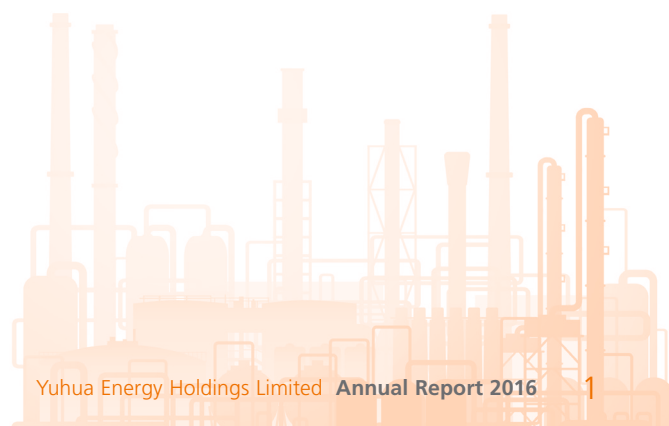


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Corporate Information

Board of Directors

Executive Directors

Mr. Lin Caihuo (*Chairman of the Board*)

Mr. Wang Enguang

Independent Non-Executive Directors

Mr. Lum Pak Sum

Mr. Liu Yang

Mr. Zhang Jiping (resigned on 1 November 2016)

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Audit Committee

Mr. Lum Pak Sum (*Chairman of the Committee*)

Mr. Liu Yang

Mr. Zhang Jiping (resigned on 1 November 2016)

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Remuneration Committee

Mr. Liu Yang (*Chairman of the Committee*)

Mr. Lin Caihuo

Mr. Lum Pak Sum

Mr. Zhang Jiping (resigned on 1 November 2016)

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Nomination Committee

Ms. Wong Yan Ki, Angel (*Chairman of the Committee*) (appointed on 1 November 2016)

Mr. Lin Caihuo

Mr. Liu Yang

Mr. Lum Pak Sum

Mr. Zhang Jiping (resigned on 1 November 2016)

Authorized Representatives

Mr. Lin Caihuo

Mr. Wang Enguang

Corporate Information

Company Secretary

Mr. Lau Wai Piu, Patrick

Auditor

Cheng & Cheng Limited (retired on 27 May 2016)
PricewaterhouseCoopers (appointed on 27 May 2016)

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office

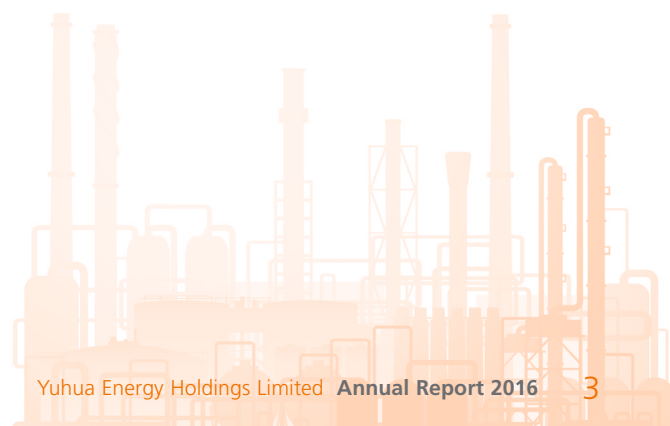
Room 2207, 22nd Floor, Harbour Centre
25 Harbour Road
Wan Chai
Hong Kong

Principal Place of Business in Hong Kong

Room 2207, 22nd Floor, Harbour Centre
25 Harbour Road
Wan Chai
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands



Corporate Information

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of Communication Co., Ltd., Xiamen Branch
The Bank of East Asia, Limited

Legal Adviser

As to Hong Kong Law
Loong & Yeung

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

Stock Code

2728 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

Website

www.yuhuaenergy.com

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Yuhua Energy Holdings Limited (the "Company"), I am pleased to report to you the audited annual results for the year ended 31 December 2016 (the "Reporting Period") of the Company and its subsidiaries (the "Group").

During the Reporting Period, the Group recorded a turnover of approximately HK\$5.92 billion, representing an increase of approximately 24.9% as compared with the corresponding period of last year. Profits attributable to the shareholders of the Company ("Shareholders") amounted to approximately HK\$24,370,000. (2015: Loss attributable to the Shareholders: approximately HK\$10,172,000). The results of the Group for this financial year are in line with our expectation.

The improvement in turnover was mainly attributable to the continuous effort of the Group in broadening and enlarging of its revenue base in the segment of energy trading. Revenue from the segment of energy trading for the reporting period was approximately HK\$5.43 billion, representing approximately 91.7% of the total revenue. On the other hand, the net profits was recorded for the Reporting Period mainly due to the absence of the one-off share based payment expenses incurred in the corresponding period of last year.

The 2016 financial year was an eventful year for me. On 4 August 2016, upon the close of mandatory conditional cash offer, I acquired a further of 218,984,332 shares of the Company ("Shares"), which increased my shareholding to a total of 455,263,278 Shares, which constituted approximately 58.85% of the total issued share capital of the Company. I became the ultimate controlling shareholder of the Group thereafter.

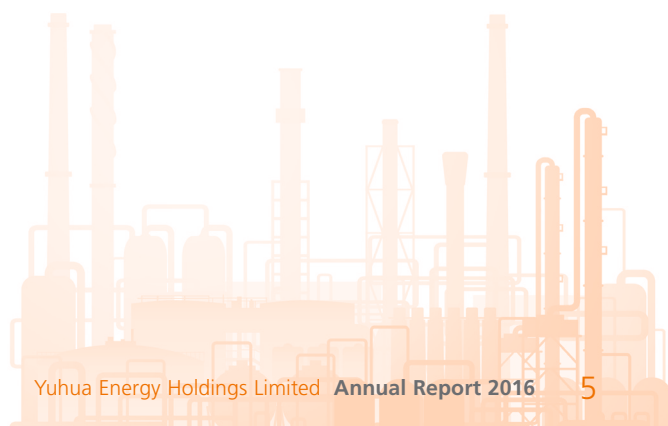
Looking ahead, I am relatively optimistic towards to the growth of the Group. The Group will actively identify and explore other business opportunities to broaden its revenue base. The Group will also cautiously search for other investment opportunities in order to enhance and improve the profitability of the Group.

Finally, I would like to take this opportunity to thank all our business partners and Shareholders for their continuing support in our Group. I would also like to express my deepest appreciation to all staff and our Board for their effort and dedication to the Group.

Lin Caihuo

Chairman of the Board

24 March 2017



Management Discussion and Analysis

BUSINESS REVIEW

During the Reporting Period, the Group was principally engaged in the manufacturing and trading business. Our activities can be categorised as (i) energy trading; and (ii) speaker units business.

Energy Trading

There was a significant improvement for the segment of energy trading. For the Reporting Period, its turnover amounted to approximately HK\$5,433,950,000 (2015: approximately HK\$4,195,566,000), representing a year-on-year growth of approximately 29.5%. The growth was mainly attributable to the increase in contribution to the revenue by Yuhua Energy (Xiamen) Company Limited* (裕華能源(廈門)有限公司) and Qianhai Yuhua Energy (Shenzhen) Company Limited* (前海裕華能源(深圳)有限公司 (which commenced trading business in June 2015 and July 2015 respectively) and the effect of full year's operation in 2016.

Speaker Units Business

The revenue from speaker units business recorded a decrease in the Reporting Period. For the Reporting Period, its turnover amounted to approximately HK\$481,478,000 (2015: approximately HK\$539,957,000), representing a decline of approximately 10.8%. The decline was mainly due to the decreased sales orders from existing customers.

In terms of geographical coverage for the combined turnover of the energy trading and speaker units business, the People's Republic of China ("PRC") was the Group's largest market, accounting for approximately 94.1% of the turnover for the Reporting Period (2015: approximately 92.2%).

FINANCIAL REVIEW

Results Performance

For the Reporting Period, the Group's revenue increased by 24.9% to approximately HK\$5,915,428,000 (2015: approximately HK\$4,735,523,000). The increase in revenue was mainly attributable to the full year's operation of certain subsidiaries involved in the energy trading business. The gross profit dropped by approximately 6.5% to approximately HK\$110,531,000 (2015: approximately HK\$118,182,000) and the Group has reported a net profit for the Reporting Period of approximately HK\$24,370,000 (2015: net loss of approximately HK\$10,172,000). The net profit of the Group for the Reporting Period, as compared with the net loss for the corresponding period of last year is mainly due to the absence of share-based payment expenses related to the grant of share option of the Company incurred in last year.

For the Reporting Period, basic earnings per share reached approximately HK3.15 cents (2015: basic loss of approximately HK1.39 cents per share). The Board did not recommend the payment of a final dividend for the Reporting Period (2015: nil).

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Liquidity and Financial Resources

As at 31 December 2016, the Group had cash and cash equivalents of about HK\$54,668,000 (2015: about HK\$30,948,000), including cash denominated in Hong Kong dollars, US dollars and Renminbi which had been converted into Hong Kong dollars and unutilized banking facilities of approximately HK\$224,706,000 (2015: approximately HK\$979,854,000). The Group's current ratio, being the proportion of total current assets against total current liabilities, was approximately 1.4 (2015: approximately 1.6).

As at 31 December 2016, the Group had bank borrowings of approximately HK\$200,112,000 (2015: approximately HK\$137,267,000) which were denominated in Renminbi. The borrowings carried interest at effective interest rate ranging from 4.785% to 5.22% per annum. The gearing ratio of the Group increased to approximately 56.3% (31 December 2015: approximately 38.8%), which is computed by dividing total borrowings of approximately HK\$200,112,000 (31 December 2015: approximately HK\$137,267,000) by Shareholders' equity of approximately HK\$355,248,000 (31 December 2015: approximately HK\$353,756,000).

Capital Expenditure

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK\$346,000, which was used in the purchase of property, plant and equipment.

Treasury Policies

The Group does not engage in any leveraged or derivative products. Consistent with this prudent approach to financial risk management, the Group has continued to work towards maintaining a healthy gearing position. Since most of the Group's assets and liabilities are denominated in HK dollars, Renminbi and US dollars and the exchange rates of such currencies were relatively stable over the Reporting Period, the Group believes that exposure to fluctuation in above currencies does not have any significant adverse effect to the Group. Nonetheless, the Group will closely monitor the foreign currency exposure and arrange for hedging facilities when necessary.

Employees

As at 31 December 2016, the Group's work force amounted to approximately 1,150 staff (2015: approximately 1,120) in Hong Kong and the PRC collectively. Staff costs (excluding directors' emoluments) amounted to approximately HK\$83,793,000 (2015: approximately HK\$133,991,000). The Group ensures that the pay levels of its employees are competitive and in accordance with market trends and its employees are rewarded on a performance basis and within the general framework of the Group's salary and bonus system. The remuneration policy of the Group is based on the merit, qualifications and competence of the individual.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Pledge on the Group's Assets

As at 31 December 2016, no assets had been pledged to secure the Group's banking facilities.

Significant investments, material acquisitions and disposal of subsidiaries, associates and joint ventures

On 15 November 2016, Yuhua Energy (Hong Kong) Limited (裕華能源(香港)有限公司), an indirect wholly-owned subsidiary of the Company (the "Purchaser"), entered into a memorandum of agreement (the "MOA") in respect of the acquisition of the vessel, named "MT ZHU MIN VICTORIA" (the "Vessel") with Great Lakes Shipping Maritime Inc. (the "Seller"). Pursuant to the MOA, the Purchaser has agreed to buy and the Seller has agreed to sell the Vessel at the consideration of US\$5,800,000 (equivalent to approximately HK\$45,240,000). For further details, please refer to the announcement of the Company dated 15 November 2016.

Save as disclosed above, there was no significant investment held, material acquisition or disposal of subsidiaries and associated companies during the year ended 31 December 2016.

Subsequent Events

(i) *Supply and R&D Service Agreement*

On 8 February 2017, Shinhint Industries Limited (成謙實業有限公司) ("SHL"), an indirect wholly-owned subsidiary of the Company, entered into the Supply and R&D Service Agreement with Tai Sing Industrial Company Limited (泰升實業有限公司) ("TSI") for the period from 1 January 2017 to 31 December 2017 in relation to the (i) supply of speaker units by SHL or any of its subsidiaries to TSI; and (ii) provision of the research and development of headphones and speaker products services (the "R&D Service") by TSI to SHL or any of its subsidiaries. As at 8 February 2017, Mr. Cheung Wah Keung ("Mr. Cheung") is the director of SHL while he is also the ultimate beneficial owner and director of TSI. Therefore, Mr. Cheung and TSI are connected persons of the Company at the subsidiary level. Accordingly, the transactions contemplated under the Supply and R&D Service Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The annual caps for the supply of speaker units and the R&D Service for the year ending 31 December 2017 are HK\$20 million and HK\$2.4 million respectively. For further details, please refer to the announcement of the Company dated 8 February 2017.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Subsequent Events *(Continued)*

(ii) Share Subdivision

On 13 March 2017, the Board proposed to subdivide every one (1) existing issued and unissued share of the Company (the "Share") of a par value of HK\$0.005 each into two (2) subdivided Shares of a par value of HK\$0.0025 each. The share subdivision will become effective upon the fulfilment of the conditions of the share subdivision. All subdivided Shares will rank pari passu with each other in all respects with the Shares in issue and the share subdivision will not result in any change in the relevant rights of the Shareholders. The Shares are currently traded in board lot size of 4,000 Shares. Upon the share subdivision becoming effective, the board lot size of the subdivided Shares for trading on the Stock Exchange will remain unchanged with 4,000 subdivided Shares for each board lot. For further details, please refer to the announcement of the Company dated 13 March 2017.

Save as disclosed above, there was no important event affecting the Group that has occurred since the end of 31 December 2016.

Mandatory Cash Offer

On 26 May 2016, Mr. Lin Caihuo (the "Offeror") completed the acquisition of 28,000,000 Shares, representing approximately 3.62% of the entire issued share capital of the Company as at 26 May 2016 at an aggregate consideration of HK\$26,040,000, equivalent to HK\$0.93 per Share (the "Share Acquisition"). As at 23 May 2016, the Offeror and the parties acting in concert with him owned, controlled or had direction over 209,418,946 Shares, representing approximately 27.07% of the total issued share capital of the Company as at 23 May 2016. Immediately following the completion of the Share Acquisition, the Offeror and the parties acting in concert with him were interested in a total of 237,418,946 Shares, representing approximately 30.69% of the total issued share capital of the Company as at 23 May 2016. The Offeror thus became a controlling shareholder (as defined in the Listing Rules) of the Company upon completion of the Share Acquisition.

Subsequently, Brilliant Norton Securities Company Limited (億聲證券有限公司), on behalf of the Offeror, had therefore made the mandatory conditional cash offer pursuant to the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong for all the issued Shares not already owned or agreed to be acquired by the Offeror and the parties acting in concert with him (the "Share Offer") and for cancellation of all outstanding share options to subscribe for Shares granted by the Company in accordance with the share option scheme adopted by the Company on 25 June 2005 (the "Option Offer").

For details of the Share Acquisition, the Share Offer and the Option Offer, please refer to the joint announcements of the Offeror and the Company dated 23 May 2016, 26 May 2016, 13 June 2016, 22 June 2016, 11 July 2016, 21 July 2016 and 4 August 2016 and the composite offer and response document and circulars dated 11 July 2016 jointly issued by the Offeror and the Company.

Management Discussion and Analysis

PROSPECTS

On 30 September 2016, the Company entered into a letter of intent with an independent third party in relation to the potential disposal of the entire issued share capital in Crown Million Industries (International) Limited (冠萬實業(國際)有限公司) (the “Target Company” together with its subsidiaries, collectively the “Target Group”). The Target Group is principally engaged in investment holding, producing and trading of home theatre and automotive speaker systems.

Taking into consideration the modest development of the speaker unit segment and the Group does not have any intention to allocate further resources to this segment, the Company is of the view that this potential disposal will provide an appropriate opportunity for the Company to reallocate resources to energy trading segment as well as other business opportunities to achieve further business growth.

On the other hand, the Group intends to further expand the development of the energy business and improve the overall resource configuration of the Group. The Company acquired the Vessel during the year and intended to provide transportation services for the Group to carry out international businesses for the coming year.

At the same time, in order to expand the upstream and downstream of the business and achieve the Company’s goal of becoming an integrated global energy supply chain service provider, Yuhua Energy (Zhangzhou) Co., Ltd* (裕華能源(漳州)有限公司), an indirect wholly owned subsidiary of the Company entered into a project framework agreement with the Administrative Committee of Fujian Zhangzhou Gulei Port Economic Development Zone, pursuant to which the parties thereto agreed to form a cooperation relationship in relation to the investment and construction on (i) the storage and wholesale of crude oil, chemical raw materials and refined oil; (ii) the petrochemical commercial repository; and (iii) the logistics projects in Fujian Zhangzhou Gulei Port Economic Development Zone.

Looking forward, the Group will continue to develop its energy trading business in all aspects. In addition, the Group will also explore other investment opportunities that are beneficial to the Shareholders.

* *For identification purposes only*

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance and has put in place self regulatory corporate practices to protect the interests of the Shareholders and the enhancement of Shareholders' value. Our mission in terms of corporate governance is to provide high-quality products and services to the satisfaction of our customers and maintain high standards of business ethics and achieve these goals while, at the same time, providing satisfactory and sustainable returns to Shareholders.

In addition, the Group acts in a socially responsible manner through a variety of initiatives and considers this as a part of its overall commitment to good corporate governance.

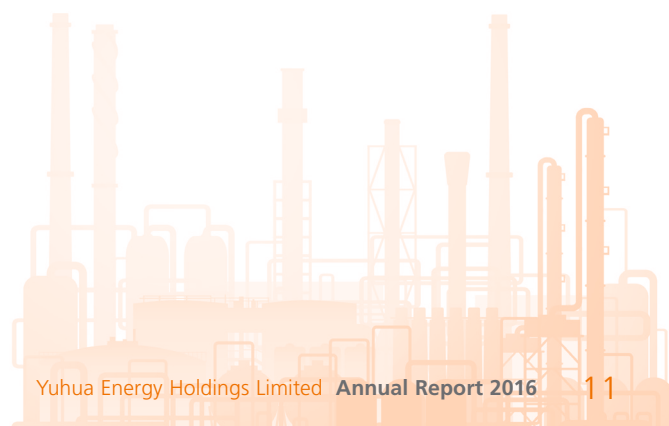
The Company has a Code of Business Conduct that sets out principles, values and standards of conduct expected of management and staff throughout the Group, and underpins our operating procedures and policies.

The Company has, throughout the Reporting Period, applied and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") of Appendix 14 of the Listing Rules, except for certain deviations disclosed below and in the paragraph headed "Chairman and Chief Executive Officer".

Code provision A.6.7 of the CG Code stipulated that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. Mr. Zhang Jiping, an independent non-executive Director (who had resigned from directorship with effect from 1 November 2016), was unable to attend the annual general meeting of the Company held on 27 May 2016 due to other commitments.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. On specific enquiries made by the Company, all Directors have confirmed that they have fully complied with the required standards set out in the Model Code throughout the Reporting Period.



Corporate Governance Report

Board of Directors

Composition

The Directors who hold office during the Reporting Period and as at the date of this annual report are as follows:–

Executive Directors

Mr. Lin Caihuo (*Chairman of the Board*)

Mr. Wang Enguang

Independent Non-Executive Directors

Mr. Lum Pak Sum

Mr. Liu Yang

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Mr. Zhang Jiping (resigned on 1 November 2016)

The biographical details of the Directors are set out in the section headed “Biographical Details of Directors” on pages 33 to 35 of this annual report. There is no relationship (whether financial, business, family or other material or relevant relationships) amongst members of the Board, senior management or substantial shareholder or controlling shareholder of the Company.

The composition of the Board is well balanced with each Director having extensive corporate and strategic planning experience, sound industry knowledge and/or professional expertise. All independent non-executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio between executive Directors and independent non-executive Directors is reasonable and appropriate. The Board also believes that the participation of independent non-executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all Shareholders and the Group are considered and safeguarded.

Role and Function

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group and to ensure the availability of resources as well as the effectiveness of its system of internal control.

Implementation and execution of the policies and strategies formulated by the Board and the daily operations are delegated from the Board to the management of the Company. In addition, an audit committee (the “Audit Committee”), a remuneration committee (the “Remuneration Committee”) and a nomination committee (the “Nomination Committee”) were set up to assist the Board in fulfilling certain responsibilities. Further details of these committees are set out in the section headed “Board Committees” of this annual report.

Corporate Governance Report

Board of Directors *(Continued)*

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulated that the roles of chairman of the board (the “Chairman”) and chief executive officer (the “CEO”) should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The role of Chairman is assumed by Mr. Lin Caihuo. The Chairman formulates the overall strategic direction of the Group. The Company did not appoint any CEO throughout the Reporting Period. The role of the CEO has been performed collectively by all the executive Directors. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company’s policies and strategies and in the interests of the Shareholders as a whole. The Board shall nevertheless review the structure from time to time and consider appropriate adjustment if suitable circumstance arise.

Independence of Independent Non-Executive Directors

Pursuant to the requirement of Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, one of whom has appropriate professional qualification in accounting and financial management expertise. All independent non-executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company and the Board considers that all independent non-executive Directors have satisfied their independence of the Group.

Directors’ and Officers’ Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors’ and officers’ liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

Board Meeting

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group’s annual and interim results. The Directors had participated in the Board meetings as indicated below. For those Directors who could not attend these meetings in person, they participated through electronic media.

Mr. Lau Wai Piu, Patrick has been appointed as the company secretary of the Company (the “Company Secretary”) and assisted the Chairman in setting the agenda for Board meetings and all Directors are given opportunities to include any matters for discussion in the agenda for regular Board meetings. Notice of Board meetings were given to all Directors at least 14 days prior to the date of the regular Board meetings.

Corporate Governance Report

Board of Directors *(Continued)*

Board Meeting *(Continued)*

All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. Draft minutes of Board meetings and meetings of the Board committees are circulated to all Directors for comment and approval as soon as practicable after the meetings. Minutes of Board meetings and meetings of Board committee are kept by the Company Secretary and all Board members are given a copy of the minutes for their record. Should a matter being considered involve a potential conflict of interest of a Director, the Director involved in the transaction would be requested to leave the boardroom and abstain from voting. The matter would be discussed and resolved by other Directors. Policy is in place that Directors, upon reasonable request, may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

During the Reporting Period, the number of meetings, including Board meetings, Board committees' meetings and annual general meeting held and the attendance by each Director is as follows:

	Meetings Attended				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Number of meetings held during the year	7	3	1	1	1
<i>Executive Directors</i>					
Mr. Lin Caihuo	7	N/A	1	1	1
Mr. Wang Enguang	7	N/A	N/A	N/A	1
<i>Independent Non-Executive Directors</i>					
Mr. Liu Yang	6	3	1	1	1
Mr. Lum Pak Sum	7	3	1	1	1
Ms. Wong Yan Ki, Angel ⁽¹⁾	1	–	–	–	–
Mr. Zhang Jiping ⁽²⁾	5	3	1	1	–

Note:

(1) appointed on 1 November 2016

(2) resigned on 1 November 2016

The number of board meetings held since the appointment of Ms. Wong Yan Ki, Angel was one.

Corporate Governance Report

Directors' Terms of Appointment

All Directors are appointed for a term of three years and are subject to the requirement of retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the articles of association of the Company (the "Articles of Association").

Directors' Training

Revised Code Provision A.6.5 of the CG Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remain informed and relevant.

All Directors are encouraged to participate in continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. A summary of professional training received by Directors for the Reporting Period according to the records provided by the Directors is as follows:

	Attending seminar(s)/ programme(s)/conference(s) and/or reading materials relevant to the business or directors' duties
Mr. Lin Caihuo	✓
Mr. Wang Enguang	✓
Mr. Liu Yang	✓
Mr. Lum Pak Sum	✓
Ms. Wong Yan Ki, Angel	✓

Board Diversity Policy

During the year, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

Corporate Governance Report

Board Committees

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee with specific terms of reference.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The Audit Committee currently consists of three independent non-executive Directors, namely, Mr. Liu Yang, Mr. Lum Pak Sum and Ms. Wong Yan Ki, Angel. The chairman of the Audit Committee is Mr. Lum Pak Sum, who possesses the appropriate professional accounting qualification and financial management expertise.

During the Reporting Period and as at the date of this report, the members of the Audit Committee were as follows:–

Members of the Audit Committee

Mr. Lum Pak Sum (*Chairman of the Committee*)

Mr. Liu Yang

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Mr. Zhang Jiping (resigned on 1 November 2016)

The terms of reference of the Audit Committee follow the code provisions set out in the CG Code and are available on the website of the Company and the Stock Exchange.

The Audit Committee held three meetings in 2016. Details of attendance of the meetings of the Audit Committee are set out above. The following matters were dealt with at the said meetings or by way of written resolutions:

- reviewing the consolidated financial statements for the year ended 31 December 2015 and the annual results announcement;
- reviewing the interim consolidated financial statements for the six months ended 30 June 2016 and the interim results announcement;
- reviewing the significant audit and accounting issues arising from the external auditor's audit;
- considering the appointment of the external auditor and their audit fees;
- meeting with the external auditor without the presence of management to discuss issues arising from the audits and any other matters the auditor might wish to raise;

Corporate Governance Report

Board Committees *(Continued)*

Audit Committee *(Continued)*

Members of the Audit Committee *(Continued)*

- reviewing the development in accounting standards and the Group's response, including the preparation for adoption of Hong Kong Financial Reporting Standards;
- reviewing the Company's compliance with regulatory and statutory requirements; and
- reviewing the Group's risk management procedures and internal control system and the effectiveness of the Company's internal audit function.

The annual results for the Reporting Period have been reviewed by the Audit Committee before submission to the Board for approval.

Remuneration Committee

The Remuneration Committee currently consists of three independent non-executive Directors, namely Mr. Liu Yang (Chairman), Mr. Lum Pak Sum and Ms. Wong Yan Ki, Angel and one executive Director, namely Mr. Lin Caihuo.

During the Reporting Period and as at the date of this report, the members of the Remuneration Committee were as follows:–

Members of the Remuneration Committee

Mr. Liu Yang *(Chairman of the Committee)*

Mr. Lin Caihuo

Mr. Lum Pak Sum

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Mr. Zhang Jiping (resigned on 1 November 2016)

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of executive Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. They have the delegated responsibility to determine the remuneration packages of individual executive Directors and senior management of the Company. The terms of reference of the Remuneration Committee follow the code provisions set out in the CG Code and are available on the website of the Company and the Stock Exchange.

In order to attract and retain staff of suitable calibre, the Group provides a competitive remuneration package. This comprises salary and provident fund. Although the remuneration of these executives is not entirely linked to the profits of the Company or division in which they are working in, it is considered that, given the volatility of various businesses within the Group, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company.

Corporate Governance Report

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

Members of the Remuneration Committee *(Continued)*

During the Reporting Period, the Remuneration Committee held one meeting. Details of attendance of the meeting of the Remuneration Committee are set out above. The following matters were dealt with at the said meeting or by way of written resolutions:

- to review and discuss the remuneration packages for the Directors and senior management of the Company;
- to consider and approve the remuneration packages for the proposed Directors; and
- to review and approve the employees' salary increments proposal.

No member took part in voting on his own remuneration at the meeting.

The remuneration of members of the senior management (including all executive Directors) by band for the Reporting Period is set out below:

Remuneration bands (HK\$)	Number of person(s)
0 to 1,500,000	3
Over 1,500,000	–

Nomination Committee

The Nomination Committee currently consists of three independent non-executive Directors, namely, Mr. Liu Yang, Mr. Lum Pak Sum and Ms. Wong Yan Ki, Angel (Chairman) and one executive Director, namely, Mr. Lin Caihuo.

During the Reporting Period and as at the date of this report, the members of the Nomination Committee were as follows:–

Members of the Nomination Committee

Ms. Wong Yan Ki, Angel (*Chairman of the Committee*) (appointed on 1 November 2016)

Mr. Lin Caihuo

Mr. Liu Yang

Mr. Lum Pak Sum

Mr. Zhang Jiping (resigned on 1 November 2016)

Corporate Governance Report

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Members of the Nomination Committee *(Continued)*

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, make recommendations to the Board on the appointment or re-appointment of Directors and assess the independence of independent non-executive Directors. The terms of reference of the Nomination Committee follow the code provisions set out in the CG Code and are available on the websites of the Company and the Stock Exchange.

In considering the new appointment or re-election of Directors, the Nomination Committee will take into consideration the expertise, experience and integrity of that appointee.

During the Reporting Period, the Nomination Committee held one meeting. Details of attendance of the meeting of the Nomination Committee are set out above. The following matters were dealt with at the said meeting or by way of written resolutions:

- to consider the proposed appointment of Directors;
- to assess the independence of the independent non-executive Directors;
- to consider the re-election of Directors; and
- to review the composition of the Board.

No member took part in voting on his re-election of Director at the meeting.

Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties as set out below:

- a. to develop, approve and review the Company's policies and practices on corporate governance;
- b. to review the Company's overall corporate governance arrangements;
- c. to review and monitor the training and continuous professional development of Directors and senior management;
- d. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- e. to develop, review and monitor the code of conduct and compliance (if any) applicable to the Directors and employees; and
- f. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Corporate Governance Report

Control Mechanisms

The Board acknowledges its responsibility in maintaining a sound and effective internal control system for the Group to safeguard Shareholders' investments and assets of the Company at all times.

Risk Management and Internal Control

The Board is responsible for the establishment, maintenance and review of the Group's system of internal controls and risk management throughout the Reporting Period and their effectiveness. The Company has engaged an independent professional advisory firm (the "Independent Advisor") to review the effectiveness and adequacy of risk management and internal control systems for the Reporting Period so as to ensure the effectiveness and adequacy of risk management and internal controls system. The Independent Advisor had reviewed and analysed all material controls of the Group, including financial, operational and compliance controls and their associated risks. The relevant reports from the Independent Advisor were presented to and reviewed by the Audit Committee and the Board. The internal audit service was also provided by the Independent Advisor.

The Board considered the risk management and internal control systems of the Group to be adequate and effective for the Reporting Period. The Board also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget which are considered to be adequate for the Reporting Period.

The Board wishes to emphasise that risk management and internal control systems are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and Internal Controls for the handling and dissemination of inside information

The Group strictly follows the requirements of the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable unless the information falls within any of the safe harbours of the SFO. Before inside information is fully disclose to the public, such information is kept strictly confidential. In addition, the Group adopted the policy of disclosing relevant information only to appropriate staff within the Group.

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Company for the Reporting Period and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements.

The statement of the external auditor of the Company with regard to their reporting responsibilities on the Company's consolidated financial statements, is set out in the Independent Auditor's Report on pages 49 to 54 of this annual report.

Corporate Governance Report

Directors' Responsibility for the Consolidated Financial Statements *(Continued)*

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Company not to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

Auditor's Remuneration

For the Reporting Period, services provided to the Company by its external auditor, Messrs. PricewaterhouseCoopers, and the respective fees paid were:

	2016 HK\$'000	2015 ⁽¹⁾ HK\$'000
Audit services	1,480	560
Non-audit services	–	7

Note

(1) For the year ended 31 December 2015, the external auditor of the Company was Messrs. Cheng & Cheng Limited

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Corporate Governance Report

Shareholders may at any time put forward their enquiries (including the procedures for putting forward proposals at general meetings of the Company) to the Board in writing through the Company Secretary whose contact details are as follows:

Yuhua Energy Holdings Limited
Room 2207, 22/F, Harbour Centre
25 Harbour Road, Wanchai
Hong Kong

Tel No.: (852) 3579 4636
Fax No.: (852) 3579 4833

Procedures for Putting Forward Proposals at General Meetings by Shareholders

Pursuant to article 88 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Investor Relations and Communication with Shareholders

The Board established a Shareholders' communication policy to ensure that Shareholders and potential investors are provided with ready, equal and timely access to information of the Company.

The Company has maintained a corporate website at www.yuhuaenergy.com through which the Company's updated financial information, business development, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the Shareholders and investors.

The annual general meeting also provides an important opportunity for constructive communication between the Board and Shareholders. The Chairman, members of the Board and external auditor attended the annual general meeting held on 27 May 2016 to answer questions raised by the Shareholders.

Constitutional Documents

There has been no material change in the Company's constitutional documents during the Reporting Period.

Environmental, Social and Governance Report

About this Report

This report is the first Environmental, Social and Governance (the “ESG”) Report (the “ESG Report”) published by the Group, which discloses our practices and performance on sustainable development in a transparent and open manner, in order to increase our stakeholders’ confidence and understanding in the Group.

Reporting Year

All information contained herein reflects the performance of the Group on environmental protection and social responsibility from 1 January 2016 to 31 December 2016. Subsequently, the Group will publish an annual ESG Report on a regular basis, which will be available for public inspection at any time, so as to continuously enhance the transparency of information disclosure.

Scope of the Report

The report focuses on the operation of the Group at its principal place of business, that is, operations relating to energy trading business at the Head Office in Xiamen, whereas other businesses, such as the speaker units business, are not included¹. The scope of disclosure will be expanded gradually to cover all of our operations upon further development of the Group’s ESG practices and the finalization of our data collection system. This Report does not include the disclosure of environmental key performance indicators. The Group will conduct a carbon assessment next year to further optimize and standardize the reporting metrics.

Reporting Standards

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) issued by the Stock Exchange. It summarizes the performance of the Group on ESG aspects in a simplified manner. The information contained herein is sourced from the official documents and statistics of the Group, as well as the consolidated information on supervisory, management and operations provided by members of the Group in accordance with the relevant policies of the Company. Pages 31 to 32 set out the index for your ease of reference. This report is prepared in both Chinese and English and is available on the Group’s website www.yuhuaenergy.com. In the event of any inconsistency, the Chinese version shall prevail.

Feedback

Our continuous improvements rely on your valuable opinions on the contents and presentation of this Report. If you are in doubt or have any recommendations in regard to this report, you are welcome to email us at info@yuhuaenergy.com. Your advice will assist the Group in constantly enhancing its ESG performance.

¹ This Report covers the wholly-owned subsidiaries of the Company, namely Fujian Fuhua Energy Company Limited* (富華(福建)能源有限公司), Qianhai Yuhua Energy (Shenzhen) Company Limited* (前海裕華能源(深圳)有限公司), and Yuhua Energy (Xiamen) Company Limited* (裕華能源(廈門)有限公司).

* For identification purpose only

Environmental, Social and Governance Report

Stakeholder Communication

The Stock Exchange proposed four reporting principles in the Guide, including Materiality, Quantitative, Balance and Consistency, as the preparation basis of the ESG Report. As stated by the Stock Exchange, stakeholder engagement is a widely-employed method for assessing materiality. By communicating with the stakeholders, corporations are able to understand their wide ranging opinions, and identify crucial environmental and social issue.

For the Group, stakeholders refer to groups and individuals who have significant influence over the Group's business, or those who are affected by the Group's business. The Group's stakeholders include not only internal staff, management, directors, but also external customers, business partners, investors, regulators and various community groups. In the past year, we communicated with stakeholders in various ways. In preparation of this report, the Group engaged a professional consulting firm to conduct a substantive analysis by interviewing with the management, and incorporating the advices of professional consultants to clarify important reporting issues and to determine the direction of the Group's sustainable development.

Methods of Communications with the Stakeholders during the Reporting Period

Internal stakeholders

- Directors of the Company
- The Management
- Executive officers
- General staff

External stakeholders

- Shareholders
- Banks

Methods of communications:

Meetings, emails, teleconferences, interviews, trainings, annual and extraordinary general meetings, annual report

The operations of the Group are affecting different stakeholders in different ways, while stakeholders in turn have various expectations towards the Group. Looking ahead, for a more refined substantive analysis, the Group will continuously strengthen its communications with stakeholders, and extensively collect their opinions in numerous ways. In the meantime, the Group will also enhance the reporting principles in terms of quantitative, balance and consistency, in order to define the contents in the report and the presentation of information in a way that is more likely to meet the stakeholders' expectations.

Environmental, Social and Governance Report

Emissions and Efficient Use of Resources

With the Paris Agreement coming into effect, the global energy landscape is undergoing a profound transformation. To achieve the goals set forth in the Paris Agreement, 195 countries, the PRC included, are gradually reducing the use of fossil fuel as a source of energy.

In November 2016, the Paris Agreement officially came into effect, aiming to limit the rise in global temperature to 2°C from the pre-industrial levels by the end of the century, with an ultimate goal of curbing the rise to below 1.5°C.

The Group conducts its energy trading business mainly in the PRC, and the business has contributed significantly to the Group's revenue. However, given the possibility that regulators will impose resource tax and consumption tax on fossil fuels or adopt other regulatory measures to reduce and eventually terminate the use of fossil fuels, the Group may have to face the threat of increasing cost. In light of this, the Group focuses on switching to a low-carbon operation model and exploring other sustainable investment opportunities to cope with the changes in the international trend.

In addition to adjusting the business development strategy, the Group is also devoted to applying green office practices in our daily operations. One of the resource consumptions that is closest related to operations in the Head Office is power use. The Group makes energy saving one of the disciplinary requirements under the "Office Management Regulations of Yuhua Energy", expressly requiring that employees turn off idling lights, computers, air conditioners and other electrical appliances to reduce energy consumption.

Another resource heavily consumed by the Group in office operations is paper. The Group encourages employees to curb paper consumption by establishing the Office Management Regulations of the Group on Reducing Paper Consumption, and by posting reminders in the offices. The Regulations specify the methods used to reduce office paper consumption, including double-sided printing, transferring files through the Internet whenever possible, and resizing the fonts and margin. Employees are also encouraged to develop the habit of using less papers in their daily routines. In addition to cutting down waste at the source, the Group requires that recycled paper is used for printing name cards or envelopes whenever possible. The Group also puts recycling bins in the office to recycle paper that is not fit for use. To ensure that the Regulations are properly observed, the Group has appointed dedicated employees to control paper use so as to avoid waste of resource.

The Group's office in Xiamen engages in trading business. Therefore, the Group's daily operations do not involve a large amount of pollutants such as exhaust gas emissions and wastewater discharge. During the Reporting Period, the Group did not identify any non-compliance cases involving emissions. However, the Group understands that reducing the emission of greenhouse gas is the most important countermeasures against climate change, and carbon footprint assessment provides a foundation for reducing greenhouse gas emissions. Although carbon footprint assessment has not been performed for the Group's current operations, it has been included in the Group's work plan for 2017. The Group will measure its greenhouse gas emission annually as the first step towards carbon reduction and from there set forth its carbon reduction target and priority to ensure that carbon reduction is carried out in a more efficient manner.

Environmental, Social and Governance Report

Emissions and Efficient Use of Resources *(Continued)*

The Group's core business, i.e. energy trading, is closely related to the environment and natural resources. The Group will incorporate environmental and social considerations into its products and services to explore business opportunities for sustainable development.

Strict Monitoring of Supply Chain

In a globalized economy, business outsourcing is the norm for companies. However, outsourcing does not mean that a company can escape its responsibilities or risks arising from poor ESG performance. The Group understands that we should play a part in every stage of the entire life cycle of its products and services, and the proper management of the supply chain is critical for the Group to maintain its reputation, ensure business sustainability, and manage operating costs.

The Group has established a supply chain management system that bases supplier selection on quality, capability, service, environmental protection and work safety. Before engaging new suppliers, staff members of relevant departments are required to examine their qualifications and complete the Supplier Examination Form. Considerations for acceptance include whether the supplier is subject to any complaint, punishment or legal dispute. Only institutions that meet all the requirements upon examination can be selected by the Group as its qualified service provider.

The Group maintains long-term cooperative relationship with key suppliers at strategic level, establishes supplier profiles and assesses the performance of each supplier. In its day-to-day operations, the Group meets with the suppliers on a regular basis to have a better understanding of their operations and share industry updates and market information, in order to ensure a smooth exchange of information for timely management. In the future, the Group will consider incorporating environmental and social factors into its supply chain management, requiring our business partners to attach more importance to their performance on sustainable development.

Amid fierce competition in the current market environment, customers have become increasingly demanding on products and services. The Group understands that customers place much emphasis on the quality of energy products provided by the Group. Therefore, the Group must keep up the good quality in order to maintain its reputation and secure the long-term support of its customers. As an energy trader, the Group ensures that all of the products it purchases and sales comply with international and national laws and regulations.

Environmental, Social and Governance Report

Strict Monitoring of Supply Chain *(Continued)*

As oil products are dangerous goods under statutory regulations, the Group pays special attention to safe operations in such processes as loading, transporting and warehousing during trading. Pursuant to the Regulations on the Safe Management of Hazardous Chemicals, the Group properly stores oil products in dedicated warehouses, dedicated premises, or dedicated storage rooms equipped with fire extinguishing installation and communication and alarm devices in accordance with fire control regulations to prevent accidents. Furthermore, the Group provides “Training for Personnel-in-charge and Safety Managers on Hazardous Chemicals” annually, and conducts examinations and tests after the training to ensure that employees understand the procedures and practices for handling dangerous goods, so that they can react instantly in case of accident. During the Reporting Period, the Group has not identified any non-compliance cases involving product responsibility.

The Group believes that operation in good faith is not only the foundation of corporate social responsibility, but also the cornerstone of corporate competitive advantage and on-going operations. In addition to compliance with the Company Law, the Criminal Law and Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》), the Group has also developed the “Anti-commercial Bribery Management System of Yuhua Energy” to clearly specify the respective duties and code of conduct for the management, procurement personnel, sales personnel, accountants and cashiers. The Group has a whistle-blowing mechanism in place to ensure that reported cases are heard by the head of responsible departments, who shall keep information about the informant confidential and earnestly handle any alleged cases. During the Reporting Period, the Group was not subject to anti-bribery proceedings in which the Group and its employees were involved.

Comprehensive Employment System

The Group considers its staff as one of the most valuable assets as well as the building block of its development. The remunerations and benefits provided by the Group are in compliance with state laws and regulations, and are no less than statutory minimum wages under any circumstances. Upholding the philosophy of “maintaining balance between employee benefits and shareholder interests”, the Group provides competitive overall remunerations for its employees. After one year of service with the Group, employees will be assessed for their capabilities and performance, and provided with opportunities for salary raise or promotion if appropriate. Attracting and retaining outstanding talents drive the sustainable development of the Company. With respect to benefits, the Group treats every employee equally, regardless of their ranks. So far, the Group has not developed any internal policies on equal opportunities or anti-discrimination. However, the Group will consider optimizing its systems in the near future to provide a more equitable working environment for its employees.

The Group is committed to creating an environment where our staff can achieve a work-life balance. In addition to strictly abiding by the state requirements for employee working hours and providing employees with statutory holidays, the Group would grant extra holidays to employees to meet the needs of their personal life. For example, employees who have served the Group for over two years are entitled to paid maternity leaves. During the Reporting Period, the Group did not identify any non-compliance cases involving employment and labor practices.

Environmental, Social and Governance Report

Comprehensive Employment System *(Continued)*

Summary of Employment Performance Indicators

		Aged under 30	Aged 30-50	Aged over 50	Total employees	Male to female ratio
Number of Employees	Male	4	13	0	17	1.1:1
	Female	5	10	0	15	

Ratio of Average Remuneration between Male and Female

Average Employee
Remuneration

1.03:1

		Aged under 30	Aged 30-50	Aged over 50	Total new employees	Percentage of new employees to total number of employees
New Employees	Male	0	0	0	0	6.3%
	Female	2	0	0	2	

		Aged under 30	Aged 30-50	Aged over 50	Total resigned employees	Percentage of resigned employees to total number of employees
Resigned Employees	Male	2	5	1	8	37.5%
	Female	1	3	0	4	

No employee at the Head Office of the Group is engaged in high risk works. Nevertheless, the Group prescribes rules on safety management in the Employee Manual, aiming at creating a safe and comfortable working environment for our employees. Also, the Group places fire extinguishers in the office and performs regular checkup on the extinguishers on a monthly basis. The Group provides employees with training on how to use the extinguisher, and promotes employees' safety awareness and their reaction in case of an emergency evacuation. During the Reporting Period, the Group did not identify any non-compliance cases involving health and safety.

Environmental, Social and Governance Report

Comprehensive Employment System *(Continued)*

Summary of Health and Safety Performance Indicators of Employees

	Number of work injury cases	Rate of work injury (per thousand employees)	Number of working days lost due to work injury	Working days	Percentage of working day lost due to work injury	Total hours of absence	Total working hours	Total absence rate
Male	0	0	0	4420	0%	1010	35360	4.25%
Female	0		0	3900		1820	31200	

The Group strongly believes that the cultivation and retention of talents is the core of our development and is essential in strengthening the competitiveness of the Group. The Group considers the staff as its strategic partners and provides various and specific in-house training courses to enhance their know-how and skills. To address the actual needs of different departments and roles, the Group provides targeted trainings, including onboarding training for new employees, business etiquette training, corporate culture and system learning, introduction to product knowledge and features of all product lines, business negotiation and management skills, to allow continuous improvement for employees in work skills and professional capabilities.

2016 Our Corporate Training Programme

Training Program/Contents	Trainee	Form of Training	Time
New employee training	New employees	Internal training	The 5th day of each month
Business etiquette training	All personnel	External instructor, Internal training	Quarterly
Corporate culture and system learning	All personnel	Internal training	March
Introduction to product knowledge and features for all product lines, business process, business negotiation	All personnel from the sales department	External instructor, Internal training	Quarterly
Management capabilities and skills	Business personnel, middle management	Self-study, discussion	All year round
Customer maintenance and expansion	All personnel from the sales department	Internal training	Quarterly

Environmental, Social and Governance Report

Comprehensive Employment System *(Continued)*

The Group fully understands that employing child labor and forced labor is a violation of basic human rights and international labor conventions, and poses threats to the sustainable development of the society and economy. Therefore, the Group is strictly in compliance with the Labor Law of the People's Republic of China. The Group will abide by standard labor contracts instead of setting restrictions on the employment relations between any employee and the Company in any way, and child labor is prohibited in the Group. Subject to the relevant laws and regulations, employees have the right to terminate the labor contracts on their own account. During the Reporting Period, the Group did not identify any non-compliance cases involving child labor and forced labor.

International Labor Organization, a specialized agency of the United Nations, establishes labor standards through international labor conventions and proposals to improve working and living standards around the world. The PRC is a founding member and a permanent member of International Labor Organization. At present, there are 41 international labor conventions applicable to matters such as working conditions and employment policies in Hong Kong.

Community Investment

As market concerns about corporate behavior and the "Social License to Operate" escalate, the pursuit of short-term and maximum financial performance to reward shareholders is no longer the only goal of business management. The Group cherishes its harmonious relationship with the communities where it operates. The Group supports a variety of programs in the communities, including academic research and education, community environmental protection and construction, and cultural exchange. The Group also encourages its employees to participate in volunteer services to show their care for the society through actions. For example, in September 2016, Typhoon Meranti, with a wind force scale of 17, caused water and power outages all over Xiamen and paralyzed the traffic. The Group immediately organized a work group to go to Haicang district to assist front-line rescue-repair workers, providing them with food and water and ensuring sufficient material support. By participating in various community programs, the Group improves the social responsibility awareness of its employees and improve the Group's positive image in the community.

As a proactive enterprise, the Group has a profound understanding in the importance of meeting different stakeholders' expectations as well as the expectations of the communities where the Group operates. Therefore, from the long-term perspective, the Group emphasizes balancing the interests of shareholders and all other stakeholders, and strives to understand the needs of the communities where the Group operates to contribute to the sustainable development of the communities.

Environmental, Social and Governance Report

ESG Reporting Guide Content Index

Major Aspects	Contents	Page Index
A1: Emissions		
General Disclosure	Information regarding air pollution and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	25
A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	25
A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	25
B1: Employment		
General Disclosure	Information regarding remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	27
B2: Health and Safety		
General Disclosure	Information regarding the provision of a safe working environment and the protection of employees from occupational hazards: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	28

Environmental, Social and Governance Report

Major Aspects	Contents	Page Index
B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	29
B4: Labor Standards		
General Disclosure	Information regarding the prevention of child or forced labor: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	30
B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks associated with the supply chain.	26
B6: Product Responsibility		
General Disclosure	Information regarding health and safety, advertising, labeling and privacy issues in relation to products and services and remedial measures: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	27
B7: Anti-corruption		
General Disclosure	Information regarding bribery, extortion, fraud and money laundering: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	27
B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its business activities take into consideration the communities' interests.	30

Biographical Details of Directors

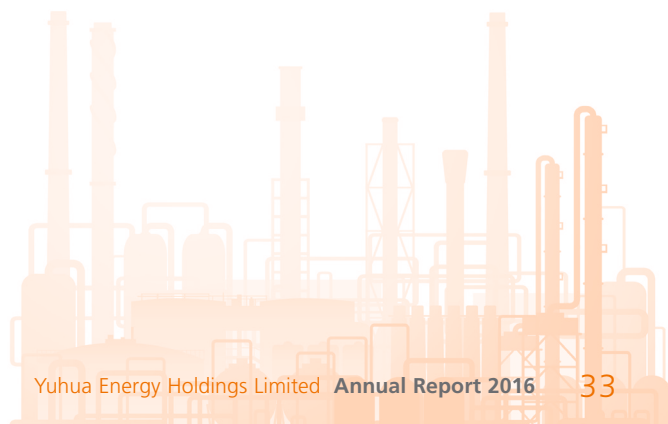
Board of Directors

Executive Directors

Mr. Lin Caihuo, aged 45, has been the Chairman of the Board and an executive Director since November 2014. He also serves as a member of each of the remuneration committee and nomination committee of the Board and is an authorised representative of the Company. He has been engaging in the business of trading, warehousing, transporting and distributing oil products since 2003 and has gained an extensive experience in the industry. He has also been an executive director and the general manager of Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司) since February 2003, Xiamen Star of Sea Shipping Company Limited* (廈門海之星航運有限公司) since July 2010, Fujian Yuhua Energy Company Limited* (福建裕華能源有限公司) since April 2013, Fujian Yuhua Group Company Limited* (福建裕華集團有限公司) since April 2013, Fujian Yuhua Property Management Limited* (福建裕華物業管理有限公司) since February 2014 and Fujian Yuhua Shipping Company Limited* (福建裕華船務有限公司) since March 2014.

Mr. Lin has been the vice president of Fujian Oil and Gas Association* (福建省油氣商會副會長) since 2014. In July 2014, he was elected as the executive vice president of the Chamber of Commerce of Zhangzhou Xiamen* (廈門市漳州商會常務副會長). Mr. Lin was appointed as a representative of Zhangzhou City at Fifteenth People's Congress* (漳州市第十五屆人民代表大會代表) and was the honorary president of the Chamber of Zhangzhou oil* (第三屆漳州市石油商會名譽會長). In addition, Mr. Lin was appointed as the first vice president of the Federation of Enterprises and Entrepreneurs of Dongshan County* (第一屆東山縣企業與企家聯合會副會長) and the vice chairman of the Ninth Dongshan County Chamber of Commerce* (第九屆東山縣工商聯合會(商會)副主席). Since August 2012, he has been the honorary president of Charity of Dongshan County* (東山縣慈善總會榮譽會長). He was an executive director of Sino Haijing Holdings Limited (stock code: 1106) during the period from 10 July 2014 to 2 November 2014, a company whose shares are listed on the Main Board of the Stock Exchange.

Mr. Wang Enguang, aged 66, has been an executive Director since December 2014. He is also the authorised representative of the Company. He completed Basic Courses for Officials of Chinese Government and Communist Party* (黨政幹部基礎專科) from Liaoning Radio and TV University* (遼寧廣播電視大學) in 1986. For the period from 1972 to 1999, he worked in Liaoning Petrochemical Fiber Company* (遼寧石油化纖公司). He was a vice-manager of raw material supply before leaving. Mr. Wang began serving PetroChina Company Limited* (中國石油天然氣股份有限公司) in 1999 until retirement in July 2010. Before his retirement, he was a manager of the sales company in Jiangxi, the PRC. Mr. Wang has decades of rich experience in the areas of sales and management.



Biographical Details of Directors

Independent Non-Executive Directors

Mr. Liu Yang, aged 35, has been an independent non-executive Director since March 2015. He also serves as the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Board. He graduated from Xian Jiaotong University with a bachelor degree in bio-medical engineering in July 2004 and graduated from Xiamen University with a master degree in bio-medical engineering in June 2007. He was the project manager and senior manager at GF Securities Company Limited (Guangzhou)* (廣發證券股份有限公司(廣州)) from July 2007 to April 2011. He was also the business director of Industrial Securities Company Limited (Fuzhou)* (興業證券股份有限公司(福州)) and independent non executive director of Sino Haijing Holdings Limited (stock code:1106) (whose shares are listed on the Main Board of the Stock Exchange) from April 2011 to May 2015 and from 12 August 2014 to 3 November 2014 respectively.

Since May 2015, Mr. Liu has been a general manager of Fujian Fu Xing Industrial Equity Investment Management Limited* 福建省福能興業股權投資管理有限公司 (Formerly known as Fujian Funeng Wuyi Equity Investment Management Limited* 福建省福能武夷股權投資管理有限公司) and an independent director of Xiamen Academy of Building Research Group Co., Ltd* (建築科學研究院集團股份有限公司), whose shares are listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange.

Mr. Lum Pak Sum, aged 55, has been an independent non-executive Director since December 2014. He also serves as the chairman of the audit committee and a member of each of the remuneration and the nomination committee of the Board. He obtained a master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Mr. Lum was an independent non-executive director of Energy International Investments Holdings Limited (stock code: 353), Bestway International Holdings Limited (stock code: 718), Radford Capital Investments Limited (stock code: 901), Pak Tak International Limited (stock code: 2668), Sinogreen Energy International Group Limited (stock code:1159) and Asia Resources Holdings Limited (stock code: 899), whose shares are listed on the Main Board of the Stock Exchange, for the period from September 2005 to July 2011, from March 2010 to May 2013, from May 2010 to November 2013, from June 2014 to November 2014, from April 2009 to November 2014 and from November 2010 to January 2015, respectively. Mr. Lum was also a non-executive director of Orient Securities International Holdings Limited (stock code: 8001), whose shares are listed on the Growth Enterprise Market ("GEM Board") of the Stock Exchange, for the period from January 2014 to June 2015.

Since August 2007, January 2014, August 2016 and May 2015, Mr. Lum has been an independent non-executive director of Great China Properties Holdings Limited (stock code: 21), Beautiful China Holdings Company Limited (stock code: 706) and Kwan On Holdings Limited (stock code: 1559), whose shares are listed on the Main Board of the Stock Exchange and i-Control Holdings Limited (stock code: 8355), whose shares are listed on the GEM Board of the Stock Exchange, respectively.

Biographical Details of Directors

Independent Non-Executive Directors *(Continued)*

Ms. Wong Yan Ki, Angel, aged 45, has been an independent non-executive Director since November 2016. She also serves as the chairlady of the nomination committee and a member of each of the audit committee and the remuneration committee of the Board. She obtained a Bachelor of Arts degree, majoring in international accounting, from Xiamen University in July 1994, a postgraduate certificate in professional accounting from the City University of Hong Kong in November 2000 and a master degree of business administration from Cheung Kong Graduate School of Business in the PRC in October 2009. Ms. Wong also obtained a certificate in taxation and accounting in the PRC from the China Business Centre of The Hong Kong Polytechnic University in October 2002. Ms. Wong has been admitted as fellow member of the Institute of Financial Accountants in the United Kingdom since October 2003, full member of the Society of Registered Financial Planners in Hong Kong since November 2003, full member of the Singapore Institute of Directors since October 2009, member of the Hong Kong Institute of Directors since November 2014, fellow member (FIPA, Australia) of the Institute of Public Accountants since April 2015 and founding member of the Hong Kong Independent Non-Executive Director Association since October 2015. Ms. Wong was also the honorary secretary from 2007 to 2008 and council member of Institute of Financial Accountants in the United Kingdom from 2007 to 2009, and a part-time professor at Xiamen University from 2006 to 2009.

Ms. Wong worked for Deloitte Touche Tohmatsu from September 1995 to November 1999. She later served a number of roles at Great East Packaging Holdings Limited from October 1999 to March 2003, including group financial controller, financial controller, finance manager and assistant finance manager. Between April 2003 and December 2007, she held various positions at Benefit Capital Limited including vice president and executive director. From April 2005 to November 2005, she also acted as the chief financial officer of Shengda (Group) Holdings Ltd. Since January 2008, Ms. Wong has been the president and executive director of Advanced Capital Limited, where she provides consultancy services for both listed companies and companies preparing for listing. Ms. Wong was appointed as a non-executive and non-independent director of Duty Free International Limited, a company listed on SESDAQ of the Singapore Exchange Limited (Stock Code: DutyFree) from August 2009 to January 2011, during which she acted as the chairman of the board from February 2010 to January 2011. Ms. Wong was appointed as an independent non-executive director of China Best Group Holdings Limited, a company listed on the Stock Exchange (Stock Code: 370) from June 2011 to September 2014. She was appointed as an independent non-executive director of Oriental Unicorn Agricultural Group Limited (currently known as China Demeter Investments Limited), a company listed on the GEM of the Stock Exchange (Stock Code: 8120) from October 2011 to May 2013. She was also appointed as an independent non-executive director of China Shengda Packaging Group Inc. (NASDAQ: CPGI) from August 2014 to September 2015. Between March 2013 and December 2015, Ms. Wong was an independent non-executive director of Hengxing Gold Holding Company Limited (Stock Code: 2303) and China Public Procurement Limited (Stock Code: 1094) respectively, whose shares are listed on the Stock Exchange. Since November 2015, Ms. Wong has been an independent non-executive director of 500.com Limited (NYSE: WBAI).

* For identification purposes only

Report of the Directors

The Directors are pleased to present to the Shareholders their report together with the audited consolidated financial statements of the Group for the Reporting Period.

Principal Activities

The principal activity of the Company is an investment holding. Particulars of the Company's principal subsidiaries are set out in note 13 to the consolidated financial statements.

Results and Appropriations

The results for the Reporting Period are set out in the consolidated statement of profit or loss on page 55 of this Annual Report.

The Directors do not recommend the payment of final dividend for the Reporting Period.

Business Review

A fair review of the business of the Group during the year and a discussion on the Group's future business development are set out in the section headed "Management Discussion and Analysis" on pages 6 to 10 of this annual report. Discussions on the social, labour and environmental policies and performance are set out in the "Environmental, Social and Governance Report" on pages 23 to 32 of this annual report.

The above discussions form part of this directors' report.

Principal Risks and Uncertainty

Risk associated with financial instruments of the group

The financial risk management objectives and policies of the Group are set out in note 3 to the consolidated financial statements.

Key sources of estimation uncertainty

Details of the key sources of estimation uncertainty as at 31 December 2016 are set out in note 4 to the consolidated financial statements.

Compliance with Laws and Regulations

Strenuous efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which the Company operates.

In relation to human resources, the Group provides and maintains statutory benefits for its staff, including but not limited to entitlement to mandatory provident fund, basic medical insurance, work injury insurance, etc. staff is entitled to day-off on public holidays and maternity leave.

Report of the Directors

At the corporate level, the Group complies with the requirements under the Listing Rules and the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

Key Relationships with Employees, Customers and Suppliers

The Group is devoted to maintaining good relationship with its suppliers and supplying quality products and services to our customers. Further discussions on key relationships of the Group with employees, customers and suppliers are set out in the “Environmental, Social and Governance Report” on pages 23 to 32 of this annual report.

Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity on page 58.

Donations

Charitable and other donations made by the Group during the Reporting Period amounted to approximately HK\$500,000.

Material Investment and Acquisition

Save as disclosed in this annual report, the Group had no significant investment and acquisition activities during the Reporting Period.

Bank Borrowings

Details of the bank borrowings of the Group as at 31 December 2016 are set out in note 25 to the consolidated financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year and details of the Group’s property, plant and equipment are set out in note 14 to the consolidated financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 21 to the consolidated financial statements.

Equity-linked Agreements

Save as disclosed in this annual report relating to the “Share Option Scheme”, no equity-linked agreements were entered into during the Reporting Period or subsisted at the end of the year.

Report of the Directors

Permitted Indemnity Provision

Pursuant to article 167 of the Articles of Association, subject to relevant laws, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

Directors

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Lin Caihuo (*Chairman*)

Mr. Wang Enguang

Independent Non-Executive Directors

Mr. Liu Yang

Mr. Lum Pak Sum

Ms. Wong Yan Ki, Angel (appointed on 1 November 2016)

Mr. Zhang Jiping(resigned on 1 November 2016)

In accordance with article 86(3) of the Articles of Association, Ms. Wong Yan Ki, Angel shall hold office only until the forthcoming general meeting of the Company and, she will, being eligible, offer herself for re-election.

In accordance with article 87 of the Articles of Association, Mr. Liu Yang and Mr. Lum Pak Sum will retire from their office by rotation and, being eligible offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interests and short positions of each Director and CEO in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity	Number of Shares held/ interested⁽¹⁾	Total number of shares	Approximate percentage of the total issued Shares
Lin Caihuo ("Mr. Lin")	Beneficial owner	455,263,278	455,263,278	58.85%

Notes:

(1) Interests in shares stated above represent long positions.

Save as disclosed above, as at 31 December 2016, none of the Directors and CEO had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period, was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or other body corporate.

Share Option Scheme

On 25 June 2005, a share option scheme (the "Share Option Scheme") was approved and adopted by the Shareholders, under which, options may be granted to any eligible persons (as defined in the Share Option Scheme) to subscribe for Shares subject to the terms and conditions stipulated in the Share Option Scheme. The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees. The Share Option Scheme has expired on 25 June 2015.

Report of the Directors

Share Option Scheme *(Continued)*

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the Board and shall not be less than the highest of: (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of that grant, which must be a business day; (ii) the average of the closing prices per ordinary share as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer of that option; and (iii) the nominal value of the ordinary shares.

The total number of ordinary shares available for issue under the Share Option Scheme and any other schemes must not exceed 10% of the Shares in issue at the date of Shareholders' approval of the Share Option Scheme.

The total number of securities available for issue under the Share Option Scheme as at the date of this report was 30,800,000 Shares which represents approximately 3.98% of issued share capital of the Company as at the date of this report.

A summary of the share option scheme is set out in note 23 to the consolidated financial statements. Details of the share options granted, exercised, lapsed and outstanding under the Share Option Scheme during the Reporting Period are as follows:

Name	Date of grant (dd/mm/yyyy)	Exercise price HK\$	Vesting date (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Number of share options				
					As at 01/01/2016	Granted	Exercised	Lapsed	As at 31/12/2016
Eligible employees ⁽¹⁾	19/6/2015	2.565	19/06/2015	19/06/2015– 18/06/2025	38,500,000	–	–	(7,700,000)	30,800,000

Note:

- (1) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

Report of the Directors

Substantial Shareholders' Interests

As at 31 December 2016, according to the register kept by the Company under Section 336 of the SFO, the corporations or persons (other than a Director or CEO) had interests of 5% or more in the Shares or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of Shares held⁽¹⁾	Approximate percentage of the issued Shares
Lin Aihua ("Ms. Lin") ⁽²⁾	Interest of spouse	455,263,278	58.85%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) ⁽³⁾	Person having a security interests in shares	455,263,278	58.85%
Zhongtai International Asset Management Limited ^{(3)&(4)}	Investment manager	455,263,278	58.85%

Notes:

- (1) Interests in shares stated above represent long positions.
- (2) Ms. Lin is the spouse of Mr. Lin. Under the SFO, Ms. Lin is deemed or taken to be interested in all the Shares in which Mr. Lin is interested.
- (3) These 455,263,278 Shares, beneficially owned by Mr. Lin, were charged to Qilu International Funds SPC ("Qilu") to secure a loan granted to Mr. Lin for his personal use.
- (4) Zhongtai International Asset Management Limited ("Zhongtai") is the fund manager of Qilu, as such, Zhongtai is deemed or taken to be interested in all the Shares in which Qilu is interested pursuant to the SFO.

Report of the Directors

Substantial Shareholders' Interests *(Continued)*

Save as disclosed above, as at 31 December 2016, no other person (other than a Director or CEO) had registered an interest or short position in the Shares, underlying Shares and debentures of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the paragraph headed "Connected Transactions and Continuing Connected Transactions", there were no other transactions, arrangements or contracts that are significant in relation to the business of the Group to which the Company or any of its subsidiary was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Related Party Transactions

Save as disclosed in the paragraph headed "Connected Transactions and Continuing Connected Transactions", the significant related party transactions that did not constitute connected transactions under the Listing Rules made during the Reporting Period were disclosed in note 31 to the consolidated financial statements.

Report of the Directors

Competing Interest

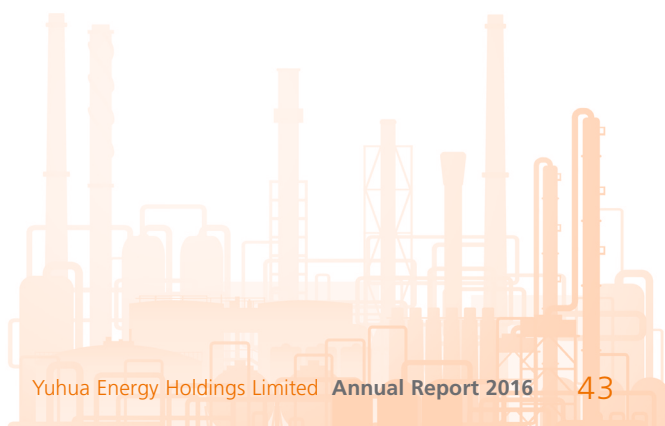
During the Reporting Period, Mr. Lin and his spouse had interests in the following business conducted through the companies named below:–

Name of company	Nature of interest	Description of business of the company
Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司)	Mr. Lin is the executive director and the general manager	Petroleum product trade, storage, transportation and distribution business
Fujian Yuhua Energy Company Limited* (福建裕華能源有限公司)	Mr. Lin is the executive director and the general manager	Wholesale and retail of dangerous chemicals, petroleum products, chemical products and machinery equipment leasing
Fujian Yuhua Group Limited* (福建裕華集團有限公司)	Mr. Lin is the executive director and the general manager Mr. Lin and his spouse respectively hold 90% and 10% of the equity interest	Wholesale and retail of petroleum products, management of real estate investment, development, sales, rental, property management and equity investment, business consulting, and enterprise financial management consulting

Save as disclosed above, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

Change in Information of Directors pursuant to Rule 13.51B(1) of the Listing Rules

Save as disclosed in the announcement of the Company dated 1 November 2016 and in the section headed “Biographical Details of Directors” in this annual report, there was no change in information of directors pursuant to Rule 13.51B(1) of the Listing Rules since the date of the publication of the 2016 Interim Report of the Company.



Report of the Directors

Remuneration Policy

The remuneration policy of the Group is set up by the Remuneration Committee on the basis of market trends and the individuals' merit, qualifications and competence.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, made recommendations to the Board for all remuneration of the executive Directors and senior management of the Company.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 23 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Securities

None of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the Reporting Period.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

Connected Transactions and Continuing Connected Transactions

During the Reporting Period, the Group had the following connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Supply Agreement

On 28 February 2014, CMI, a wholly owned subsidiary of the Company entered into supply agreement (the "Supply Agreement") with TSI for a term of 3 years from 1 January 2014 to 31 December 2016. Pursuant to the Supply Agreement, CMI supplied the speaker units to TSI. Since TSI is indirectly and wholly owned by Mr. Cheung who is a director of certain subsidiaries of the Company, TSI is a connected person of the Company. Accordingly, the Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The annual caps for the transactions contemplated under the Supply Agreement were HK\$36 million, HK\$47 million and HK\$58 million for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 respectively.

For details, please refer to the announcements of the Company dated 21 November 2013 and 24 January 2014 and the circular of the Company dated 8 January 2014.

For the Reporting Period, the supply of speaker units by CMI, its subsidiary and fellow subsidiaries to TSI under the Supply Agreement amounted to about HK\$11,497,000.

Report of the Directors

Connected Transactions and Continuing Connected Transactions

(Continued)

Oil storage tanks and ancillary facilities agreement

On 8 May 2015, 富華(福建)能源有限公司 (Fujian Fuhua Energy Company Limited*) (“Fujian Fuhua”) and 福建裕華石油化工有限公司 (Fujian Yuhua Petrochemical Company Limited*) (“Fujian Yuhua Petrochemical”) entered into an oil storage tanks and ancillary facilities agreement (“Oil Storage Tanks and Ancillary Facilities Agreement”), pursuant to which, Fujian Yuhua Petrochemical agreed to provide the crude oil jetty and storage services to Fujian Fuhua or any of its subsidiary(ies) or affiliate(s) for a period commencing from 11 May 2015 and ending on 31 December 2017. Mr. Lin Caihuo, an executive Director, is the director and general manager of Fujian Yuhua Petrochemical and together with his spouse, are the ultimate beneficial owners of Fujian Yuhua Petrochemical. Therefore, Fujian Yuhua Petrochemical is a connected person of the Company under Chapter 14A of the Listing Rules. The annual caps for the transactions contemplated under the Oil Storage Tanks and Ancillary Facilities Agreement for the three financial years ended 31 December 2015, 2016 and 2017 are RMB10,000,000, RMB10,000,000 and RMB10,000,000 respectively.

For details of the Oil Storage Tanks and Ancillary Facilities Agreement, please refer to the announcement of the Company dated 8 May 2015.

For the Reporting Period, the crude oil jetty and storage services provided by Fujian Yuhua Petrochemical to Fujian Fuhua or any of its subsidiary(ies) or affiliate(s) amounted to approximately RMB3,302,000.

Sale and Purchase Framework Agreement

On 7 September 2015, Yuhua Energy (China) Limited (formerly known as Fortune Winner (Hong Kong) Limited) (“Yuhua Energy (China)”) and Fujian Yuhua Petrochemical and 福建裕華能源有限公司 (Fujian Yuhua Energy Company Limited*) (“Fujian Yuhua Energy”) entered into the sale and purchase framework agreement (“Sale and Purchase Framework Agreement”), pursuant to which Yuhua Energy (China) conditionally agreed to supply the chemical products to Fujian Yuhua Petrochemical and Fujian Yuhua Energy (or any one or more of their subsidiaries) for the three years ended 31 December 2015, 2016 and 2017. Mr. Lin Caihuo, an executive Director, is also the director and general manager of each of Fujian Yuhua Petrochemical and Fujian Yuhua Energy. In addition, Mr. Lin and his associate(s) wholly-own 福建裕華集團有限公司 (Fujian Yuhua Group Limited*), which in turn wholly-owns Fujian Yuhua Petrochemical and Fujian Yuhua Energy. Therefore, each of Fujian Yuhua Petrochemical and Fujian Yuhua Energy is a connected person of the Company under Chapter 14A of the Listing Rules.

The Sale and Purchase Framework Agreement and the transactions contemplated thereunder and the related annual caps for the amount of RMB100,000,000, RMB300,000,000 and RMB300,000,000 for the three years ended 31 December 2015, 2016 and 2017 respectively had been approved by the independent Shareholders (namely, Shareholders other than Mr. Lin Caihuo) at an extraordinary general meeting of the Company held on 20 November 2015.

Report of the Directors

Connected Transactions and Continuing Connected Transactions

(Continued)

Sale and Purchase Framework Agreement *(Continued)*

For details of the Sale and Purchase Framework Agreement, please refer to the announcements of the Company dated 7 September 2015 and 20 November 2015 and the circular of the Company dated 3 November 2015.

During the Reporting Period, there was no transaction conducted under the Sale and Purchase Framework Agreement.

Acquisition Agreements

On 7 September 2015 (after trading hours), Xiamen Yuhua Energy Company Limited* (裕華能源(廈門)有限公司) (“Xiamen Yuhua Energy”) (as purchaser), an indirect wholly owned subsidiary of the Company, entered into the acquisition agreements with Xiamen Ocean Star Shipping Company Limited* (廈門海之星航運有限公司) (“Xiamen Ocean Star”) (as vendor) (as supplemented by two supplemental agreements entered into on the same date) (the “Acquisition Agreements”), pursuant to which Xiamen Ocean Star conditionally agreed to sell and Xiamen Yuhua Energy conditionally agreed to acquire the Properties (as defined in the announcement of the Company dated 7 September 2015) at a total consideration of RMB88,741,660 (the “Acquisition”).

Mr. Lin, an executive Director, is also the director and general manager of Xiamen Ocean Star. In addition, Mr. Lin and his associate(s) wholly-own Fujian Yuhua Group Limited* (福建裕華集團有限公司), which in turn wholly-owns Xiamen Ocean Star. Therefore, Xiamen Ocean Star is a connected person of the Company and the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios (as defined under the Listing Rules) for the Acquisition Agreements and the transactions contemplated thereunder are more than 5% but less than 25%, the Acquisition Agreements and the transactions contemplated thereunder are subject to the reporting, announcement and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Acquisition Agreements and the transactions contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 20 November 2015.

For details, please refer to the announcements of the Company dated 7 September 2015 and 20 November 2015 and the circular of the Company dated 3 November 2015.

Report of the Directors

Connected Transactions and Continuing Connected Transactions

(Continued)

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company (the “Auditor”) have been engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard of Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The Auditor had issued an unqualified letter to the Board containing their findings and conclusions in respect of the above continuing connected transactions, in which they have confirmed that noting has come to their attention that caused them to believe that the continuing connected transactions in the Reporting Period (i) had not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iv) had exceeded the annual cap amount for the year ended 31 December 2016.

All the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Major Customers and Suppliers

During the Reporting Period, sales to the Group’s five largest customers accounted for approximately 42% of the Group’s sales for the year and sales to the Group’s largest customer included therein accounted for approximately 10%.

During the Reporting Period, purchase from the Group’s five largest suppliers accounted for approximately 77% of the Group’s total purchases for the year and purchase from the Group’s largest supplier included therein accounted for approximately 41%.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company’s share capital) had an interest in the major customers or suppliers noted above.

Important Events after the Balance Sheet Date

Save as disclosed in this annual report, there was no important event affecting the Group that had occurred since the end of 31 December 2016.

Public Float

As at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Report of the Directors

Fiver-Year Financial Summary

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 120.

Closure of Register of Members

For the purposes of determining the Shareholders' eligibility to attend and vote at the annual general meeting of the Company to be held on 26 May 2017 (Friday) (the "2016 AGM"), the register of members of the Company will be closed from 23 May 2017 (Tuesday) to 26 May 2017 (Friday), both days inclusive. During the closure period, no transfer of Shares will be registered. To be eligible to attend and vote at the 2016 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 22 May 2017 (Monday).

Auditor

Messrs. Deloitte Touche Tohmatsu ("Deloitte") had acted as the Auditor for the year ended 31 December 2013. Deloitte has tendered its resignation as the Auditor with effect from 21 November 2014. Messrs. Cheng & Cheng Limited ("Cheng & Cheng") has been appointed as the Auditor with effect from 21 November 2014 to fill the casual vacancy following the resignation of Deloitte.

Cheng & Cheng had acted as the Auditor for the years ended 31 December 2014 and 2015. Cheng & Cheng has retired with effect from 27 May 2016. Messrs. PricewaterhouseCoopers ("PwC") has been appointed as the Auditor with effect from 27 May 2016 following the retirement of Cheng & Cheng.

The consolidated financial statements of the Company for the Reporting Period have been audited by PwC who will retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution will be submitted to the AGM for the re-appointment of PwC as the Auditor.

On behalf of the Board

Lin Caihuo

Chairman

Hong Kong, 24 March 2017

* *For identification purposes only*

Independent Auditor's Report



羅兵咸永道

To the Shareholders of Yuhua Energy Holdings Limited
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Yuhua Energy Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 119, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Independent Auditor's Report

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

How our audit addressed the Key Audit Matter

Revenue from energy trading – principal or agent

Refer to note 2.21(a) (Summary of significant accounting policies) and note 5 (Segment information) of the consolidated financial statements.

During the year ended 31 December 2016, the Group recognized revenue from energy trading amounted to HKD5,434 million. The Group recognized the revenue at gross amount as a principal, since:

- The Group was responsible for fulfilling the terms of sales and purchase agreements and dealing with any disputes relating to the sales and purchase transactions, separately;

We inquired and assessed management's analysis of the determination of revenue recognition based on gross amount, collaborating with the evidences obtained from the understanding of the energy trading business model and the transaction flows, and review of the terms of the sales contracts with major customers and the purchase contracts with major suppliers.

We evaluated and validated management's key controls in the sales and purchase processes relating to the trading transactions, all the way through to payment for purchases and reconciliations with settlements of trade receivables.

Independent Auditor's Report

Key Audit Matters *(Continued)*

Key Audit Matter

How our audit addressed the Key Audit Matter

Revenue from energy trading – principal or agent (Continued)

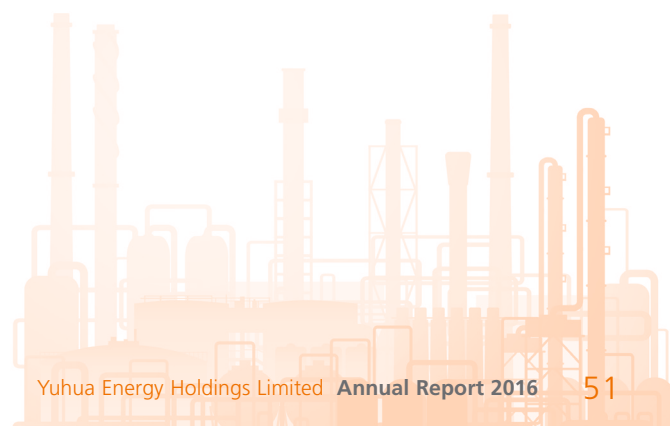
- The goods were shipped from suppliers to an agreed destination where the customers could pick up directly. The risks related to the goods were transferred to and from the Group when the goods were accepted by the Group and accepted by the customers at the pick up place, respectively;
- The transaction prices were determined separately based on the negotiations with customers and suppliers; and
- The Group bore the credit risk of the sales considerations of energy trading, and the considerations were received in the form of gross amount instead of sales commission.

We tested revenue recorded on sample basis by examining the relevant supporting documents including the goods delivery notes, sales invoices and bank slips of the trading transactions.

Based on the procedures performed, we found the judgement applied by management in determining the Group as principal during the energy trading business was supported by the evidences we gathered.

In summary, the Group was primarily responsible for fulfilling the sales agreements, had the discretion in determining selling prices, assumed inventory risk and took credit risk of the trading transactions.

We focused on this area due to that the revenue from energy trading was material to the Group, and determination of principal or agent for the purpose of revenue recognition involved significant judgement.



Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report and chairman's statement other than the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report. The five-year summary, corporate information, financial highlights, other financial information, future plan and recent development, corporate governance report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

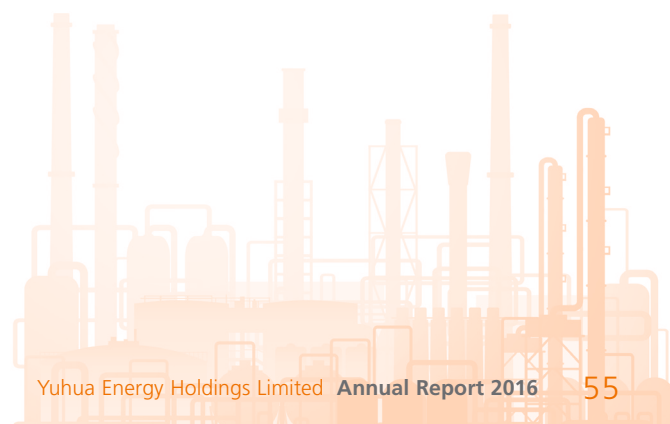
Hong Kong, 24 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	NOTE	2016 HK\$'000	2015 HK\$'000
Revenue	5	5,915,428	4,735,523
Cost of sales	6	(5,804,897)	(4,617,341)
Gross profit		110,531	118,182
Distribution expenses and Administrative expenses	6	(70,314)	(111,956)
Other income	8	856	656
Other gains – net	9	2,814	3,507
Operating profit		43,887	10,389
Finance income	10	51	–
Finance expenses	10	(8,782)	(4,513)
Finance expenses– net	10	(8,731)	(4,513)
Profit before income tax		35,156	5,876
Income tax expense	11	(10,786)	(16,048)
Profit/(loss) for the year, all attributable to owners of the Company		24,370	(10,172)
Earnings/(loss) per share attributable to owners of the Company for the year			
Basic earnings/(loss) per share (in cents per share)	12	3.15	(1.39)
Diluted earnings/(loss) per share (in cents per share)	12	3.15	(1.39)

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Profit/(loss) for the year	<u>24,370</u>	<u>(10,172)</u>
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Currency translation differences	<u>(22,878)</u>	<u>(14,345)</u>
Other comprehensive loss for the year	<u>(22,878)</u>	<u>(14,345)</u>
Total comprehensive income/(loss) for the year, all attributable to owners of the Company	<u>1,492</u>	<u>(24,517)</u>

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	NOTE	2016 HK\$'000	2015 HK\$'000
Assets			
Non-current assets			
Property, plant and equipment	14	5,972	13,255
Intangible assets	15	978	978
Prepayment for non-current assets	16	103,779	105,925
Rental deposits		571	609
Deferred income tax assets	26	280	–
		111,580	120,767
Current assets			
Inventories	18	33,855	35,230
Trade and other receivables and prepayments	19	677,196	546,298
Cash and cash equivalents	20	54,668	30,948
Restricted cash	20	44,717	–
		810,436	612,476
Total assets		922,016	733,243
Equity			
Equity attributable to owners of the Company			
Share capital	21	3,868	3,868
Other reserves	22	163,937	191,731
Retained profits		187,443	158,157
Total equity		355,248	353,756
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	26	4,113	2,506
Current liabilities			
Trade and other payables	24	358,514	232,326
Current income tax liabilities		4,029	7,366
Borrowings	25	200,112	137,267
Finance lease liabilities	25	–	22
		562,655	376,981
Total liabilities		566,768	379,487
Total equity and liabilities		922,016	733,243

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

The financial statements on pages 55 to 119 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

Lin Caihuo
Director

Wang Enguang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	NOTE	Attributable to owners of the Company			Total equity HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	
Balance at 1 January 2015		3,224	100,880	163,333	267,437
Comprehensive loss					
Loss for the year		-	-	(10,172)	(10,172)
Other comprehensive loss					
Currency translation differences		-	(14,345)	-	(14,345)
Total comprehensive loss		-	(14,345)	(10,172)	(24,517)
Transactions with owners in their capacity as owners					
Issue of shares	21	644	60,849	-	61,493
Employees share option scheme:					
- Value of employee services	23	-	49,343	-	49,343
- Lapse of share options	23	-	(8,224)	8,224	-
Total transactions with owners in their capacity as owners		644	101,968	8,224	110,836
Appropriation to statutory reserves		-	3,228	(3,228)	-
Balance at 31 December 2015		3,868	191,731	158,157	353,756
Comprehensive income					
Profit for the year		-	-	24,370	24,370
Other comprehensive loss					
Currency translation differences		-	(22,878)	-	(22,878)
Total comprehensive income/(loss)		-	(22,878)	24,370	1,492
Transactions with owners in their capacity as owners					
Employees share option scheme:					
- Lapse of share options	23	-	(8,224)	8,224	-
Total transactions with owners in their capacity as owners		-	(8,224)	8,224	-
Appropriation to statutory reserves		-	3,308	(3,308)	-
Balance at 31 December 2016		3,868	163,937	187,443	355,248

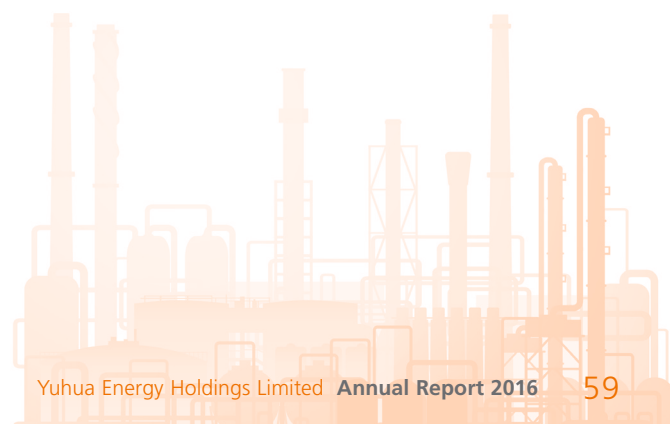
The notes on page 60 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities			
Cash used in operations	28	(21,448)	(269,429)
Income tax paid		(12,796)	(7,853)
Net cash used in operating activities		(34,244)	(277,282)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	28	30	–
Interest received		–	92
Purchases of property, plant and equipment	14	(346)	(4,718)
Prepayment for non-current assets	16	(4,571)	(105,925)
Net cash used in investing activities		(4,887)	(110,551)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	61,493
Proceeds from bank borrowings		572,387	396,954
Repayments of bank borrowings		(500,838)	(259,687)
Repayment of finance lease liabilities		(22)	(50)
Interest paid		(8,684)	(4,513)
Net cash generated from financing activities		62,843	194,197
Net increase/(decrease) in cash and cash equivalents		23,712	(193,636)
Cash and cash equivalents at beginning of year	20	30,948	228,063
Effect of foreign exchange rate changes		8	(3,479)
Cash and cash equivalents at end of year	20	54,668	30,948

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

Yuhua Energy Holdings Limited (“the Company”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office is Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the principal place of business is Room 2207, 22/F Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

The Company and its subsidiaries (together, “the Group”) are engaged in energy trading, including mainly trading of fuel oil and kerosene, and speaker manufacturing and sales. The Group has operations mainly in Hong Kong and Mainland China.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in HK dollars (HK\$), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 24 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and required by the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 *Going concern*

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 25.

2.1.2 *Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Group

The following amendments to standards relevant to the Group have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Annual improvements 2014 include changes from the 2012 – 2014 cycle of the annual improvements project. Only the below are effective for relevant transactions on or after 1 January 2016:
 - Amendments to HKFRS 7 'Financial instruments: Disclosures condensed interim financial statements'. It clarifies that the additional disclosure required by the amendments to HKFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by HKAS 34.
 - Amendments to HKAS 34, 'Interim financial reporting'. It clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information. This amendment is retrospective.

The adoption of these amendments did not have any material impact on the Group for the current period or any prior periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

- (b) *Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group*

The following new standards and amendments are effective for the first time for the financial year beginning on 1 January 2016 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events).

Standards and amendments	Effective for annual periods beginning on or after
Annual improvements 2014: HKFRS 5, 'Non-current assets held for sale and discontinued operations'	1 January 2016
HKFRS 14 'Regulatory Deferral Accounts'	1 January 2016
Amendment to HKFRS 11 'Accounting for acquisitions of interests in joint operations'	1 January 2016
Amendments to HKAS 16 and HKAS 38 'Clarification of acceptable methods of depreciation and amortisation'	1 January 2016
Amendments to HKAS 16 and HKAS 41 'Agriculture: bearer plants'	1 January 2016
Annual improvements 2014: HKAS 19, 'Employee benefits'	1 January 2016
Amendment to HKAS 27 'Equity method in separate financial statements'	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 'Investment entities: applying the consolidation exception'	1 January 2016
Annual improvements 2014: HKFRS 7, 'Financial instruments: Disclosures' – Application of the disclosure requirements to a servicing contract	1 January 2016
Amendments to HKAS 1 'Disclosure initiative'	1 January 2016

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. The new standards and amendments to standards and interpretations are set out below:

Standards	Effective for annual periods beginning on or after
HKFRS 9 'Financial instruments'	1 January 2018
HKFRS 15 'Revenue from contracts with customers'	1 January 2018
HKFRS 16 'Leases'	1 January 2019

Amendments	Effective for annual periods beginning on or after
Amendments to HKAS 7 'Statement of cash flows'	1 January 2017
Amendments to HKAS 12 'Income taxes' on Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendment to HKFRS 2 'Classification and Measurement of Share-based Payment Transactions'	1 January 2018
Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture'	1 January 2019

Management is currently assessing the effects of applying these new standards and amendments on the Group's financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below. The Group does not expect to adopt these new standards and amendments until their effective dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue, which will be effective for the financial period beginning on or after 1 January 2018. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts.

The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Management anticipates that the application of HKFRS 15 in the future may have an impact on the consolidated financial statements of the Group. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 at this stage. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 16, 'Leases'

The new standard, which will be effective for the financial period beginning on or after 1 January 2019, will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The new standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK\$84,065,000 (note 30). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's board of directors that makes strategic decisions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HK dollars, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses are presented in statement of profit or loss within 'other gains – net'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment including plant and machinery, moulds, furniture, fixtures and office equipment, motor vehicles and leasehold improvement is stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Plant and Machinery	5-10 years
– Moulds	3 years
– Furniture, fixtures and office equipment	3-5 years
– Leasehold improvements	Shorter of 5 years or remaining lease term
– Motor vehicles	4-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

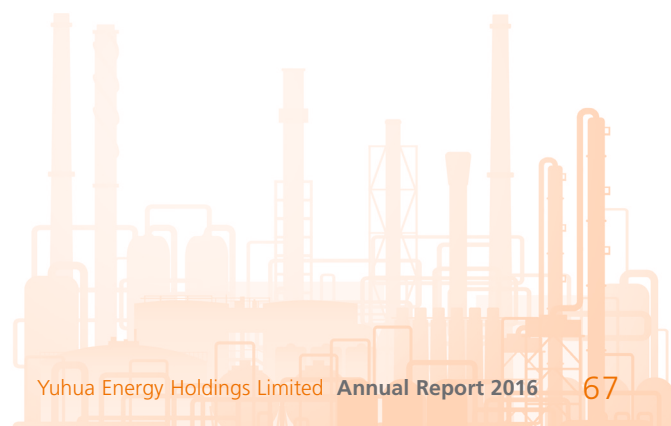
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains – net' in the statement of profit or loss.

2.6 Intangible assets

Club membership

Club membership with indefinite useful life is carried at cost less subsequent accumulated impairment losses, if any (Note 2.8).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables and prepayments" and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for a financial asset not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.9.2 for further information about the Group's accounting for trade receivables and Note 2.10 for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences (Continued)

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Retirement benefits

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group participates in defined contribution retirement schemes administered by local governments in different parts of the PRC (the "Central Schemes"). The Group and the employees are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

(a) Sales from energy trading products

Revenue is recognised when the risk and reward of ownership of the goods has been transferred to the customer, which is usually at the date when goods are delivered to the location agreed on the sales contract and the certificate of ownership are hand over to customer.

(b) Sales of speaker units

Revenue is recognised when the risk and reward of ownership of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered goods to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assured and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

2.22 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group operates in PRC and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (US\$). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign exchange risk. The management will consider hedging significant foreign currency exposure should the need arise.

As HK dollar is currently pegged to US dollar, the management considers that the exposure to exchange rate fluctuation in respect of US dollar is limited.

(ii) Fair value interest rate risk

Except for cash and cash equivalents and restricted cash (Note 20), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk mainly arises from short-term borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis is not presented as the management considers that the Group's exposure to interest rate fluctuations is insignificant.

(iii) Price risk

In doing the energy trading business, the Group separately negotiates and determines the transaction prices with suppliers and customers based on the market condition, which caused the Group exposed to price risk influenced by global and regional oil supply and demand.

The speaker unit business of the Group is exposed to raw material price risk due to the volatility in prices of major raw materials.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

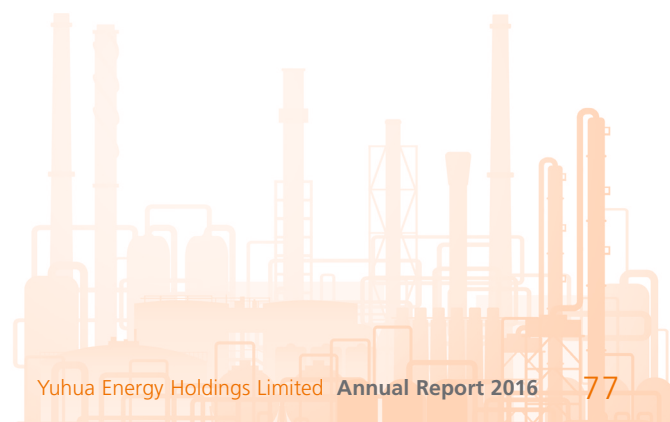
The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as a substantial portion of its trade debtors is generated from a limited number of customers from certain foreign countries. The top five customers of the Group accounted for about 93% (2015: 99%) of the Group's trade debtors as at 31 December 2016, of which an aggregate carrying amount of HK\$48,321,000 (2015: HK\$86,241,000) which are past due but not impaired at the end of reporting period. These customers are large multi-national companies in acoustic accessories and peripherals business. The assessment on impairment on debtors is set out in note 19.

In order to minimise the credit risk, the Group manages its credit risk by closely monitoring the granting of credit period and credit limit and follow-up action is taken to recover overdue debts. In addition, the Group enters into an agreement with an insurance company to cover part of the individual trade debts. The Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings and reputable banks in Hong Kong and PRC.

(c) Liquidity risk

The Group regularly monitors its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate credit lines from banks to meet its liquidity requirements in the short and longer term. The Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings. As at 31 December 2016, the Group had available unutilised short-term bank loan facilities of HK\$224,706,000 (2015: HK\$979,854,000).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Less than 1 year HK\$'000
Group	
At 31 December 2016	
Borrowings (exclude finance lease liabilities)	200,112
Finance lease liabilities	–
Interest payable	3,282
Trade and other payables	313,654
	<hr/>
	517,048
	<hr/>
At 31 December 2015	
Borrowings (excluding finance lease liability)	137,267
Finance lease liabilities	22
Interest payable	2,869
Trade and other payables	212,324
	<hr/>
	352,482
	<hr/>

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. In addition, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from prior year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

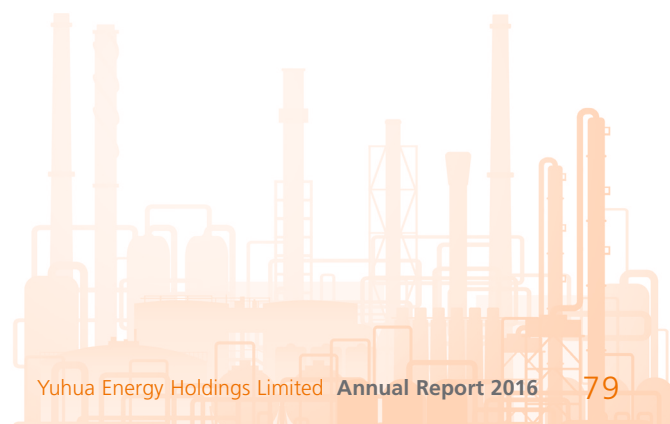
3.3 Fair value estimation

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet dates of 31 December 2016 and 31 December 2015 due to their short term maturity:

- Trade and other receivables (excluding prepayments to suppliers)
- Cash and cash equivalents
- Rental deposits
- Trade and other payables (excluding advances from customers, payroll and welfare payable and taxes payable)
- Borrowings
- Finance lease liabilities



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition of energy trading business – principal or agent

The Group is engaged in energy trading, mainly the trading of fuel oil and kerosene. The Group negotiated transaction prices with suppliers and customers separately. The goods are shipped from suppliers to an agreed destination where the customers can pick up directly. Determination of principal or agent for revenue recognition purpose involved significant judgement. The Group recognized revenue from trading of energy at gross amount as a principal based on the below fact pattern and judgements:

- The Group was responsible for fulfilling the terms of sales and purchase agreements and dealing with any disputes relating to the sales and purchase transactions, separately;
- The goods were shipped from suppliers to an agreed destination where the customers could pick up directly. The risks related to the goods were transferred to and from the Group when the goods were accepted by the Group and accepted by the customers at the pick up place, respectively;
- The transaction prices were determined separately based on the negotiations with customers and suppliers; and
- The Group bore the credit risk of the sales considerations of energy trading, and the considerations were received in the form of gross amount instead of sales commission.

(b) Allowance for inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to frequent technological changes. The management reviews the inventory age listing on a periodic basis to identify slow-moving and obsolete inventories and makes allowance for obsolete items. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. If the market conditions were to deteriorate and more obsolete and slow-moving inventory items were to be identified, additional allowances may be required. As at 31 December 2016, the carrying amount of inventories was HK\$33,855,000 (2015: HK\$35,230,000), net of allowance for inventories of HK\$542,000 (2015: HK\$397,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision on a regular basis by reviewing the receivable balances based on past credit history and any prior knowledge of debtor insolvency and market volatility.

(d) Current tax and deferred tax

The Group is subject to income taxes in the PRC and in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

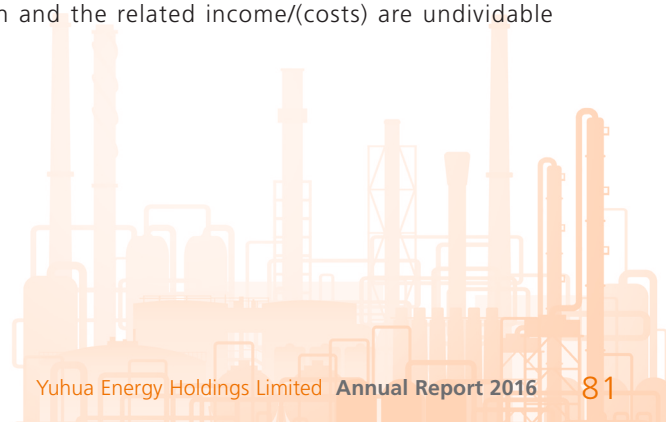
Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

5. SEGMENT INFORMATION

The Company's board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

The board of directors considers the business from business lines perspective, and assesses the performance of the Group in two business lines, energy trading which comprises mainly the trading of fuel oil and kerosene, and speaker manufacturing.

The board of directors assesses the performance of the operating segments based on a measure of segment profit/(loss) excluding finance income/(costs) and the Company's incomes and expenses. Finance income/(costs) and the Company's incomes and expenses are not allocated to segments, as these types of activity are driven by the central function and the related income/(costs) are undividable between the segments.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. SEGMENT INFORMATION (Continued)

The Company's assets, deferred income tax assets, intangible assets and prepayment for non-current assets are not considered to be segment assets and the Company's liabilities, borrowings, deferred income tax liabilities, and current income tax liabilities are not considered to be segment liabilities for reporting to the board of directors as they are managed on a central basis.

Segment information is as follows:

	Energy trading HK\$'000	2016 Speaker manufacturing HK\$'000	Total HK\$'000	Energy trading HK\$'000	2015 Speaker manufacturing HK\$'000	Total HK\$'000
Segment results						
Year ended 31 December						
Segment revenue						
– Revenue from external customers	5,433,950	481,478	5,915,428	4,195,566	539,957	4,735,523
Segment profit	26,991	25,810	52,801	33,107	31,869	64,976
Share-based payment expense	–	–	–	(49,343)	–	(49,343)
Unallocated operating expenses			(8,914)			(5,244)
Operating profit			43,887			10,389
Finance expenses – net			(8,731)			(4,513)
Profit before income tax			35,156			5,876
Income tax expense			(10,786)			(16,048)
Profit/(loss) for the year			24,370			(10,172)
Assets						
As at 31 December						
Segment assets	590,212	225,623	815,835	386,771	238,300	625,071
Unallocated assets			1,144			1,269
Deferred income tax assets			280			–
Intangible assets			978			978
Prepayment for non-current assets			103,779			105,925
Total			922,016			733,243
Liabilities						
As at 31 December						
Segment liabilities	207,244	142,324	349,568	77,864	152,070	229,934
Unallocated liabilities			8,946			2,414
Borrowings			200,112			137,267
Current income tax liabilities			4,029			7,366
Deferred income tax liabilities			4,113			2,506
Total			566,768			379,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. SEGMENT INFORMATION (Continued)

Revenue from external customers by country, based on the destination of the customers is as follows:

	2016 HK\$'000	2015 HK\$'000
China	5,568,626	4,364,730
Belgium	224,744	145,209
Other countries	73,227	72,682
Germany	17,591	62,778
US	16,214	47,535
Canada	8,406	30,437
Japan	6,620	12,152
Total	5,915,428	4,735,523

Revenue from major customers which accounts for 10% or more of the Group's revenue from continuing operations is as follow:

	2016 HK\$'000	2015 HK\$'000
Revenue from customer attributable to energy trading Company A	603,552	—

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country is as follows:

	2016 HK\$'000	2015 HK\$'000
China mainland	108,480	116,866
Hong Kong	2,820	3,901
	111,300	120,767

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. EXPENSES BY NATURE

	2016 HK\$'000	2015 HK\$'000
Changes in inventories of finished goods and work in progress	(2,252)	(3,789)
The cost of products sold	5,392,098	4,150,767
Raw materials and consumables used	339,176	396,800
Employee benefit expense (Note 7)	85,553	133,370
Operating lease payments	10,693	11,329
Legal and professional fees	8,075	1,744
Utilities	4,490	4,842
Depreciation, amortisation and impairment charges (Notes 14 and 15)	4,005	5,552
Taxes	3,742	2,761
Product development	3,153	1,264
Customs & excise tax	1,856	1,859
Auditors' remuneration – annual report	1,480	560
Auditors' remuneration – others	747	1,051
Entertainment expense	1,473	649
Travelling expense	1,031	634
Transportation expense	932	1,063
Inventory write-down	145	347
Other expenses	18,814	18,494
	<hr/>	<hr/>
Total cost of sales, distribution expenses and administrative expenses	5,875,211	4,729,297

7. EMPLOYEE BENEFIT EXPENSE

	2016 HK\$'000	2015 HK\$'000
Wages and salaries	78,750	76,693
Social security costs	1,323	1,870
	<hr/>	<hr/>
Share options granted to employees (Notes 23)	–	49,343
	<hr/>	<hr/>
Retirement benefit cost – defined contribution plans	3,825	4,143
	<hr/>	<hr/>
Other staff welfare	1,655	1,321
	<hr/>	<hr/>
Total employee benefit expense	85,553	133,370

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2015: nil) directors whose emoluments are reflected in the analysis shown in Note 34. The emoluments payable to the remaining four (2015: five) individuals during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries, allowances and benefits	9,092	256
Retirement benefit scheme contributions	56	15
Share-based payment expense	–	41,119
Bonuses	120	–
	9,268	41,390

The emoluments fell within the following bands:

	Number of individuals 2016	Number of individuals 2015
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	2	–
HK\$1,000,000 – HK\$1,500,000	1	–
Over HK\$2,500,000	1	5

8. OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Government grant related to income	856	291
Interest income	–	92
Others	–	273
	856	656

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

9. OTHER GAINS – NET

	2016 HK\$'000	2015 HK\$'000
Net foreign exchange gains – from operating activities	6,013	3,700
Loss on disposal of property, plant and equipment	(3,180)	(193)
Other losses	(19)	–
	<u>2,814</u>	<u>3,507</u>

10. FINANCE INCOME AND EXPENSES

	2016 HK\$'000	2015 HK\$'000
Interest expense:		
– Bank borrowings	(8,782)	(4,513)
Finance expenses	<u>(8,782)</u>	<u>(4,513)</u>
Interest income	51	–
Finance income	<u>51</u>	<u>–</u>
Finance expenses – net	<u>(8,731)</u>	<u>(4,513)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2016	2015
	HK\$'000	HK\$'000
Current tax:		
Current tax on profits for the year – Hong Kong	2,609	3,318
Overprovision in prior years – Hong Kong	–	(2)
	2,609	3,316
Current tax on profits for the year – PRC	8,435	10,799
(Overprovision)/underprovision in prior years – PRC	(1,585)	410
	6,850	11,209
Total current tax	9,459	14,525
Deferred tax (Note 26):		
Origination and reversal of temporary differences	1,327	1,523
Total deferred tax	1,327	1,523
Income tax expense	10,786	16,048

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits of the Group's subsidiaries in Hong Kong for the year.

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25% (2015: 25%) except for Dongguan Shinhint Audio Technology Limited which are subject to CIT at the rate of 15% (2015: 15%). Dongguan Shinhint Audio Technology Limited obtained the "Certificate of High and New Technology Enterprises" issued by Guangdong Provincial Department of Science and Technology, Department of Finance, State Administration of Taxation and Local Administration of Taxation. The certificate is valid for 3 years from 2015 to 2017.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. INCOME TAX EXPENSE (Continued)

Pursuant to the PRC Enterprise Income Tax Law and its detailed implementation rules, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax upon the distribution of such profits to foreign investors. Deferred income tax liabilities have been provided for at the applicable tax rate of 10% in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008 (Note 26).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2016	2015
	HK\$'000	HK\$'000
Profit before tax	35,156	5,876
Tax calculated at domestic tax rates applicable to profits/(loss) in the respective countries	8,958	(526)
Tax effects of:		
– Expenses not deductible for tax purposes	300	13,765
– Tax losses for which no deferred income tax asset was recognised	1,872	878
– Others	(366)	–
(Overprovision)/underprovision in prior years	(1,585)	408
Withholding tax on unremitted earnings	1,607	1,523
Income tax expense	10,786	16,048

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	2016	2015
	HK\$'000	HK\$'000
Earnings/(loss) for the purpose of basic and diluted earnings per share	24,370	(10,172)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share (thousands)	773,629	731,657
Earnings/(loss) per share		
– Basic earnings/(loss) per share (in cents per share)	3.15	(1.39)
– Diluted earnings/(loss) per share (in cents per share)	3.15	(1.39)

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The weighted average numbers of ordinary shares for calculating basic earnings per share for the twelve months ended 31 December 2015 had been retrospectively adjusted to reflect the share subdivision with effect from 8 July 2015 (Note 21).

For the year ended 31 December 2016, the Company's share options (Note 23) have no dilutive effect on the earnings per share. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the twelve months ended 31 December 2016) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is therefore equal to basic earnings per share. The diluted loss per share for the twelve months ended 31 December 2015 was the same as the basic loss per share since the computation of diluted earnings per share does not assume the exercise of share options granted under the share option scheme since their exercise would result in an anti-dilutive effect on the loss per share for the twelve months ended 31 December 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

13. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Name	Place of incorporation	Principal activities	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by Company (%)	Proportion of ordinary shares held by the Group (%)
Shinhint Industries Limited	Hong Kong	Investment holding	HK\$5,000,000	–	100
Crown Million Industries (International) Limited	Hong Kong	Investment holding and trading of speaker units	HK\$10,000	–	100
Fully Sino Industrial Limited	Hong Kong	Investment holding	HK\$1	–	100
Perfect Goal Holdings Limited	Hong Kong	Investment holding	HK\$1	–	100
Yuhua Energy (China) Limited (Formerly known as Fortune Winner (Hong Kong) Limited)	Hong Kong	Oil trade center	HK\$1	–	100
Yuhua Energy (Xiamen) Co., Ltd. (裕華能源(廈門)有限公司)	PRC	Trading of energy products	HK\$1	–	100
Max Achieve Holdings Limited	Hong Kong	Trading of speaker units	HK\$1	–	100
Shinhint Industrial Holdings Limited ("Shinhint Industrial")	British Virgin Islands	Investment holding	US\$1	100	100
Huiyuan Developments Limited	British Virgin Islands	Investment holding	US\$1	100	100
Chuang Hui Group limited	British Virgin Islands	Investment holding	US\$1	–	100
Blessing Garden Limited	British Virgin Islands	Investment holding	US\$1	–	100
Shinhint Technology (Shenzhen) Limited (成謙科技(深圳)有限公司)	PRC	Research and development	HK\$4,750,000	–	100
DongGuan Shinhint Audio Technology Limited. (東莞成謙音響科技有限公司)	PRC	Manufacturing of speaker units	HK\$10,000,000	–	100

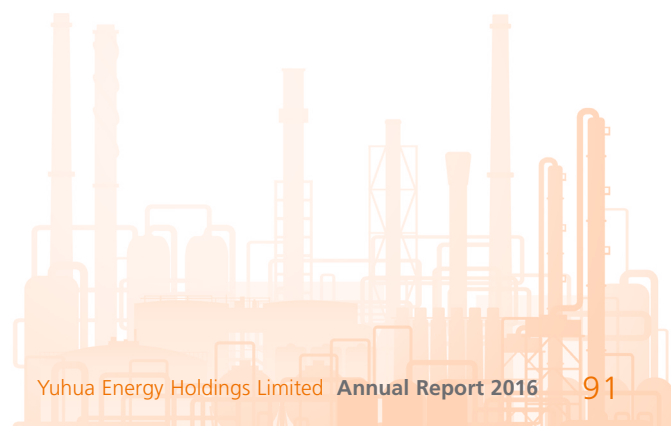
Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

13. SUBSIDIARIES (Continued)

Name	Place of incorporation	Principal activities	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by Company (%)	Proportion of ordinary shares held by the Group (%)
Fuhua (Fujian) Energy Co., Ltd. (富華(福建)能源有限公司)	PRC	Trading of energy products	HK\$40,000,000	–	100
Qianhai Yuhua Energy (Shenzhen) Co., Ltd. (前海裕華能源(深圳)有限公司)	PRC	Trading of energy products	RMB200,000,000	–	100
Yuhua Dongshan Energy Co., Ltd. (裕華東山能源有限公司)	PRC	Trading of energy products	RMB20,000,000	–	100
Silver Lane Global Limited	British Virgin Islands	Investment holding	US\$1	–	100
Yuhua Energy (Hong Kong) Limited (Formerly known as Yuhua Energy (Holdings) Limited)	Hong Kong	Investment	HK\$1	–	100
Yuhua Tankers Corporation Limited	Hong Kong	General trading and investment	HK\$1	–	100
Fujian Yuhua Assets Management Co., Ltd. (裕華資產管理(廈門)有限公司)	PRC	Asset Management	US\$5,000,000	–	100
Yu Hua Finance Lease (Xiamen) Co., Ltd. (裕華融資租賃(廈門)有限公司)	PRC	Finance Lease	US\$50,000,000	–	100
Yuhua Energy (Zhangzhou) Limited (裕華能源(漳州)有限公司)	PRC	Trading of energy product	RMB1,000,000,000	–	100
Yuhua (Shanghai) Trading Co., Ltd. (裕華(上海)貿易有限公司)	PRC	Oil trade center	RMB100,000,000	–	100

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during both years.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and office equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2015						
Cost	9,255	4,082	11,779	11,429	2,333	38,878
Accumulated depreciation	(4,234)	(2,603)	(8,944)	(7,800)	(305)	(23,886)
Net book amount	5,021	1,479	2,835	3,629	2,028	14,992
Year ended 31 December 2015						
Opening net book amount	5,021	1,479	2,835	3,629	2,028	14,992
Additions	329	261	1,497	1,733	898	4,718
Written-off (Note 28)	–	(67)	(140)	14	–	(193)
Depreciation charge (Note 6)	(775)	(496)	(1,150)	(2,600)	(531)	(5,552)
Currency translation differences	(277)	(75)	(188)	(118)	(52)	(710)
Closing net book amount	4,298	1,102	2,854	2,658	2,343	13,255
At 31 December 2015						
Cost	9,026	4,007	12,142	12,423	3,166	40,764
Accumulated depreciation	(4,728)	(2,905)	(9,288)	(9,765)	(823)	(27,509)
Net book amount	4,298	1,102	2,854	2,658	2,343	13,255
Year ended 31 December 2016						
Opening net book amount	4,298	1,102	2,854	2,658	2,343	13,255
Additions	85	50	211	–	–	346
Disposal (Note 28)	(1,359)	(869)	(982)	–	–	(3,210)
Depreciation charge (Note 6)	(632)	(210)	(627)	(1,892)	(644)	(4,005)
Currency translation differences	(192)	(26)	(124)	(30)	(42)	(414)
Closing net book amount	2,200	47	1,332	736	1,657	5,972
At 31 December 2016						
Cost	5,413	318	7,311	11,740	3,098	27,880
Accumulated depreciation	(3,213)	(271)	(5,979)	(11,004)	(1,441)	(21,908)
Net book amount	2,200	47	1,332	736	1,657	5,972

Depreciation expense of HK\$2,524,000 (2015: HK\$4,409,000) has been charged in 'cost of sales' and HK\$1,481,000 (2015: HK\$1,143,000) in 'administrative expenses'.

At the end of the reporting period, the net book amount of motor vehicle held under finance lease of the Group was HK\$nil (2015: HK\$373,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15. INTANGIBLE ASSETS

	2016 HK\$'000	2015 HK\$'000
Club membership		
Cost and carrying amount	978	978

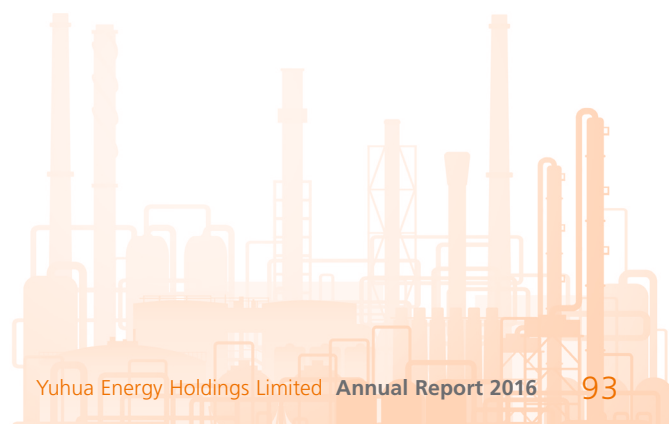
The club membership represents debentures of a golf club held on a long-term basis. It is considered by the management of the Group as having an indefinite useful life. It will not be amortised until the useful life is determined to be finite upon reassessment of the useful life annually by the management.

During the year ended 31 December 2016, the club membership was tested for impairment by comparing its carrying amount with its recoverable amount, which was determined based on fair value less costs of disposal in the market. The management of the Group determined that no impairment loss was necessary for the current year (2015: nil).

16. PREPAYMENT FOR NON-CURRENT ASSETS

On 7 September 2015, a wholly-owned subsidiary of the Company, Yuhua Energy (Xiamen) Co., Ltd., entered into an acquisition agreement with Xiamen Sea Star Shipping Co., Ltd., a company beneficially owned by Mr Lin Caihuo, the Chairman of the Company, pursuant to which Xiamen Sea Star Shipping Co., Ltd. agreed to sell and Yuhua Energy (Xiamen) Co., Ltd. agreed to acquire certain properties located at Fujian Province, PRC, at a consideration of RMB88,741,660, which had been fully paid by the Group in December 2015. The properties are expected to be delivered to the Group in 2017. The consideration of RMB88,714,660 paid by the Group was recorded as prepayment for non-current assets as at 31 December 2016 in the amount of HK\$99,208,000 (2015: HK\$105,925,000).

On 15 November 2016, a wholly-owned subsidiary of the Company, Yuhua Energy (Hong Kong) Limited, entered into an acquisition agreement with Great Lakes Shipping Maritime Inc., a third party, pursuant to which Great Lakes Shipping Maritime Inc. agreed to sell and Yuhua Energy (Hong Kong) Limited agreed to acquire an oil tanker named MT ZHU MIN VICTORIA at a consideration of US\$5,800,000 which is equivalent to approximately HK\$44,979,989. As at 31 December 2016, the consideration paid by the Group amounted to HK\$4,570,800 (2015: Nil). MT ZHU MIN VICTORIA has been delivered to the Group and the residual amount of consideration has been paid in 2017.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17. FINANCIAL INSTRUMENTS BY CATEGORY

	2016 HK\$'000	2015 HK\$'000
Assets as per balance sheet		
Loans and receivables		
Trade and other receivables excluding prepayments and export tax rebate receivable	144,595	208,429
Cash and cash equivalents	54,668	30,948
Restricted cash	44,717	–
Total	243,980	239,377

	2016 HK\$'000	2015 HK\$'000
Liabilities as per balance sheet		
Other financial liabilities at amortised cost		
Borrowings	200,112	137,267
Trade and other payables excluding non-financial liabilities	313,953	212,524
Finance lease liabilities	–	22
Total	514,065	349,813

18. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Raw materials	13,215	12,338
Work in progress	3,656	4,230
Finished goods	16,984	18,662
	33,855	35,230

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK\$5,729,167,000 (2015: HK\$4,544,125,000), which included inventory write-down of HK\$145,000 (2015: HK\$347,000) (Note 6).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2016 HK\$'000	2015 HK\$'000
Trade receivables from third parties	138,309	205,946
Trade receivables from related parties (Note 31(b))	4,675	–
Less: allowance for impairment of trade receivables	–	–
	<hr/>	<hr/>
Trade receivables – net	142,984	205,946
	<hr/>	<hr/>
Prepayments to suppliers	528,365	335,078
	<hr/>	<hr/>
Other receivables:		
– Export tax rebate receivable	4,236	2,740
– Other receivables and deposits	1,611	2,534
	<hr/>	<hr/>
Total	677,196	546,298
	<hr/>	<hr/>

The Group's trade receivables are mainly related to the Speaker manufacturing business. The Group normally allows a credit period of 30 days to 90 days (2015: 30 days to 90 days) to its customers and may further extend the credit period to selected customers depending on their trade volume and settlement history. At 31 December 2016 and 2015, the ageing analysis of trade receivables based on invoice date were as follows:

	2016 HK\$'000	2015 HK\$'000
Within 30 days	55,251	108,326
31 to 60 days	38,218	36,689
61 to 90 days	49,318	42,396
91 to 120 days	197	16,370
Over 120 days	–	2,165
	<hr/>	<hr/>
	142,984	205,946
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As of 31 December 2016, trade receivables of HK\$49,872,000 (2015: HK\$86,584,000) were past due but not impaired. The Group does not hold any collateral over these balances. The balances that were past due but not impaired related to a number of independent customers that have a good trade record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered, as there has not been a significant change in credit quality and there has been substantial settlement after the end of the reporting period. In addition, the Group enters into an agreement with an insurance company to cover part of the individual trade debts. Accordingly, the Group considers the amounts are recoverable, therefore, no impairment loss is considered necessary. The ageing analysis of these trade receivables is as follows:

	2016 HK\$'000	2015 HK\$'000
Overdue by:		
Within 30 days	49,575	80,699
31 to 90 days	297	4,025
91 to 365 days	–	1,860
	49,872	86,584

The Group's prepayments to suppliers are mainly related the Energy trading business. The Group pays prepayment to suppliers to ensure the supply of fuel oil and kerosene. The prepayments are normally utilised within a period of 30 days to 60 days (2015: 30 days to 60 days).

The carrying amounts of the Group's trade and other receivables and prepayments are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
RMB	547,503	425,719
US dollar	122,045	116,531
HK dollar	7,648	4,048
	677,196	546,298

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

20. CASH AND BANK BALANCES

(a) Cash and cash equivalents

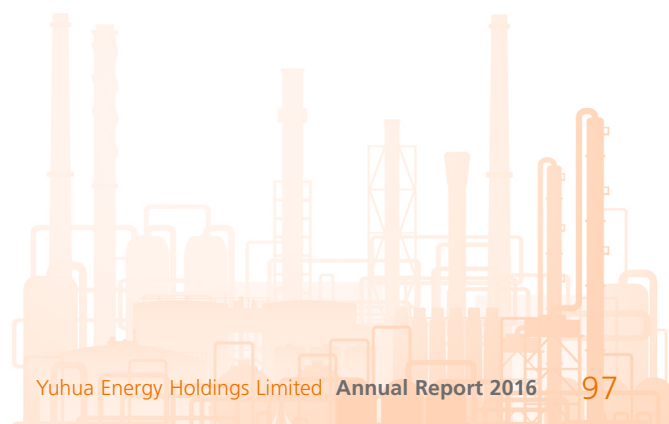
	2016 HK\$'000	2015 HK\$'000
Cash on hand	89	165
Cash at bank	54,579	30,783
Cash and cash equivalents	<u>54,668</u>	<u>30,948</u>

Cash and cash equivalents are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
US dollar	20,136	17,136
RMB	24,636	6,729
HK dollar	9,855	7,013
DKK	32	34
EUR	9	36
	<u>54,668</u>	<u>30,948</u>

(b) Restricted cash

As at 31 December 2016, HK\$44,717,000 (2015: nil) are restricted deposits held at bank as deposit and pledge for bank notes payable.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.005 each:		
Authorised:		
As at 31 December 2015 and 31 December 2016	4,000,000,000	20,000
Issued and fully paid:		
As at 1 January 2015	322,445,564	3,224
Issue of new shares (a)	64,369,112	644
Share subdivision (b)	<u>386,814,676</u>	<u>—</u>
As at 31 December 2015	<u>773,629,352</u>	<u>3,868</u>
As at 31 December 2016	<u>773,629,352</u>	<u>3,868</u>

- (a) On 15 April 2015, the Company entered into a placing agreement with a placing agent whereby the Company agreed to place, through the placing agent, a maximum of 64,369,112 new shares to not less than six places at a price of HK\$0.97 per placing share. The placing was completed on 30 April 2015 and 64,369,112 new shares were issued in accordance with the terms of the placing agreement.
- (b) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 7 July 2015, each of the issued and unissued shares of HK\$0.01 in the share capital of the Company was subdivided into two subdivided shares of par value of HK\$0.005 each with effect from 8 July 2015. Accordingly, the number of issued ordinary shares of the Company was increased from 386,814,676 shares to 773,629,352 shares since 8 July 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

22. OTHER RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Total HK\$'000
At 1 January 2015	90,807	4,950	2,035	3,088	–	100,880
Currency translation differences	–	–	–	(14,345)	–	(14,345)
Issue of shares	60,849	–	–	–	–	60,849
Employees share option scheme:						
– Value of employee services	–	–	–	–	49,343	49,343
– Lapse of share options	–	–	–	–	(8,224)	(8,224)
Appropriation to statutory reserves	–	–	3,228	–	–	3,228
At 31 December 2015	<u>151,656</u>	<u>4,950</u>	<u>5,263</u>	<u>(11,257)</u>	<u>41,119</u>	<u>191,731</u>
	Share premium HK\$'000	Special reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Total HK\$'000
At 1 January 2016	151,656	4,950	5,263	(11,257)	41,119	191,731
Currency translation differences	–	–	–	(22,878)	–	(22,878)
Employees share option scheme:						
– Lapse of share options	–	–	–	–	(8,224)	(8,224)
Appropriation to statutory reserves	–	–	3,308	–	–	3,308
At 31 December 2016	<u>151,656</u>	<u>4,950</u>	<u>8,571</u>	<u>(34,135)</u>	<u>32,895</u>	<u>163,937</u>

23. SHARE-BASED PAYMENTS

Equity-settled share option scheme

On 25 June, 2005, a share option scheme (the "Share Option Scheme") was approved and adopted by the shareholders of the Company. The particulars of the Share Option Scheme are as follows:

Purpose

To enable the Company to grant options to selected eligible participants as incentives or rewards for their contributions to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. SHARE-BASED PAYMENTS *(Continued)*

Eligible Participants

Eligible participants of the Share Option Scheme include:

- (i) (a) any executive director or full time or part time employee of or any person who has accepted an employment offer (whether full time or part time) by; or
- (b) any non-executive director (including independent non-executive director) or officer of; or
- (c) any person who is seconded to work for and has devoted at least 40% of his time to the business of; or
- (d) any business partner, agent, consultant or representative of

any member of the Group (the "Eligible Person"); and
- (ii) any trust for the benefit of an Eligible Person or his immediate family members and a company controlled by an Eligible Person or his immediate family members.

Total number of ordinary shares available for issue

The total number of ordinary shares available for issue under the Share Option Scheme and any other schemes must not exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Share Option Scheme.

At the date of this annual report, a total of 30,800,000 (2015: 38,500,000) outstanding ordinary shares are available for issue under the Share Option Scheme.

Maximum entitlement of each eligible participant

The maximum number of ordinary shares in respect of which options may be granted to each eligible participant in any 12-month period up to the date of grant is not permitted to exceed 1% of the ordinary shares in issue at the date of grant without prior approval from the Company's shareholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. SHARE-BASED PAYMENTS *(Continued)*

Maximum entitlement of each eligible participant *(Continued)*

Any grant of options to any director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Where any grant of options to any substantial shareholder of the Company or any independent non-executive director or any of their respective associates would result in the total number of ordinary shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other schemes in any 12-month period up to and, including the date of grant to such person representing in aggregate over (i) 0.1% of the total ordinary shares then in issue and (ii) having an aggregate value, based on the closing price of the ordinary shares at the date of each offer, in excess of HK\$5,000,000, then the proposed grant must be approved in accordance with the Rules Governing the Listing of Securities on SEHK, including by way of ordinary resolution of the shareholders in general meeting, if so required.

Period within which the ordinary shares must be taken up under a share option

Within 10 years from the date of grant of the share option or such shorter period as the board of directors of the Company determines at the time of grant.

Minimum period, if any, for which an option must be held before it can be exercised

At the time of granting a share option, the board of directors of the Company will determine the minimum period(s), if any, for which a share option must be held before it can be exercised.

Amount payable on application or acceptance of the option

The board of directors of the Company may determine the amount, if any, payable on application or acceptance of the option and the period within which payments must or may be made. Upon acceptance of the option within 28 days from the date of the offer (or such other period as the board of directors of the Company may specify in the offer), the grantee shall pay the amount, if any, specified in the offer to the Company as consideration for the grant within such period as the Company shall specify.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. SHARE-BASED PAYMENTS (Continued)

Basis of determining the subscription price for the ordinary shares

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the board of directors of the Company and shall not be less than the highest of:

- (i) the closing price of the ordinary shares as stated in SEHK's daily quotations sheet on the date of offer of that grant, which must be a business day;
- (ii) the average of the closing prices per ordinary share as stated in SEHK's daily quotations sheet for the five business days immediately preceding the date of offer of that option; and
- (iii) the nominal value of the ordinary shares.

Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2015
Fair value at measurement date	
Share price (Before share subdivision: HK\$5.13)	HK\$2.57
Exercise price (Before share subdivision: HK\$5.13)	HK\$2.57
Expected volatility	59.31%
Option life	10 years
Expected dividends	–
Risk-free interest rate	1.7751%

Volatility is referring to Bloomberg from the average of the historical volatility of daily return of stock of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

Details of the movement of the outstanding share options under the Share Option Scheme are as follows:

Category of participants	Date of grant	Exercise price after (before) share subdivision	Vesting date	Exercisable period	Number of share options		
					As at 01/01/2016	Lapsed (a)	As at 31/12/2016
Employees	19/06/2015	HK\$2.565 (HK\$5.13)	19/06/2015	19/06/2015 – 18/06/2025	38,500,000	7,700,000	30,800,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. SHARE-BASED PAYMENTS *(Continued)*

Fair value of share options and assumptions *(Continued)*

Category of participants	Date of grant	Exercise price after (before) share subdivision	Vesting date	Exercisable period	Number of share options				
					As at 01/01/2015	Granted (b)	Adjustment on share	Lapsed (a)	As at 31/12/2015
Employees	19/06/2015	HK\$2.565 (HK\$5.13)	19/06/2015	19/06/2015 – 18/06/2025	–	23,100,000	23,100,000	7,700,000	38,500,000

(a) The employees' share options lapsed since they resigned from the Company during the year.

(b) The share-based payment expense of HK\$49,343,000 was recognised in profit or loss for year ended 31 December 2015.

24. TRADE AND OTHER PAYABLES

	2016 HK\$'000	2015 HK\$'000
Trade payables to third parties	118,160	191,126
Trade payables to related parties (Note 31(b))	420	620
Bank notes payable (Note 31 (c))	78,256	–
Payroll and welfare payable and taxes payable	19,659	11,458
Advance from customers	24,902	8,344
Amount due to the chairman (Note 31(b))	104,048	5,081
Accrued expenses	13,069	15,697
	358,514	232,326

At 31 December 2016, the ageing analysis of the trade payables (including bank notes payable and amounts due to related parties of trading in nature) based on invoice date were are follows:

	2016 HK\$'000	2015 HK\$'000
Within 30 days	50,506	98,741
31 to 60 days	38,789	37,035
61 to 90 days	99,345	32,045
91 to 120 days	7,131	20,347
Over 120 days	1,065	3,578
	196,836	191,746

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

24. TRADE AND OTHER PAYABLES (Continued)

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
RMB	248,809	111,986
HK dollar	102,956	111,606
US dollar	6,216	8,706
JPY	393	–
EUR	140	28
	358,514	232,326

25. BORROWINGS AND FINANCE LEASE LIABILITIES

	2016 HK\$'000	2015 HK\$'000
Current		
Bank borrowings		
– guaranteed and pledged (i)	119,620	–
– guaranteed (ii)	80,492	137,267
	200,112	137,267
Finance lease liabilities	–	22
Total borrowings	200,112	137,289

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

25. BORROWINGS AND FINANCE LEASE LIABILITIES *(Continued)*

(a) Bank borrowings

- (i) As at 31 December 2016, the guaranteed and pledged bank borrowings from banks amount in HK\$119,620,000 (2015: nil) were secured by Mr. Lin Caihuo, the Chairman of the Company, two related companies beneficially owned by the Chairman and a construction in process of a related company beneficially owned by the Chairman (Note 31(c)).
- (ii) The guaranteed bank borrowings include HK\$35,774,000 secured by the Chairman, and HK\$44,718,000 secured by the Chairman and his spouse and the Company and two related companies beneficially owned by the Chairman (2015: HK\$137,267,000, which was secured by the Chairman and two related companies beneficially owned by the Chairman) (Note 31(c)).

The outstanding bank borrowings of the Group carry interest at effective interest rate ranging from 4.785% to 5.22% (2015: 4.785%) per annum and are repayable in accordance with payment schedule.

As at 31 December 2016 and 31 December 2015, all of the Group's bank borrowings were repayable with one year.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2016 HK\$'000	2015 HK\$'000
RMB	200,112	137,267

The Group has the following undrawn bank borrowing facilities:

	2016 HK\$'000	2015 HK\$'000
Fixed rate:		
– Expiring within one year	224,706	979,854

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

25. BORROWINGS AND FINANCE LEASE LIABILITIES *(Continued)*

(b) Finance lease liabilities

As at 31 December 2016, the Group had no finance lease liability.

As at 31 December 2015, a motor vehicle is under finance lease. The lease term is 2 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 3.48%.

	2016 HK\$'000	2015 HK\$'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	–	22
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	–	22

26. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	199	–
– Deferred tax asset to be recovered within 12 months	81	–
	280	–
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(4,113)	(2,506)
– Deferred tax liability to be recovered within 12 months	–	–
	(4,113)	(2,506)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

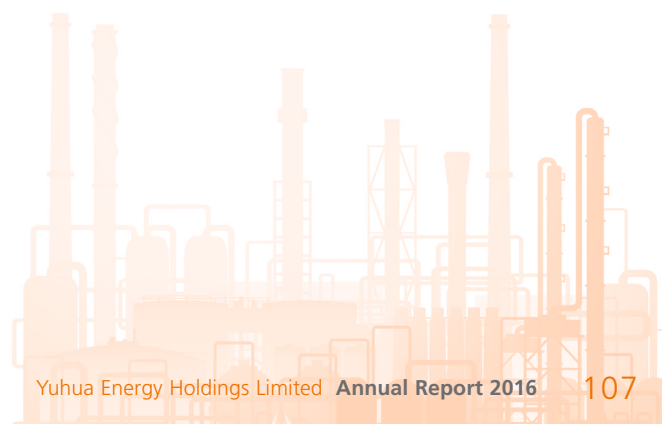
26. DEFERRED INCOME TAX (Continued)

The movement on the deferred income tax account is as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets:		
At 1 January	–	–
Statement of profit or loss credit	<u>280</u>	<u>–</u>
At 31 December	<u>280</u>	<u>–</u>
Deferred tax liabilities:		
At 1 January	(2,506)	(983)
Statement of profit or loss charge	<u>(1,607)</u>	<u>(1,523)</u>
At 31 December	<u>(4,113)</u>	<u>(2,506)</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance for inventories HK\$'000	Provisions for long-term service HK\$'000	Total HK\$'000
Deferred tax assets			
At 1 January 2015	–	–	–
Statement of profit or loss credit	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2015	–	–	–
Statement of profit or loss credit	<u>81</u>	<u>199</u>	<u>280</u>
At 31 December 2016	<u>81</u>	<u>199</u>	<u>280</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

26. DEFERRED INCOME TAX (Continued)

	Undistributed profits of subsidiaries HK\$'000
Deferred tax liabilities	
At 1 January 2015	(983)
Statement of profit or loss charge	<u>(1,523)</u>
At 31 December 2015	(2,506)
Statement of profit or loss charge	<u>(1,607)</u>
At 31 December 2016	<u>(4,113)</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2016, the Group had unutilised tax loss carried forward to offset future taxable profits of HK\$17,283,000 (2015: HK\$6,196,000). No deferred tax asset has been recognised in relation to this tax loss, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

27. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

28. CASH GENERATED FROM OPERATIONS

	2016 HK\$'000	2015 HK\$'000
Profit before income tax	35,156	5,876
Adjustments for:		
– Depreciation of property, plant and equipment (Note 14)	4,005	5,552
– Loss on disposal of property, plant and equipment (see below)	3,180	193
– Write down of inventories (Note 6)	145	347
– Share-based payment (Note 23)	–	49,343
– Finance expenses – net (Note 10)	8,782	4,513
– Interest income (Note 6)	–	(92)
Operating cash flows before movements in working capital	51,268	65,732
– Decrease in inventories	1,230	1,405
– Increase in restricted cash (Note 20)	(44,717)	–
– Increase in prepayments to suppliers	(237,726)	(294,387)
– Decrease/(increase) in trade and other receivables	60,278	(84,009)
– Increase in trade and other payables	148,219	41,830
Cash used in operations	(21,448)	(269,429)

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2016 HK\$'000	2015 HK\$'000
Net book amount (Note 14)	3,210	193
Loss on disposal of property, plant and equipment (Note 9)	(3,180)	(193)
Proceeds from disposal of property, plant and equipment	30	–

29. CONTINGENCIES

As at 31 December 2016, the Group had no significant contingent liability (2015: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

30. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2016 HK\$'000	2015 HK\$'000
Property, plant and equipment		
– Purchase of an oil tanker (Note 16)	40,669	–

(b) Operating lease commitments – as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2016 HK\$'000	2015 HK\$'000
No later than 1 year	15,007	10,468
Later than 1 year and no later than 5 years	40,304	1,758
Later than 5 years	28,754	–
	84,065	12,226

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

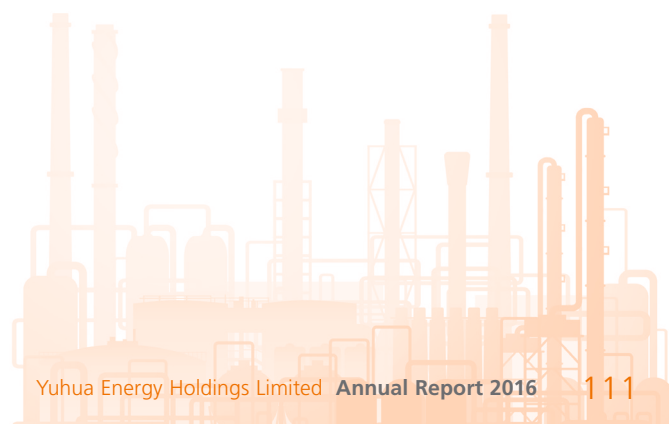
31. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) Related party transactions

Name of related parties	Nature of transactions	2016 HK\$'000	2015 HK\$'000
Tai Sing Industrial Company Limited (泰升實業有限公司) (i)	Technical service income	–	4,616
	Technical service expense	1,680	700
	Reimbursement of administrative supporting service expenses	–	924
	Sales of goods	11,497	21,506
Fujian Yuhua Petrochemical Company Limited (福建裕華石油化工有限公司) (ii)	Oil storage tanks and ancillary facilities related expenses	3,852	6,285
	Transportation services expenses	303	–
Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司) (iii)	Prepayment for acquisition of properties	–	105,925

- (i) A related company beneficially owned by a director of certain subsidiaries of the Company. Sales of goods to Tai Sing Industrial Company Limited were conducted in the normal course of business at prices and terms not less than those charged to and contracted with other third party customers. The other services income and expenses were conducted on mutually agreed terms.
- (ii) A related company beneficially owned by Mr. Lin Caihuo. Oil storage tanks and ancillary facilities related expenses paid was based on estimated open market.
- (iii) A related company beneficially owned by Mr. Lin Caihuo. Transportation services expenses paid was based on estimated market price. The acquisition price of the properties was based on the estimated market price. Details of the transaction is set out in Note 16.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Related party balances

- (i) Prepayment for non-current assets (Note 16)

	2016 HK\$'000	2015 HK\$'000
Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司)	99,208	105,925

- (ii) Amount due to related parties

	2016 HK\$'000	2015 HK\$'000
Mr. Lin Caihuo	104,048	5,081
Tai Sing Industrial Company Limited	420	620
	104,468	5,701

The amount due to Mr Lin Caihuo of HK\$104,048,000 (2015: HK\$5,081,000) represented advances from Mr Lin to support the working capital requirements of the Group and the purchases of properties, plant and equipment of the Group. The amount is unsecured, interest free and has no fixed repayment terms, and is included in "Trade and other payables" (Note 24).

The amount due to Tai Sing Industrial Company Limited represents technical service expense payable for 2016 and reimbursement of expenses payable for 2015.

- (iii) Amount due from a related party

	2016 HK\$'000	2015 HK\$'000
Tai Sing Industrial Company Limited	4,675	–

The amount due from Tai Sing Industrial Company Limited was related to sales transactions and is included in "Trade and other receivables" (Note 19).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Guarantees provided by related parties

The Group's subsidiaries' bank loans and bank notes facilities are supported by guarantees from the Company and related parties as follows:

Guaranteed party – subsidiaries of the Company	Amount guaranteed	Guarantors	Guarantee ceiling
Fuhua (Fujian) Energy Co., Ltd.	Short-term bank borrowings: RMB40,000,000 (equivalent to HK\$44,718,000) (Note 25)	The Company	RMB80,000,000
		Fujian Yuhua Goup Co., Ltd. (福建裕華集團有限公司) (i)	RMB40,000,000
		Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司)	RMB40,000,000
		Mr. Lin Caihuo and his spouse	RMB80,000,000
Yuhua Energy (Xiamen) Co., Ltd.	Short-term bank borrowings: RMB139,000,000 (equivalent to HK\$155,394,000) (Note 25)	Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司) (ii)	RMB211,200,600
		Fujian Yuhua Goup Co., Ltd. (福建裕華集團有限公司)	RMB107,000,000
		Mr. Lin Caihuo	RMB169,000,000
Yuhua Energy (Xiamen) Co., Ltd.	Bank notes payable: RMB60,000,000 (equivalent to HK\$67,077,000) (Note 24)	Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司) (iii)	RMB178,507,300
		Fuhua (Fujian) Energy Co., Ltd.	RMB160,000,000
		Mr. Lin Caihuo and his spouse (iii)	RMB178,507,300

- (i) A related company beneficially owned by Mr. Lin Caihuo.
- (ii) Except for the guarantee, Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司) also provided constructions in process as securities for the borrowings of the Group as disclosed in note 25.
- (iii) Except for the guarantee, Xiamen Sea Star Shipping Co., Ltd. (廈門海之星航運有限公司) and Mr. Lin Caihuo also provided property as pledge for the bank notes payable of the Group disclosed in note 25.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and other short-term benefits	1,760	2,172

The remuneration of directors and key management is recommended by the remuneration committee for approval by the board of directors having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

32. EVENTS AFTER THE REPORTING PERIOD

Except for the events after the reporting period which have been disclosed in the consolidated financial statements, the other material subsequent events of the Group are as follows.

(a) Supply and R&D service agreement

On 8 February 2017, Shinhint Industries Limited (成謙實業有限公司), an indirect wholly-owned subsidiary of the Company, entered into a supply and R&D service agreement with Tai Sing Industrial Company Limited (泰升實業有限公司) for the period from 1 January 2017 to 31 December 2017 in relation to the (i) supply of speaker units by Shinhint Industries Limited or any of its subsidiaries to Tai Sing Industrial Company Limited; and (ii) provision of the research and development of headphones and speaker products services (the "R&D Service") by Tai Sing Industrial Company Limited to Shinhint Industries Limited or any of its subsidiaries. The annual caps for the supply of speaker units and the R&D Service for the year ending 31 December 2017 are HK\$20,000,000 and HK\$2,400,000 respectively.

(b) Proposed share subdivision

On 13 March 2017, the Board of the Company proposed to subdivide every one existing issued and unissued share of the Company of a par value of HK\$0.005 each into two subdivided shares of a par value of HK\$0.0025 each. The share subdivision will become effective upon the fulfilment of the following conditions of the share subdivision.

- (i) the passing of an ordinary resolution to approve the share subdivision by the shareholders of the Company at the EGM; and
- (ii) the Stock Exchange granting approval for the listing of, and permission to deal in, the subdivided shares.

All subdivided Shares will rank pari passu with each other in all respects with the Shares in issue and the share subdivision will not result in any change in the relevant rights of the shareholders of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

33. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position of the Company

	As at 31 December	
	2016 HK\$'000	2015 HK\$'000
Assets		
Non-current assets		
Investment in subsidiaries	109,039	20,587
Amount due from subsidiaries	346,685	93,780
	<u>455,724</u>	<u>114,367</u>
Current assets		
Amounts due from subsidiaries	–	336,474
Other receivables	–	474
Cash and cash equivalents	1,143	794
	<u>1,143</u>	<u>337,742</u>
Total assets	<u>456,867</u>	<u>452,109</u>
Equity		
Share capital	3,868	3,868
Other reserves	292,198	300,422
Retained profits	26,619	20,206
	<u>322,685</u>	<u>324,496</u>
Liabilities		
Current liabilities		
Amount due to subsidiaries	125,236	125,167
Other payables	8,946	2,446
	<u>134,182</u>	<u>127,613</u>
Total equity and liabilities	<u>456,867</u>	<u>452,109</u>

The Statement of financial position of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf.

Lin Caihuo
Director

Wang Enguang
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

33. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

(Continued)

(b) Reserve movement of the Company

	Share premium HK\$'000	Special reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2015	90,807	107,647	–	15,507	213,961
Loss for the year	–	–	–	(3,525)	(3,525)
Issue of shares	60,849	–	–	–	60,849
Employees share option scheme:					
– Value of employee services	–	–	49,343	–	49,343
– Lapse of share options	–	–	(8,224)	8,224	–
At 31 December 2015	<u>151,656</u>	<u>107,647</u>	<u>41,119</u>	<u>20,206</u>	<u>320,628</u>
At 1 January 2016	151,656	107,647	41,119	20,206	320,628
Loss for the year	–	–	–	(1,811)	(1,811)
Employees share option scheme:					
– Lapse of share options	–	–	(8,224)	8,224	–
At 31 December 2016	<u>151,656</u>	<u>107,647</u>	<u>32,895</u>	<u>26,619</u>	<u>318,817</u>

(c) Contingencies of the Company

The Company provided guarantee for the borrowings of Fuhua (Fujian) Energy Co., Ltd., a subsidiary of the Company, in the amount of RMB40,000,000 (equivalent to HK\$44,718,000) with a guarantee ceiling of RMB80,000,000 (Note 31(c)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. BENEFITS AND INTERESTS OF DIRECTORS

(A) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below

For the year ended 31 December 2016:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Other emoluments HK\$'000	Total HK\$'000
<i>Executive directors</i>							
Lin Caihuo	-	1,200	-	-	-	-	1,200
Wang Enguang	-	200	-	-	-	-	200
<i>Independent non-executive directors</i>							
Lum Pak Sum	120	-	-	-	-	-	120
Liu Yang	120	-	-	-	-	-	120
Wong Yan Ki (Note (a))	20	-	-	-	-	-	20
Zhang Jiping (Note (b))	100	-	-	-	-	-	100
Total	360	1,400	-	-	-	-	1,760

Notes:

- (a) Appointed on 1 November 2016.
- (b) Resigned on 1 November 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(A) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2015:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Other emoluments HK\$'000	Total HK\$'000
<i>Executive directors</i>							
Lin Caihuo	-	1,200	-	-	-	-	1,200
Kang Guiping (Note (a))	-	347	-	-	-	-	347
Wang Enguang	-	200	-	-	-	-	200
<i>Non-executive directors</i>							
Yip Yat Ming (Note (b))	65	-	-	-	-	-	65
<i>Independent non-executive directors</i>							
Yen Chanan (Note (c))	25	-	-	-	-	-	25
Lum Pak Sum	120	-	-	-	-	-	120
Tsui Man Yin (Note (d))	65	-	-	-	-	-	65
Liu Yang (Note (e))	95	-	-	-	-	-	95
Zhang Jiping (Note (f))	55	-	-	-	-	-	55
Total	425	1,747	-	-	-	-	2,172

Notes:

- (a) Resigned on 11 September 2015.
- (b) Resigned on 15 July 2015.
- (c) Resigned on 16 March 2015.
- (d) Resigned on 15 July 2015.
- (e) Appointed on 16 March 2015.
- (f) Appointed on 15 July 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(B) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2015: nil).

(C) Consideration provided to third parties for making available directors' services

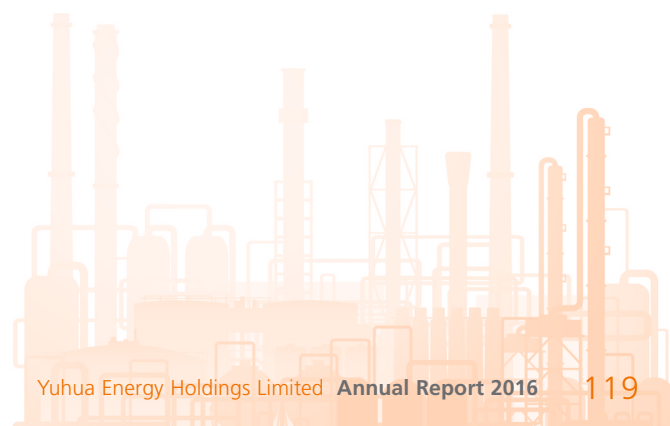
During the year ended 31 December 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: nil).

(D) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2016, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors (2015: nil).

(E) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: nil).



Financial Summary

	Year ended 31st December,				2016 HK\$'000
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	
RESULTS					
Continuing operations:					
Revenue	<u>398,451</u>	<u>433,643</u>	<u>551,117</u>	<u>4,735,523</u>	<u>5,915,428</u>
(Loss)/profit for the year from continuing operations	2,555	510	5,275	(10,172)	24,370
Discontinued operations:					
Profit/loss for the year	<u>(35,953)</u>	<u>5,073</u>	<u>2,297</u>	<u>—</u>	<u>—</u>
(Loss)/profit for the year	<u>(33,398)</u>	<u>5,583</u>	<u>7,572</u>	<u>(10,172)</u>	<u>24,370</u>
Attributable to:					
Owners of the Company	(33,398)	5,583	7,572	(10,172)	24,370
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>(33,398)</u>	<u>5,583</u>	<u>7,572</u>	<u>(10,172)</u>	<u>24,370</u>
At 31st December,					
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES					
Total assets	612,513	620,151	466,558	733,243	922,016
Total liabilities	<u>(356,939)</u>	<u>(359,206)</u>	<u>(199,121)</u>	<u>(379,487)</u>	<u>(566,768)</u>
Shareholders' funds	<u>255,574</u>	<u>260,946</u>	<u>267,437</u>	<u>353,756</u>	<u>355,248</u>
Equity attributable to owners of the Company					
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>255,574</u>	<u>260,946</u>	<u>267,437</u>	<u>353,756</u>	<u>355,248</u>