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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 of the Company dated 7 April 2019 in relation to the 2018 Supply and R&D Service Agreement and the 2018 Finished Goods Supply Agreement.

Pursuant to the 2018 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 2018 and ended on 31 December 2018.

As the term of the 2018 Supply and R&D Service Agreement expired on 31 December 2018, on 1 January 2019, Max Achieve, an indirect wholly-owned subsidiary of the Company, entered into the 2019 R&D Service Agreement with TSI to continue the provision of R&D Service for the period from 1 January 2019 to 31 December 2019.

Pursuant to the 2018 Finished Goods Supply Agreement, TSI agreed to provide the speakers units to SHL, and SHL agreed to purchase the speakers units from TSI for the period from 1 July 2018 to 31 December 2018.

As the term of the 2018 Finished Goods Supply Agreement expired on 31 December 2018, on 1 March 2019, TSI entered into the 2019 Finished Goods Supply Agreement with SHL to continue the said speakers supply arrangement for the period from 1 January 2019 to 31 December 2019.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Cheung is the director of each of SHL and Max Achieve, each of an indirect wholly-owned subsidiary of the Company, while he is also the ultimate beneficial owner and a director of TSI. Therefore, Mr. Cheung and TSI are connected persons of the Company at the subsidiary level. Accordingly, each of the transactions contemplated under the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement constitutes continuing connected transaction 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 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement is on normal commercial terms; (iii) the Board approved each of the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement; and (iv) the independent non-executive Directors confirmed that the terms of each of the 2019 R&D Service Agreement and the 2019 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 2019 R&D Service Agreement and the 2019 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 2019 R&D SERVICE AGREEMENT

On 1 January 2019, Max Achieve, an indirect wholly-owned subsidiary of the Company, entered into the 2019 R&D Service Agreement with TSI for the period from 1 January 2019 to 31 December 2019.

The principal terms of the 2019 R&D Service Agreement are set out below:

Date: 1 January 2019

Parties: 1. TSI as provider of the R&D Service; and
2. Max Achieve as purchaser of the R&D Service.

Term and termination: The term of the 2019 R&D Service Agreement shall be for a period from 1 January 2019 to 31 December 2019.

Either party may terminate the 2019 R&D Service Agreement upon notice in writing if:

- i. the other is in breach of any material obligation contained in the 2019 R&D Service Agreement, which is not remedied (if the same is capable of being remedied) within 30 days of written notice from the other party so to do; or

- ii. a voluntary arrangement is approved, a bankruptcy or an administration order is made or a receiver or administrative receiver is appointed over any of the other party's assets or an undertaking or a resolution or petition to wind up the other party is passed or presented (other than for the purposes of amalgamation or reconstruction) or any analogous procedure in the country of incorporation of either party or if any circumstances arise which entitle the court or a creditor to appoint a receiver, administrative receiver or administrator or to present a winding-up petition or make a winding-up order in respect of the other party.

Nature of transactions: Provision of the R&D Service by TSI to Max Achieve.

Pricing basis: 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 Max Achieve is charged by an independent third party from time to time.

THE 2019 FINISHED GOODS SUPPLY AGREEMENT

The principal terms of the 2019 Finished Goods Supply Agreement are set out below:

Date: 1 March 2019

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 2019 Finished Goods Supply Agreement shall be for a period from 1 January 2019 to 31 December 2019.

The 2019 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 speakers and the R&D Service are set as HK\$14 million and HK\$2.4 million respectively for the year ending 31 December 2019.

The Annual Cap for the supply of speakers for the year ending 31 December 2019 is determined with reference to (i) the actual amount of the speaker units supplied by TSI or its subsidiaries to SHL for the year ended 31 December 2018 which amounted to approximately HK\$9.9 million; and (ii) SHL's expected demand for the speakers (as finished goods) projected by SHL for the year ending 31 December 2019.

The Annual Cap for the 2019 R&D Service Agreement for the year ending 31 December 2019 is determined with reference to the expected cost to be incurred by the R&D department as if it was operated by Max Achieve. The service fee in respect of the R&D Service paid to TSI was amounted to approximately HK\$1.7 million, HK\$1.85 million and HK\$2.4 million for the three years ended 31 December 2018.

Reasons for and benefits of the entering into the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement

TSI and its subsidiaries are principally engaged in the trading and manufacturing of moulds, headphones and speakers whereas SHL, Max Achieve and their subsidiaries were principally engaged in the trading and manufacturing of speakers and speaker units.

After the Group disposed of Crown Million Industries (International) Limited on 29 May 2018, the Group has no longer manufactured speaker units since then and needed a supplier to supply speakers for SHL's speaker trading business. Since we have engaged TSI as the R&D services provider to support the research and development of SHL's speaker trading business, the Directors are 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

As at the date of this announcement, Mr. Cheung is the director of each of SHL and Max Achieve, each of an indirect wholly-owned subsidiary of the Company, while he is also the ultimate beneficial owner and a director of TSI. Therefore, Mr. Cheung and TSI are connected persons of the Company at the subsidiary level. Accordingly, each of the

transactions contemplated under the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement constitutes continuing connected transaction 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 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement is on normal commercial terms; (iii) the Board approved each of the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement; and (iv) the independent non-executive Directors confirmed that the terms of each of the 2019 R&D Service Agreement and the 2019 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 2019 R&D Service Agreement and the 2019 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 have a material interest in the transactions under the 2019 R&D Service Agreement and the 2019 Finished Goods Supply Agreement and need to abstain from voting on the relevant resolution(s) in the Board meeting to approve the 2019 R&D Service Agreement and the 2019 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 2019 R&D Service Agreement, the Directors were not aware that the renewal of the 2018 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 2019 Finished Goods Supply Agreement, the Directors were not aware that the 2019 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:

“Annual Caps”	the annual caps for the transactions under the 2019 R&D Service Agreement together with the 2019 Finished Goods Supply Agreement
“Board”	the board of directors of the Company
“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
“2018 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
“2019 Finished Goods Supply Agreement”	The supply agreement dated 1 March 2019 entered into between SHL and TSI in relation to the supply of speakers (as finished goods) for the period from 1 January 2019 to 31 December 2019
“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
“Max Achieve”	Max Achieve Holdings Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Mr. Cheung”	Mr. Cheung Wah Keung, the director of each of SHL and Max Achieve 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 Max Achieve 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\$0.00125 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
“2019 R&D Service Agreement”	the R&D Service Agreement dated 1 January 2019 entered into between Max Achieve and TSI in relation to the provision of the R & D Service for the period from 1 January 2019 to 31 December 2019
“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, 8 May 2019

As at the date of this announcement, the Company has two executive Directors, namely Mr. Lin Caihuo (Chairman) and Mr. Wang Enguang, one non-executive Director, namely Mr. Wang Shou Lei and two independent non-executive Directors, namely Mr. Liu Yang and Mr. Xu Changyin.