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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)

FOURTH SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual results announcement for the year ended 31 December 2018 (the “**2018 Results Announcement**”) of Yuhua Energy Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 March 2019, the supplemental announcement of the Company dated 11 April 2019 (the “**Supplemental Announcement**”), the 2nd supplemental announcement of the Company dated 23 April 2019 (the “**2nd Supplemental Announcement**”), the 3rd supplemental announcement of the Company dated 19 July 2019 (the “**3rd Supplemental Announcement**”) and the annual report of the Group for the year ended 31 December 2018 (the “**2018 Annual Report**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the 2018 Results Announcement.

FURTHER INFORMATION ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board would like to provide further information in relation to the Company’s risk management and internal control system.

Despite the fact that the auditors of the Company were unable to assess the complete set of accounting books and records of the disposed subsidiaries, the board of directors of the

Company (the “**Board**”) believe that the Company has established and maintained an effective risk management and internal control system as disclosed in the 2018 Annual Report on the following grounds:

1. The Company has an established policy to keep all the books and records, including but not limited to financial documents, for at least 7 years.
2. The chief financial officer of the Company is required to prepare monthly management reports to the board for review.
3. When preparing the disposal of subsidiaries engaging in speaker manufacturing segment (the “**Disposal**”), legal advisors and financial advisor were engaged to provide advice to the Board on, inter alia, the compliance requirements under the Listing Rules and other applicable regulations and rules.
4. The Company has carried out an annual internal control review conducted by an independent third party in accordance with the requirements of the audit committee.

In light of the above, the Board believes that the Company has established and maintained an effective risk management and internal control system and such statement in the 2018 Annual Report is true and accurate in all material respects.

Materiality of the Disposal

Further, as at the date of the Disposal, the Board considered the Disposal was not material because:

1. the net asset value of the Group as at 31 December 2017 was approximately HK\$400 million while the net assets value of the group of companies to be disposed of (the “**Disposal Group**”) was only approximately HK\$30 million;
2. the revenue of the Group for the year ended 31 December 2017 was approximately HK\$9,500 million while the revenue of the Disposal Group was only approximately HK\$500 million.

Based on the above financial information, at the material time of the Disposal, the Board, with reasonable basis, considered that the Disposal Group was not material to the entire Group.

However, the auditor considered the Disposal was material when comparing the financial results for the year ended 31 December 2018. The net assets value as at 31 December 2018 and net profit for the year ended 31 December 2018 has significantly decreased due to impairment of prepayment of approximately HK\$280 million. Therefore, the auditor, pursuant to the relevant Hong Kong Auditing Standard, took the view that the Disposal was material and required to perform substantial audit work on the same.

The auditor required the management to provide full set of original accounting books and records of the Disposal Group for audit purpose. Since all the financial books and records were required to be handed over to the buyer upon completion of the Disposal, all documents were not in the possession of the Company.

Change of auditors

Besides, PriceWaterhouseCooper resigned and Cheng and Cheng (the “**New Auditor**”) was appointed as the Company’s auditor in February 2019. The New Auditor required additional time to review the historical information and internal control procedures and the New Auditor requested the management to provide all the accounting books and records including the Disposal Group within a short period of time and claimed that the annual results announcement would be delayed should the required documents were not available. Since the buyer was reluctant to expend the time and resources to provide the required information and documents, the Board, after considering the even more serious negative impact to the Company and Shareholders resulting from the delay in the publication of the annual results announcement, reached a consensus with the New Auditor in late March 2019 that they would express disclaim of opinion in respect of the Disposal Group in the audited financial statements of the Company for the year ended 31 December 2018.

Conclusion

In general, the Directors consider that the Company has maintained an effective internal control system because the Board has duly assessed the respective consequences for delay in the publication of annual results announcement and the disclaimer of opinion in respect of the Disposal and given the circumstances at the material time, the Board has made a prudent and informed decision to accept a disclaimer of opinion while insisting on the publication of the annual results announcement in compliance with the requirements under the Listing Rules.

Improvements

Nevertheless, the Board admits that there is still room for improvements of the internal control of the Company. The Board has implemented the following measures to enhance its internal control:

1. Strengthen the director’s knowledge on internal control and Listing Rules through training.
2. Set up an internal control committee and merger and acquisition committee and invite professionals to join the committee.
3. Engage independent professional body to advise and enhance the internal control procedures of the Company.

By Order of the Board
Yuhua Energy Holdings Limited
Yuan Hongbing
Executive Director

Hong Kong, 12 September 2019

As at the date of this announcement, the Company has three executive Directors, namely Mr. Lin Caihuo (Chairman), Mr. Chen Jinle and Mr. Yuan Hongbing, one non-executive Director, namely Mr. Wang Shoulei, and three independent non-executive Directors, namely Mr. Mr. Liu Yang, Mr. Xu Changyin and Mr. Tche Heng Hou Kevin.

** for identification purposes only*