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YUHUA ENERGY HOLDINGS LIMITED

裕華能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2728)

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Announcement and the Circular in relation to, among other things, the Supply Agreement 2014 and the announcement of the Company dated 8 February 2017 in relation to the 2017 Supply and R&D Service Agreement.

Pursuant to the 2017 Supply and R&D Service Agreement, SHL, an indirect wholly-owned subsidiary of the Company, agreed to supply the speaker units to TSI and purchase the R&D Service from TSI, and TSI agreed to purchase the speakers units from SHL and provide the R&D Service to SHL for a term of one year commencing from 1 January 2017 and ended on 31 December 2017.

As the term of the 2017 Supply and R&D Service Agreement expired on 31 December 2017, on 27 March 2018, SHL entered into the 2018 Supply and R&D Service Agreement with TSI to continue the said arrangement for the period from 1 January 2018 to 31 December 2018.

Also, on 11 June 2018, SHL entered into the Finished Goods Supply Agreement with TSI, pursuant to which, TSI (or its subsidiaries) agreed to supply the speakers (finished goods) to SHL (or any of its subsidiaries), for the period from 1 July 2018 to 31 December 2018.

LISTING RULES IMPLICATIONS

During 2018 and as at the date of this announcement, Mr. Cheung is the director of SHL, an indirect wholly-owned subsidiary of the Company, while he is also the ultimate beneficial owner and a director of the TSI. Therefore, Mr. Cheung and TSI are connected persons of the Company at the subsidiary level. Accordingly, each of the transactions contemplated under the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement constitutes continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.35 of the Listing Rules, the Company must announce the connected transaction as soon as practicable after its terms have been agreed. As such, the failure by the Company to comply with the aforesaid requirement constituted breach of Rule 14A.35 of the Listing Rules.

All the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Annual Caps are more than 0.1% but less than 5%. By virtue of Rule 14A.101 of the Listing Rules, as (i) Mr. Cheung and TSI are connected persons of the Company at the subsidiary level; (ii) each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement is on normal commercial terms; (iii) the Board approved each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement; and (iv) the independent non-executive Directors confirmed that the terms of each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, thus, each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE 2018 SUPPLY AND R&D SERVICE AGREEMENT

On 27 March 2018, SHL, an indirect wholly-owned subsidiary of the Company, entered into the 2018 Supply and R&D Service Agreement with TSI for the period from 1 January 2018 to 31 December 2018.

The principal terms of the 2018 Supply and R&D Service Agreement are set out below:

- Date: 27 March 2018
- Parties:
1. SHL as supplier of speaker units and purchaser of the R&D Service; and
 2. TSI as purchaser of speaker units and provider of the R&D Service.
- Term and termination: The term of the 2018 Supply and R&D Service Agreement shall be for a period from 1 January 2018 to 31 December 2018. The 2018 Supply and R&D Service Agreement may be terminated on such other date as may be agreed between SHL and TSI.
- Nature of transactions:
- (1) Supply of speaker units by SHL or any of its subsidiaries to TSI; and
 - (2) Provision of the R&D Service by TSI to SHL or any of its subsidiaries.

Pricing basis: The purchase price for speaker units to be charged by SHL or any of its subsidiaries shall be determined on a fair basis and normal commercial terms and commercial transaction management and monitoring procedures of the Group, and shall not be less favourable than the prevailing prices that SHL or any of its subsidiaries charges its independent customers from time to time.

The service fee for the provision of the R&D Service to be charged by TSI shall be determined on a fair basis and normal commercial terms and commercial transaction management and monitoring procedures of the Group, and shall not be less favourable than the service fee that SHL or any of its subsidiaries is charged by an independent third party from time to time.

THE FINISHED GOODS SUPPLY AGREEMENT

The principal terms of the Finished Goods Supply Agreement are set out below:

Date: 11 June 2018

Parties: 1. SHL or any of its subsidiaries as purchaser of the speakers;
and
2. TSI or any of its subsidiaries as supplier of the speakers

Term and termination: The term of the Finished Goods Supply Agreement shall be for a period from 1 July 2018 to 31 December 2018.

The Finished Goods Supply Agreement may be terminated on such other date as may be agreed between SHL and TSI.

Nature of transactions: Supply of speakers by TSI or any of its subsidiaries to SHL.

Pricing basis: The purchase price for the speakers (as finished goods) to be charged by TSI or any of its subsidiaries shall be determined on a fair basis and normal commercial terms and commercial transaction management and monitoring procedures of the Group, and shall not be less favourable than the prevailing prices that TSI or any of its subsidiaries charges its independent customers from time to time.

ANNUAL CAPS AND THE BASIS OF DETERMINATION

The Annual Caps for the supply of speaker units and speakers (for both of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement) and the R&D Service was set as HK\$14 million and HK\$2.4 million respectively for the year ended 31 December 2018.

The Annual Cap for the supply of speaker units and the speakers (for both of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement) for the year ended 31 December 2018 was determined with reference to (i) the actual amount of the speaker units supplied by SHL or its subsidiaries to TSI for the three years ended 31 December 2017 which amounted to approximately HK\$22 million, HK\$12 million and HK\$7.39 million respectively; (ii) the production capacity of the Group; (iii) TSI's expected demand for speaker units projected by TSI for the year ended 31 December 2018; and (iv) SHL's expected demand for the speakers (as finished goods) projected by SHL for the year ended 31 December 2018.

The actual amount of the speaker units supplied by SHL or its subsidiaries to TSL for the year ended 31 December 2018 amounted to approximately HK\$4.02 million and the actual amount of the speakers (as finished goods) supplied by TSL or its subsidiaries to SHL for the year ended 31 December 2018 amounted to approximately HK\$9.9 million.

The Annual Cap for the R&D Service Agreement for the year ended 31 December 2018 was determined with reference to the expected cost to be incurred by the R&D department as if it is operated by SHL. The service fee in respect of the R&D Service paid to TSI was amounted to approximately HK\$1.7 million and HK\$1.85 million for the two years ended 31 December 2017.

The actual amount of the R&D Service provided by SHL for the year ended 31 December 2018 amounted to approximately HK\$2.4 million.

Reasons for and benefits of the entering into the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement

TSI and its subsidiaries are principally engaged in the trading and manufacturing of moulds, headphones and speakers whereas SHL and its subsidiaries were principally engaged in the trading and manufacturing of speakers and speaker units before the disposal of Crown Million Industries (International) Limited. TSI had been sourcing speaker units from SHL and its subsidiaries before the disposal of Crown Million Industries (International) Limited of the Group. The Directors considered that the terms of the 2018 Supply and R&D Service Agreement are on arm's length basis, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reference is made to the announcements of the Company dated 25 May 2018 and 29 May 2018 in relation to disposal of the entire interest in Crown Million Industries (International) Limited.

After the Group disposed of Crown Million Industries (International) Limited in 29 May 2018, the Group had no longer manufactured speaker units since then and needs a supplier to supply speakers for SHL's speaker trading business. Since we had engaged TSI as the R&D services provider to support the research and development of SHL's speaker trading business, the Directors was of the view that it is in the interests of the Company and the Shareholders to also engage TSI as the speaker manufacturer to supply for the speakers (as finished goods) to the SHL's existing customers.

INFORMATION ON THE GROUP

As at the date of this announcement, the Group is principally engaged in speakers trading and energy trading businesses.

INFORMATION ON TSI

TSI is principally engaged in the trading and manufacturing of moulds, headphones and speakers.

LISTING RULES IMPLICATIONS

During 2018 and as at the date of this announcement, Mr. Cheung is the director of SHL, an indirect wholly-owned subsidiary of the Company, while he is also the ultimate beneficial owner and a director of the TSI. Therefore, Mr. Cheung and TSI are connected persons of the Company at the subsidiary level. Accordingly, each of the transactions contemplated under the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

All the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Annual Caps are more than 0.1% but less than 5%. By virtue of Rule 14A.101 of the Listing Rules, as (i) Mr. Cheung and TSI are connected persons of the Company at the subsidiary level; (ii) each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement is on normal commercial terms; (iii) the Board approved the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement; and (iv) the independent non-executive Directors confirmed that the terms of each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement are fair and reasonable and that the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, each of the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors had a material interest in the transactions under the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement and needed to abstain from voting on the relevant resolution(s) in the Board meeting to approve the 2018 Supply and R&D Service Agreement and the Finished Goods Supply Agreement.

Pursuant to Rule 14A.35 of the Listing Rules, the Company must announce the connected transaction as soon as practicable after its terms have been agreed. As such, the failure by the Company to comply with the aforesaid requirement constituted breach of Rule 14A.35 of the Listing Rules.

At the time of the entering into the 2018 Supply and R&D Service Agreement, the Directors were not aware that the renewal of the 2017 Supply and R&D Service Agreement would constitute continuing connected transactions under the Listing Rules due to inadvertent mistakes. At the time of the entering into the Finished Goods Supply Agreement, the

Directors were not aware that the Finished Goods Supply Agreement would be regarded as a separate transaction. The Directors, on behalf of the Company, hereby apologize for the mistake and the delay in making this announcement.

The Directors will put in place appropriate monitoring and consultation procedures to prevent the occurrence of similar incident in future: (i) the Company will discuss and review its internal control and compliance system to identify any weakness; and (ii) all the relevant Directors and the staff involved in the continuing connected transactions and the staff responsible for compliance will attend training sessions focusing on compliance and corporate governance matters.

Save for the above, the Directors confirm that there has been no other incidence of connected transactions that the Company has failed to comply with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Announcement”	the announcement of the Company dated 21 November 2013 in relation to, among other things, the Supply Agreement 2014
“Annual Caps”	the annual caps for the transactions under the 2018 Supply and R&D Agreement together with the Finished Goods Supply Agreement
“Board”	the board of directors of the Company
“Circular”	the circular of the Company dated 8 January 2014 in relation to, among other things, the Supply Agreement 2014
“Company”	Yuhua Energy Holdings Limited (Stock Code: 2728), a company incorporated in the Cayman Islands whose Shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Finished Goods Supply Agreement”	The supply agreement dated 11 June 2018 entered into between SHL and TSI in relation to the supply of speakers (as finished goods) for the period from 1 July 2018 to 31 December 2018
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Cheung”	Mr. Cheung Wah Keung, the director of SHL and the ultimate beneficial owner and the director of TSI
“PRC”	the People’s Republic of China, excluding Hong Kong and the Macau Special Administrative Region of the PRC
“R&D Service”	the provision of services by TSI to SHL or any of its subsidiaries in connection with the research and development of headphones and speaker products
“Shareholder(s)”	the holder of Shares in the Company
“Shares”	ordinary share(s) of HK\$0.005 each in the share capital of the Company
“SHL”	Shinhint Industries Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement 2014”	the supply agreement dated 28 February 2014 and entered into between Crown Million Industries (International) Limited, an indirect wholly-owned subsidiary of the Company, as supplier and TSI as purchaser for the supply of speaker units
“2017 Supply and R&D Service Agreement”	the Supply and R&D Service Agreement dated 8 February 2017 entered into between SHL and TSI in relation to the supply of speaker units and provision of the R & D Service for the period from 1 January 2017 to 31 January 2017
“2018 Supply and R&D Service Agreement”	the Supply and R&D Service Agreement dated 27 March 2018 entered into between SHL and TSI in relation to the supply of speaker units and provision of the R & D Service for the period from 1 January 2018 to 31 December 2018
“TSI”	Tai Sing Industrial Company Limited, a company incorporated in Hong Kong
“%”	means per cent

By order of the Board
Yuhua Energy Holdings Limited
Lin Caihuo
Chairman

Hong Kong, 4 April 2019

As at the date of this announcement, the Company has two executive Directors, namely Mr. Lin Caihuo (Chairman) and Mr. Wang Enguang, and three independent non-executive Directors, namely Mr. Liu Yang, Mr. Lum Pak Sum and Mr. Xu Changyin.