shall settle with the Vendor the Promissory Notes A together with the interest thereon the Vendor within seven days upon the issuance of the audited financial statements of the Target Company for the year ending 31 December 2021.
- (2) Upon the fulfilment of the Profit Guarantee (as defined below) for the year ending 31 December 2022 after ascertaining the audited net profit of the Target Company, the Company shall settle with the Vendor the Promissory Notes B together with the interest thereon the Vendor within seven days upon the issuance of the audited financial statements of the Target Company for the year ending 31 December 2022.

In the event the Profit Guarantee is not fulfilled, the Company has the right to deduct from the Consideration the amount of shortfall of the Profit Guarantee attributable to the Company's share in the Target Company on a dollar-to-dollar basis.

Profit Guarantee:

The Vendor guaranteed the Company that the audited profit after tax of the Target Company shall not be less than (i) HK\$30,000,000 for year ending 31 December 2021; and (ii) HK\$40,000,000 for year ending 31 December 2022 (the "**Profit Guarantee**").

For the avoidance of doubt, save for adjusting the Consideration as set out above, the Company shall not demand from the Vendor or the Target Company any compensation in the event the Profit Guarantee is not fulfilled.

Conditions precedents: Completion of the Acquisition is subject to:

- (i) (1) all necessary authorisations, consents and approval from the Stock Exchange in relation to the Acquisition having been obtained; and
- (2) passing by the shareholders of the Company resolutions at the general meeting of the Company approving the Acquisition; and
- (ii) all necessary authorisations, consents and approval from relevant government and regulatory authorities in relation to the changes in the shareholding structure of the Target Company under the Acquisition having been obtained.

Other terms: In the event (i) the shares of the Company be delisted from the Stock Exchange within two years from the date of the Definitive Agreement; (ii) the Company received winding-up order; or (iii) the debt ratio of the Group exceeded 100%, the Vendor has the right to repurchase the Sale Shares from the Company by way of the Vendor returning to the Company any cash (save for the Deposit), shares or promissory notes paid/issued by the Company.

Shareholders agreement: Upon the signing of the Definitive Agreement, the Company and the Vendor shall enter into a shareholders agreement in respect of the affairs of, and the rights and obligations of the Company and the Vendor with respect of their interests in the Target Company, including but not limited to the board composition of the Target Company, where the Target Company shall distribute dividend to its shareholders, subject to the redemption of the Promissory Notes. The shareholders agreement shall have a term of two years and shall cease to have any force or effect unless otherwise agreed by the Company and the Vendor.

Working capital: The Company will not inject any working capital to the Target Company within two years of the date of the Definitive Agreement, where the Vendor shall ensure the Target Company can operate independently.

The MOU does not create legally binding obligations on the parties in relation to the Acquisition but is legally binding as to the terms under the section headed “Due diligence” and “Exclusivity” above.

INFORMATION OF THE TARGET COMPANY

The Target Company is a limited company incorporated in Hong Kong in 1996. The principal business of the Target Company is operating of a plant in Hong Kong for processing of scrap metal (principally aluminum scraps) into a standard acceptable for importing into the PRC. The Target Company possesses all relevant registration and licenses for conducting its scrap metal processing business in Hong Kong. The scrap metals are supplied to factories in the PRC for production of metal products, in particular aluminum alloy ingots.

INFORMATION OF THE VENDOR

Mr. Cheung Wai Wa is a citizen of Hong Kong, who owns the entire issued shares of the Target Company as at the date of this announcement. Mr. Cheung has extensive experience in the scrap metal processing industry.

To the best of knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor is a third party independent of the Company and connected persons of the Company.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the supply of building materials and aluminum related products, and properties investment business.

The Group has been prudent in business development in the supply of building materials and aluminum related product business. With its experience in the building materials industry, the Group realised the potential demand of non-ferrous metals, in particular aluminum and related products and recycled aluminum. As such, the Group has begun to put more focus on sourcing and supplying aluminum and related products in recent years.

Demand of aluminum in the People's Republic of China (the "PRC") has been increasing steadily with the development in the construction and transportation industry after COVID-19 pandemic. On the other hand, the PRC Customs has recently tightened the policies and regulations in relation to importing of non-ferrous metal wastes, including aluminum scrap. As such, it is becoming more difficult to import raw materials to recycling and processing plants in mainland China.

Given the Target Company has established a processing plant in Hong Kong and possesses all relevant registration and licenses for conducting its recycling and processing business in Hong Kong, it is well positioned to capitalise on the recently tightened policies and regulations of the PRC Customs in relation to aluminum scrap by harnessing its geographical advantage in Hong Kong to procure and process aluminum scrap and sell the recycled aluminum to PRC customers, where the recycled aluminum processed by the processing plant of the Target Company can meet the recently tightened standards imposed by the PRC Customs.

Instead of focusing on sourcing and supplying aluminum and related products, the Company may become a more comprehensive building materials and aluminum related products supplier by having its own aluminum recycling and processing plant through the

Acquisition. In addition, synergy effect arising from the combination of the aluminum recycling and processing business of the Target Company and the supply of building materials and aluminum related business of the Company, will certainly further enhance competitiveness and profitability of the Group. As such, the Directors consider that the Acquisition is in line with the Company's principle business and is in the interests of the Company and the shareholders of the Company as a whole.

GENERAL

The Acquisition, if materialised, may constitute a very substantial transaction for the Company under Chapter 14 of the Listing Rules. Further announcement(s) will be made by the Company in compliance with the Listing Rules as and when appropriate.

The Acquisition is subject to further negotiation and execution of the Definitive Agreement which may or may not occur. As the Acquisition may or may not materialize, Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 17 March 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. See Tak Wah, Mr. Zhong Jian and Mr. Du Hongwei.

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