



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)

Executive Directors:

Mr. Li Gang (*Chairman*)

Mr. Pan Lihui

Mr. Jiang Senlin

Mr. Cao Zhongshu

Independent Non-executive Directors:

Mr. Liu Qin

Mr. Zhong Jian

Mr. Pan Yongye

Registered office:

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*Head Office and Principal Place
of Business in Hong Kong:*

20/F., No.9 Des Voeux Road West,

Sheung Wan,

Hong Kong

8 April 2024

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION
IN RELATION TO ISSUE OF NEW SHARES UNDER
SPECIFIC MANDATE FOR DEBT CAPITALISATION
AND APPLICATION FOR WHITEWASH WAIVER;
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement of the Company dated 7 February 2024 in relation to, among other things, (i) the Settlement Agreement and the transactions contemplated thereunder and the specific mandate; (ii) the Whitewash Waiver; and (iii) the Proposed Increase in Authorised Share Capital.

The purpose of this circular is to provide the Shareholders with, among other things, (i) further information in relation to the Settlement Agreement and the transactions contemplated thereunder and the specific mandate, the Whitewash Waiver and the Proposed Increase in

Authorised Share Capital; (ii) recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Settlement Agreement and the Whitewash Waiver and as to voting; (iii) the letter from Grand Moore Capital to the Independent Board Committee in respect of the terms of the Settlement Agreement and the Whitewash Waiver and as to voting; (iv) additional information as required under the Listing Rules and the Takeovers Code; and (v) the notice of the EGM.

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE FOR DEBT CAPITALISATION AND APPLICATION FOR WHITEWASH WAIVER

Background of the Indebted Amount

During the suspension of trading of the Shares of the Company from September 2021 to May 2023, the Company entered into a number of loan agreements with the Creditors for the Loans for raising working capital to financing business development and daily operation of the Company.

Details of the Loans are set out as follows:

Creditors	Date of relevant loan agreements	Due date	Date of loan receipt	Principal amount HK\$	Indebted Amount as at 30 November 2023 HK\$ (approximately)	Capitalisation
						Shares to be allotted and issued under the Debt Capitalisation
WIFHL	1 December 2022	31 December 2023	1 December 2022	28,138,519	28,138,519	562,770,380
Mr. Pan	1 December 2022	31 December 2023	1 December 2022	9,986,371	9,986,371	199,727,425
WIFL	9 February 2023	31 December 2023	13 February 2023	1,000,000	1,023,852	28,530,160
	7 August 2023	31 January 2024	11 September 2023	400,000	402,656	
Longma International	10 February 2023	31 December 2023	9 February 2023	1,000,000	1,024,180	28,549,180
	23 August 2023	31 January 2024	23 August 2023	400,000	403,279	
Able Plus (Note 1)	9 February 2023	31 December 2023	10 February 2023	1,000,000	1,024,098	28,544,920
	7 August 2023	31 January 2024	28 July 2023 to 5 September 2023	400,000	403,148	
Mr. Tang	17 February 2023	31 December 2023	17 February 2023	1,000,000	1,023,525	20,470,491
Mr. Zhou	4 May 2023	31 December 2023	8 May 2023	1,000,000	1,016,967	28,400,980
	7 August 2023	31 January 2024	29 August 2023	400,000	403,082	
Total					<u>44,849,677</u>	<u>896,993,536</u>

Notes:

1. The Capitalisation Shares to be allotted and issued under the Debt Capitalisation for Able Plus will be allotted and issued to Mr. Pan pursuant to the Settlement Agreement.
2. The Capitalisation Shares to be issued and allotted under the Debt Capitalisation represented each of the Indebted Amount divided by the Issue Price of HK\$0.05 subject to rounding adjustments.

Debt Capitalisation

On 25 January 2024 (after trading hours), the Company entered into the Settlement Agreement with the Creditors, pursuant to which the Company has conditionally agreed to capitalise the Indebted Amount owed to the Creditors by the Company, the Creditors have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 896,993,536 Capitalisation Shares at the Issue Price of HK\$0.05 per Capitalisation Share under a specific mandate.

The Settlement Agreement

The principal terms of the Settlement Agreement are set out as follows:

Parties:	The Company and the Creditors
Issuer:	The Company
Capitalisation Shares:	896,993,536 Capitalisation Shares
Issue Price:	HK\$0.05 per Capitalisation Share

Debt Capitalisation

The Company is indebted to the Creditors in the sum of the Indebted Amount. The Company will issue to the Creditors the Capitalisation Shares at the Issue Price as full settlement of the Loans and the fulfilment of all obligations of the Company under the respective loan agreement.

Capitalisation Shares

The 896,993,536 Capitalisation Shares under the Debt Capitalisation will be allotted and issued under a specific mandate which is subject to Independent Shareholders' approval at the EGM.

Assuming there will be no change in the issued share capital of the Company from the date of the Settlement Agreement up to the date of Completion, the Capitalisation Shares represent:

- (i) approximately 165.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 62.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares.

Issue Price

The Issue Price of HK\$0.05 per Capitalisation Share represents:

- (i) a discount of approximately 10.7% to the closing price of HK\$0.056 per Share as quoted on the Stock Exchange on the date of the Settlement Agreement;
- (ii) a discount of approximately 5.7% to the average closing price of approximately HK\$0.053 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the date of the Last Trading Day;
- (iii) a discount of approximately 61.73% to the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iv) a discount of approximately 57.47% to the average closing price of approximately HK\$0.087 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the date of the Latest Practicable Date;
- (v) a price difference of approximately HK\$0.132 as compared to the audited consolidated net liabilities of approximately HK\$0.082 per Share as at 31 December 2022, which is calculated based on the Group's audited consolidated net liabilities of the Company of approximately HK\$44,679,000 as at 31 December 2022 and 542,392,207 Shares in issue as at the Latest Practicable Date;
- (vi) a price difference of approximately HK\$0.118 as compared to the unaudited consolidated net liabilities of the Company of approximately HK\$0.068 per Share as at 30 June 2023, which is calculated based on the Group's unaudited consolidated net liabilities of the Company of approximately HK\$37,051,000 as at 30 June 2023 and 542,392,207 Shares in issue as at the Latest Practicable Date;

- (vii) a price difference of approximately HK\$0.168 as compared to the audited consolidated net liabilities of the Company of approximately HK\$0.118 per Share as at 31 December 2023, which is calculated based on the Group's audited consolidated net liabilities of the Company of approximately HK\$63.9 million as at 31 December 2023 and 542,392,207 Shares in issue as at the Latest Practicable Date;
- (viii) a price difference of approximately HK\$0.170 as compared to the adjusted unaudited net liabilities of the Company of approximately HK\$0.120 per Share as at 31 December 2023. The calculation of the adjusted unaudited consolidated net liabilities of the Company per Share as at 31 December 2023 is set out under the section headed "Property Interests and Adjusted Net Asset Value" in Appendix I to this circular; and
- (ix) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 6.61% of the theoretical diluted price of HK\$0.0523 per Share to the benchmarked price of HK\$0.056 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the date of the Settlement Agreement of HK\$0.056 per Share and the average closing price of HK\$0.0532 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the date of the Settlement Agreement).

As at 31 December 2023, the audited consolidated net liabilities of the Group were approximately HK\$63.9 million.

The Issue Price was determined after arm's length negotiation between the Company and the Creditors after taking into account (i) the Indebted Amount being overdue or would be overdue imminently as at the date of the Settlement Agreement; (ii) the recent trading prices of the Shares prior to the date of signing the Settlement Agreement; (iii) the trading volume of the Shares was thin with average daily trading volume of the Shares per month around 0.05% of the total number of issued Shares since the resumption of trading of the Shares in May 2023; (iv) the net current liabilities and net liabilities of the Group as at 31 December 2022 and 31 December 2023; and (v) the current equity capital market conditions. The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser, but save for Mr. Li Gang, Mr. Pan and Mr. Jiang Senlin who have material interest in the Debt Capitalisation contemplated under the Settlement Agreement) consider that the terms of the Settlement Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The amount of the total issue price of the Capitalisation Shares shall be satisfied by way of capitalising the Indebted Amount owed to the Creditors by the Company. In addition, the Group will use its internal resources to settle the professional fees and all related expenses of approximately HK\$0.8 million which may be borne by the Company in connection with the Debt Capitalisation.

Ranking

The Capitalisation Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Capitalisation Shares.

Conditions precedent

The Completion is conditional upon the satisfaction of the following conditions precedent:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares;
- (ii) passing by the Independent Shareholders of the Company resolutions at the EGM approving (a) the Settlement Agreement and the transactions contemplated thereunder (more than 50% of the votes cast by the Independent Shareholders at the EGM by way of poll); and (b) the Whitewash Waiver (at least 75% of the votes cast by the Independent Shareholders at the EGM by way of poll) in accordance with the Listing Rules and the Takeovers Code;
- (iii) the Executive having granted (and such grant not having been withdrawn) the Whitewash Waiver to WIFHL, and the satisfaction of all conditions (if any) attached thereto; and
- (iv) the obtaining by the Company of the approval from the Shareholders on the Proposed Increase in Authorised Share Capital.

All the above conditions precedent are not waivable. As at the Latest Practicable Date, none of the conditions precedent above has been fulfilled.

If the above conditions precedent are not satisfied by the Long Stop Date, the Settlement Agreement shall be automatically terminated with immediate effect.

Completion

Completion of the Debt Capitalisation shall take place within seven Business Days after the date on which the last conditions precedent is satisfied, or at such other date, time and venue as the parties may agree in writing.

Listing Application

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares on the Stock Exchange.

Information on the Group

The Group is principally engaged in the supply of construction essentials business since 2017, which primarily consisted of two major businesses, namely (1) the supply of building materials business; and (2) the supply of aluminum related products business, which are part of the construction supply chain.

Information on the Creditors

The Creditors consisted of WIFHL, Longma International, Mr. Tang, WIFL, Mr. Pan, Able Plus and Mr. Zhou.

WIFHL is a company with limited liability incorporated in Hong Kong principally engaged in investment holding, which holds 66.67% equity interest of Longma International as its only investment. WIFHL is wholly-owned by Wonderland International Financial Holdings Company, which is in turn owned as to (i) 55.95% by Hua Zhi Investment Limited, which is in turn owned as to 56.21% by Mr. Li Gang, 29.95% by Mr. Wang Shengkun, 11.98% by Ms. Lu Qing and 1.86% by Mr. Feng Dafu; (ii) 41.79% by Pu Shi International Investment Limited, which is ultimately and beneficially held by Mr. Su Shaowen; (iii) 1.79% by Mr. Soh Kai Jun; and (iv) 0.47% by Ms. Xia Liping.

Longma International is a company with limited liability incorporated in Hong Kong principally engaged in investment holding, which holds 34% equity interest of Longma International Consulting Limited, a company principally engaged in the provision of company secretarial service, as its only investment. Longma International is owned as to 66.67% by WIFHL and 33.33% by Mr. Li Gang.

Mr. Tang is the son of Mr. Li Gang, the Chairman and executive Director of the Company.

WIFL is a company with limited liability incorporated in Hong Kong principally engaged in money lending business and is a wholly-owned subsidiary of Wonderland Capital International Holdings Limited, which is beneficially owned as to (i) 33.33% by Wonderland Group Investment Holdings Corporation, which is in turn equally held by Mr. Jiang Peixing and Mr. Liu Shao Kang; (ii) 19.05% by China Minghua Holdings Limited which is wholly owned by Mr. Zhang Xiaoming; (iii) 19.05% by Mr. Yan Qiang; (iv) 19.05% by Mr. Shi Jiaqi; and (v) 9.52% by Mr. Li Xiaolei. Mr. Jiang Senlin, the executive Director of the Company, is one of the directors of WIFL.

Mr. Pan is an executive Director and a Shareholder holding 33,112,281 Shares representing approximately 6.11% of the issued shares of the Company as at the Latest Practicable Date.

Able Plus is a company with limited liability incorporated in Hong Kong principally engaged in trading of non-ferrous metal products, which is owned as to 40% by Mr. Pan and 60% by Ms. Ma Hiu Ngai, the spouse of Mr. Pan.

WIIHL, the single largest shareholder of the Company as at the Latest Practicable Date, is owned as to (i) 58.44% by Hua Zhi Investment Limited, which is the intermediate holding company of WIFHL and Longma International and Mr. Li Gang is the ultimate beneficial owner as detailed above; (ii) 18.38% by Pu Shi International Investment Limited, which holds 41.79% shareholding interest in Wonderland International Financial Holdings Company as detailed above; (iii) 13.18% by Wonderland Capital International Holdings Limited, which is the immediate holding company of WIFL as detailed above; and (iv) 10.00% by Able Plus Investment (Holdings) Limited, which is wholly-owned by Mr. Pan.

Mr. Zhou is a Shareholder holding 14,071,460 Shares representing approximately 2.59% of the issued shares of the Company as at the Latest Practicable Date. Mr. Zhou is not connected with (i) any of the other Creditors, their respective shareholders and ultimate beneficial owners; and (ii) WIFHL and parties acting in concert with it.

Takeovers Code implications and application for Whitewash Waiver

Assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Completion, the Capitalisation Shares to be allotted and issued represent (i) approximately 165.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 62.32% of the issued share capital of the Company as enlarged by the issued of the Capitalisation Shares.

As at the Latest Practicable Date, (i) WIFHL does not hold any Shares; and (ii) parties acting in concert with WIFHL (i.e. WIIHL and Mr. Pan) hold an aggregate of 145,902,047 Shares, representing approximately 26.90% existing issued share capital of the Company as at the Latest Practicable Date.

Assuming there will be no change in the number of issued Shares from the Latest Practicable Date up to the Completion, upon Completion, (i) the shareholding of WIFHL in the Company will increase from nil to approximately 39.10%; and (ii) the shareholding of WIFHL and its concert parties in the Company will increase from approximately 26.90% to 70.48%. WIFHL will, therefore, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it and its concert parties pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted.

In light of the above, WIFHL had made an application to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Capitalisation Shares.

The Executive has agreed, subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive any obligations to make a general offer which might result from the Debt Capitalisation.

The Executive may or may not grant the Whitewash Waiver. The Debt Capitalisation will not proceed if the Whitewash Waiver is not granted or approved.

Upon the Completion, the maximum potential aggregate holding of voting rights of the WIFHL and its concert parties in the Company will exceed 50% of the voting rights of the Company, and WIFHL and its respective concert parties may increase their shareholding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer thereafter.

None of WIFHL and parties acting in concert with it had any dealings in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period commencing on the date falling six months prior to the Latest Practicable Date and ending on the Latest Practicable Date.

Reasons for and benefits of the Debt Capitalisation

As disclosed in the annual report of the Company for the year ended 31 December 2022, as (i) the Group incurred substantial loss for the year ended 31 December 2022; (ii) the Group recorded net current liabilities of approximately HK\$166.6 million and net liabilities of approximately HK\$40.2 million as at 31 December 2022; and (iii) the Group's bank and cash balances is insufficient to cover the current liabilities as at 31 December 2022, the auditors of the Company had given an emphasis of matter in relation to the material uncertainty related to going concern of the Company.

As further disclosed in the 2023 Annual Results, the Company has a net current liabilities and net liabilities of approximately HK\$154.1 million and HK\$63.9 million, respectively as at 31 December 2023. Coupled with the recent cautious investment sentiment and the prevailing high interest rate in the debt market, the Company had difficulties in seeking debt or equity financing to finance its business development.

As at 31 December 2023, other than accounts payable and other payables arising from the ordinary business operation, the Company had a total indebtedness of approximately HK\$268.4 million, which mainly consisted of:

- (i) secured borrowings and accrued interest of approximately HK\$218.2 million with Lender B (as defined below), which was secured by the investment properties of the Group with a carrying amount of approximately HK\$94.1 million as at 31 December 2023.

On 16 January and 27 March 2019, two wholly-owned subsidiaries of the Group (the "**Yingkou Subsidiaries**") entered into certain loan agreements (the "**Original Loan Agreements**") with a bank in the PRC (the "**Bank**"), pursuant to which the Bank shall provide loans with an aggregate principal of RMB162.0 million (the "**Original Loan**") to the Yingkou Subsidiaries which carry interest rate ranging from 9.0045% to 9.5265% per annum and was secured by the investment properties held by the Yingkou Subsidiaries (the "**Yingkou Properties**"). The respective Original Loan and the respective accrued interests became overdue on 21 December 2019 and 21 January 2020 respectively.

On 3 March 2020, the Bank assigned its entire rights over the Original Loan to Shenyang Jiayin Investment Management Co., Ltd. (瀋陽嘉銀投資管理有限公司) (the “**Lender A**”), an independent third party, at an aggregate consideration of approximately RMB166.6 million (the “**Lender A Receivables**”). On 18 August 2020, Lender A assigned its entire rights over the Lender A Receivables to Huaxin Technology (Yingkou) Co., Ltd. (華鑫科技(營口)有限公司) (the “**Lender B**”), an independent third party, at an aggregate consideration of approximately RMB176.8 million.

On 31 August 2020, the Yingkou Subsidiaries entered into two agreements with Lender B (the “**Extended Loan Agreements**”), pursuant to which (i) the balance of the Original Loan and accrued interest as at 18 August 2020 shall amount to approximately RMB176.8 million, which the Lender B is entitled to the rights of such receivable from the Yingkou Subsidiaries; (ii) the Lender B shall extend the repayment date of such RMB176.8 million (the “**Extended Loan**”) by the Yingkou Subsidiaries to 17 August 2023, and the Extended Loan shall carry an interest rate of 5%.

As the Group did not repay the Extended Loan and respective accrued interest pursuant to the Extended Loan Agreements, the Extended Loan and the respective accrued interest became overdue on 17 August 2023. As at 31 December 2023, the balance of the Extended Loan and accrued interest amounted to approximately HK\$218.2 million.

As further disclosed in the section headed “9 MATERIAL LITIGATION” in Appendix III to this circular, the Lender A had pledged its rights to the Lender A Receivables to the Bank and there was a dispute between the Bank and Lender A. The Bank had filed a claim against the Lender A and the Yingkou Subsidiaries and other defendants for the repayment of outstanding loans and interest due to default in certain loan agreements between the Bank and Lender A. Based on the latest civil judgement received by the Group, the Bank or the relevant court in the PRC may have the right to dispose the Yingkou Properties by way of auction or sale. It is expected that, upon the conclusion of the litigation between the Bank and the Lender A or the disposal of the Yingkou Properties in accordance to the judgement by the relevant court in the PRC, the Group may be released from its obligation under the Extended Loan Agreements. Please refer to the section headed “9 Material Litigation” in Appendix III to this circular for further details;

- (ii) unsecured borrowings and accrued interests of approximately HK\$5.4 million which is repayable in 2026. It is intended that the Group will settle such borrowings and accrued interest with its internal resources in 2026; and
- (iii) the unsecured Loans with the Indebted Amount of HK\$44.8 million which is overdue as at the Latest Practicable Date.

On top of the above indebtedness, the Company had other payables of approximately HK\$48.6 million as at 31 December 2023, which mainly represented other payables recorded by the Yingkou Subsidiaries, including an aggregate amount of approximately HK\$32.5 million due to Lender B and its related companies.

During the year ended 31 December 2023, the Company is exploring with Lender B and local government in the PRC, to settle such other payables together with the Extended Loan by way of disposal of the Yingkou Subsidiaries to Lender B or its group companies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Lender A and Lender B are not a Shareholder. As at 31 December 2023, the assets of Yingkou Subsidiaries principally consisted of investment properties and consideration receivables with carrying amount of approximately HK\$94.1 million and HK\$130.4 million respectively, and the liabilities of the Yingkou Subsidiaries principally consisted of secured borrowings and accrued interests and other payables of approximately HK\$218.2 million and HK\$46.8 million respectively. It is expected that the settlement arrangement, if materialises, may be finalised by 2024.

Based on the above, the Company considers, in the event the disposal of the Yingkou Subsidiaries materialises, it merely represented a disposal of the Group's assets under the Yingkou Subsidiaries for the settlement of the Extended Loan and the other payables mentioned above, which may resolve the respective qualification on the consolidated financial statements issued by the auditor of the Company, ZHONGHUI ANDA CPA Limited. In addition, the counterparty of the disposal, if materialised, would only be decided based on the results of the discussion with the local government in the PRC. As such, the Company considers there is no Rule 25 implications in the event the disposal of the Yingkou Subsidiaries materialises. The Company will comply with the requirement of the Takeovers Code in the event the disposal materialises and have any Takeovers Code implications.

As at the Latest Practicable Date, no agreements have been entered in relation to the disposal of the Yingkou Subsidiaries or relevant assets. In the event any settlement arrangement materialises, the Company will comply with the Listing Rules and Takeovers Code accordingly.

Save for the above, the remaining liabilities of the Group principally represented trade payables and accrued expenses incurred in the ordinary business and operation of the Group. As such, in the event (i) the Debt Capitalisation completes; and (ii) the settlement of the Extended Loan and other payables materialise as detailed above, save for the unsecured borrowings and accrued interests of approximately HK\$5.4 million which is repayable in 2026, the Group will be free of debt and the remaining liabilities of the Group would principally be trade payables and accrued expense incurred in the ordinary business and operation of the Group.

The Indebted Amount and the Debt Capitalisation

During the suspension of the trading of the Shares from 15 September 2021 to 5 May 2023, WIIHL and Mr. Pan, as the single largest shareholder and second largest shareholder of the Company, have continued to provide financial support to the Company for business development and daily operation of the Group, through themselves and/or their associates by way of the Loans.

The Debt Capitalisation offers the Group with a valuable chance of reaching a full settlement of its outstanding debt without utilizing existing financial resources of the Company and exerting pressure on the cashflow position of the Group.

Alternative financing methods considered by the Company

The Company has considered various alternatives in view of settling the Indebted Amount, including but not limited to debt refinancing and various means of equity issuance. Among the possible alternatives available to the Company, the Company considers that the Debt Capitalisation is an appropriate and cost-effective method to the Company. For debt financing, having considered the lack of security for arranging any possible debt financing, the Directors considered the Group is not in a feasible position to obtain further debt financing from financial institutions for settlement of the Indebted Amount. In this regard, the Company had approached its principal banks in exploring to obtain a loan for the settlement of the Indebted Amount and the banks did not respond positively given the Group's circumstances. In addition, the prevailing high interest rate in the debt market will also increase the interest burden of the Group. Comparing to debt financing, the Debt Capitalisation would allow the Company in avoiding further finance cost.

In respect of equity fund raising, given the relatively substantial amount of the Indebted Amount, the recent weak sentiment of the stock market and uncertain economic environment, it is difficult to procure an underwriter or a placing agent for rights issue or open offer or a placing agent for share placement which is able to raise sufficient funding for the settlement of the Indebted Amount.

Although the allotment and issue of the Capitalisation Shares will have a dilution effect on the shareholding interest of the existing Shareholders, having considered (i) the capitalisation of the Indebted Amount can discharge the settlement obligations of the Loans; and (ii) the Capitalisation Shares, when allotted and issued, will be recognized entirely as equity of the Company which in turn will enlarge the capital base, and accordingly, strengthen the financial position of the Group.

The Company also considered other equity issuance methods, such as rights issue, open offer and placing new shares to independent third parties. However, (i) given the recent unfavorable market sentiment, the Company had difficulties in sourcing investors or placing agents for equity investments with terms acceptable to the Company and amounts sufficient in settling the Indebted Amount; and (ii) although both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the

Company, given the thin trading volume of the Shares, the Company would have difficulties in sourcing underwriter with reasonable underwriting fee and subscription price of reasonable discount. The Company had approached a number of placing agents in exploring to conduct equity fundraising activities. However, the Company could not find any placing agents interested in equity fundraising activities of the Company at the moment due to various factors as disclosed above.

As such, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to preserve as much liquidity as possible in order to maintain the Group's financial and liquidity position for its business operation and development.

Improvement in the financial position of the Company

Upon Completion, the Group's net liabilities position is expected to decrease by the Indebted Amount of approximately HK\$44.8 million. For illustrative purpose, based on the Group's consolidated net liabilities of approximately HK\$63.9 million as at 31 December 2023, assuming the Debt Capitalisation and the allotment and issue of the Capitalisation Shares had taken place on 31 December 2023, the total liabilities and net liabilities of the Group will be reduced to approximately HK\$323.7 million and HK\$19.1 million respectively. Accordingly, the net gearing ratio (being net debt divided by total capital, where net debt is calculated as the sum of other borrowings, shareholders' loan, loans from fellow subsidiaries and loan from related parties, less cash and bank balances) shall be decreased from approximately 141.6% to approximately 109.6% as at 31 December 2023.

In view of the above, the Directors (other than (i) those on the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee of this circular; and (ii) Mr. Li Gang, Mr. Pan and Mr. Jiang Senlin who have material interest in the Debt Capitalisation contemplated under the Settlement Agreement) consider that the terms of the Settlement Agreement and the Debt Capitalisation are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

INTENTIONS REGARDING THE GROUP

Upon Completion, WIFHL and parties in concert with it will hold 1,014,494,603 Shares, representing approximately 70.48% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares.

WIFHL considers and confirms that (a) it is intended that the Group will continue its existing business following the Completion; and (b) there is no intention to introduce any major changes to the existing business of the Group or the continued employment of the Group's employees, and there is no intention to redeploy the fixed assets of the Group other than in its ordinary course of business.

However, given (i) certain litigation initiated by a bank in the PRC against the counterparty of certain borrowings of the Group as further disclosed under the section headed "9. Material Litigation" in Appendix III to this circular; (ii) the auditor of the Company, ZHONGHUI ANDA CPA Limited, has issued qualified opinion on the provision for repayment

obligations in relation to the Extended Loan on the consolidated financial statements of the Company for the years ended 31 December 2022 and 2023 as a result of the aforementioned litigation; and (iii) the auditor of the Company had issued qualified opinion on certain consideration receivables recorded by Yingkou Subsidiaries, WIFHL may procure the Company to consider to dispose the Yingkou Subsidiaries based on the settlement plan as detailed in the section headed “Reasons and benefits of the Debt Capitalisation” in view of settlement of any repayment obligations and resolving the qualified opinion on the consolidated financial statements of the Company.

As at the Latest Practicable Date, no agreements have been entered in relation to the disposal of the Yingkou Subsidiaries or relevant assets. In the event any settlement arrangement materialise, the Company will comply with the Listing Rules and Takeovers Code accordingly.

Dealing and interest in the Company’s securities

Save for the Capitalisation Shares to be allotted and issued by the Company to the Creditors, WIFHL and parties acting in concert with it had not dealt for value in any Shares, options, derivatives, warrants or other securities convertible into Shares during the six-month period immediately prior to the Latest Practicable Date and up to and including the Latest Practicable Date.

As at the Latest Practicable Date:

- (i) save as disclosed in the section headed “Effect on Shareholding Structure of the Company” in this circular, WIFHL and the parties acting in concert with it do not own, hold, control or have direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;
- (ii) there is no outstanding derivative in respect of the securities in the Company which has been entered into by WIFHL or any person acting in concert with it;
- (iii) there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of WIFHL and parties acting in concert it or the Shares and which might be material to the transactions contemplated under the Settlement Agreement and/or the Whitewash Waiver;
- (iv) there is no irrevocable commitment received by WIFHL and parties acting in concert with it to vote for or against the Settlement Agreement and/or the Whitewash Waiver;
- (v) there is no agreement or arrangement to which the WIFHL or any person acting in concert with it, is a party which relates to circumstances in which the WIFHL may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Settlement Agreement and/or the Whitewash Waiver;

- (vi) there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which WIFHL or parties acting in concert with it has borrowed or lent;
- (vii) there is no consideration, compensation or benefits in whatever form provided or to be provided by WIFHL or parties acting in concert with it to the Company and parties acting in concert with any of it;
- (viii) there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between WIFHL or any parties acting in concert with it on the one hand, and the Company and any parties acting in concert with any of it on the other hand;
- (ix) there is no understanding, arrangement, agreement which constitute special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholder; and (2)(a) WIFHL and any party acting in concert with it; or (b) the Company, its subsidiaries and associated companies; and
- (x) there is no agreement, arrangement or understanding that the Capitalisation Shares to be acquired by the Creditors will be transferred, charged or pledged to any other persons.

(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The existing authorised share capital of the Company is HK\$50,000,000 divided into 1,000,000,000 Shares of HK\$0.05 each. As at the Latest Practicable Date, 542,392,207 Shares are in issue and 457,607,793 Shares are authorised but unissued.

In order to (i) facilitate the completion of the Debt Capitalisation; and (ii) accommodate the growth of the Group and provide the Company with greater flexibility to raise funds in the future, the Board proposes to increase the authorised share capital of the Company from HK\$50,000,000 divided into 1,000,000,000 Shares of HK\$0.05 each to HK\$500,000,000 divided into 10,000,000,000 Shares of HK\$0.05 each by creating an additional 9,000,000,000 Shares. Such new Shares, upon issue, shall rank *pari passu* in all aspects with the existing Shares. The Board believes the Proposed Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole.

The Proposed Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM.

- (5) The ultimate beneficial owner of WIIHL and WIFHL is Mr. Li Gang. Given (i) WIFHL and WIFL were group companies in the past before 2023; (ii) Mr. Pan, through a corporation controlled by him, holds 10.00% interest in WIIHL; (iii) Longma International is a subsidiary of WIFHL; and (iv) Mr. Tang is the son of Li Gang, accordingly, WIIHL, WIFHL, WIFL, Longma International, Mr. Pan and Mr. Tang consider they are acting in concert.
- (6) Save for Mr. Li Gang (through corporations controlled by him as disclosed in this circular) and Mr. Pan, no directors of the Company holds Shares as at the Latest Practicable Date.

FUND RAISING EXERCISES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities involving issue of its securities in the past 12 months immediately preceding the Latest Practicable Date.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, WIIHL is the single largest shareholder of the Company, holding 112,789,766 Shares of the Company, representing approximately 20.79% of the issued share capital of the Company.

The ultimate beneficial owner of WIIHL is Mr. Li Gang, the Chairman and executive Director of the Company. The ultimate beneficial owner of WIFHL and Longma International is Mr. Li Gang, whereby Mr. Tang is the son of Mr. Li Gang.

Mr. Pan is an executive Director of the Company holding 33,112,281 Shares, representing approximately 6.11% of the issued share capital of the Company as at the Latest Practicable Date. Able Plus is wholly owned by Mr. Pan and his spouse.

Accordingly, WIFHL, Longma International, Mr. Tang, Mr. Pan and Able Plus are connected persons of the Company.

As such, the Debt Capitalisation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholder's approval requirements pursuant to Chapter 14A of the Listing Rules.

Save for WIIHL, Mr. Pan and Mr. Zhou, none of the Shareholders is required to abstain from voting in respect of the ordinary and special resolutions approving the Debt Capitalisation contemplated under the Settlement Agreement under the Listing Rules and the Whitewash Waiver under the Takeovers Code respectively.

The resolution approving the Settlement Agreement with respect to the Debt Capitalisation was approved at a Board meeting of the Company. Mr. Li Gang (as the ultimate beneficial owner of the WIFHL and Longma International, being part of the Creditors), Mr. Pan (as one of the Creditor), Mr. Jiang Senlin (as a director of WIFL, being one of the Creditor) have abstained from voting at the Board meeting relating to approval of the Settlement Agreement.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares on the Stock Exchange.

EGM

The EGM will be convened and held at 20/F., No. 9 Des Voeux Road West, Sheung Wan, Hong Kong on Thursday, 2 May 2024 at 3:00 p.m. for the purpose of considering and, if thought fit, approving (i) the Settlement Agreement and the transactions contemplated thereunder and the specific mandate; (ii) the Whitewash Waiver; and (iii) the Proposed Increase in Authorised Share Capital.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolution proposed at the EGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

FORM OF PROXY

A form of proxy for use at the EGM is enclosed with this circular. Whether or not Shareholders are able to attend the EGM in person, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM if they so wish and, in such event, the form of proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the list of shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 26 April 2024 to Thursday, 2 May 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 April 2024.

RECOMMENDATION

The Board considers that the proposed resolutions in relation to the Proposed Increase in Authorised Share Capital to be put forward at the EGM is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolutions to be proposed at the EGM in relation to the Proposed Increase in Authorised Share Capital.

In addition, the Directors (other than (i) those on the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee of this circular; and (ii) Mr. Li Gang, Mr. Pan and Mr. Jiang Senlin who have material interest in the Debt Capitalisation contemplated under the Settlement Agreement) consider that the terms of the Settlement Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole so far as the Independent Shareholders are concerned, and recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

WARNING

Shareholders should take note that the Completion of the Debt Capitalisation is conditional upon satisfaction of conditions precedents set out in this circular. The Whitewash Waiver is subject to the approval of the Executive and the Independent Shareholders at the EGM. The Executive and the Independent Shareholders may or may not approve the Whitewash Waiver. The Debt Capitalisation may or may not be completed depending on whether the Whitewash Waiver is approved. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, the Board would like to draw the attention of the Independent Shareholders to the qualified opinion expressed by the independent auditors of the Company on the consolidated financial statements of the Company for the year ended 31 December 2023, details of which are set out in Appendix I to this circular, and the latest status of certain material litigation of the Company as set out under the section headed “9. Material Litigation” in Appendix III to this circular, which may have an impact to the financial results of the Company in the event the investment properties held by the Group with carrying amount of approximately HK\$94.1 million as at 31 December 2023 are to be disposed in accordance to the instruction of the court in the PRC. The Independent Shareholders are advised to take into account the foregoing and consider carefully the terms of the Debt Capitalisation and the Whitewash Waiver.

Yours faithfully
By order of the Board
Enviro Energy International Holdings Limited

A handwritten signature in black ink, consisting of stylized, cursive characters that appear to be 'Li Gang'.

Li Gang