YUHUA ENERGY HOLDINGS LIMITED
裕華能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2728)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE INTERIM REPORT OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND BUSINESS UPDATE OF THE COMPANY

Reference is made to the interim report for the six months ended 30 June 2019 (the "**2019 Interim Report**") of Yuhua Energy Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the 2019 Interim Report.

The Board would like to provide further information in relation to the Group's different business segments, business updates and the financial positions of the Group.

FURTHER INFORMATION ON THE BUSINESSES OF THE GROUP

(1) Energy Trading Business

For the six months ended 30 June 2019, the revenue of the energy trading business dropped to approximately HK$138,000, representing a decrease of approximately 99.9%, compared to the same period in the previous year. Such decrease was mainly attributable to decrease in sales orders from customers in view of the price instability in the oil market under the uncertain outcome of macro environment arising from trade tensions between the U.S. and the PRC.

As disclosed in the 2019 Interim Report, the energy trading business of the Group suffered from geopolitics and US-China Trade War, which lead to volatile petrochemical price. Between 1 January 2019 to 30 June 2019, crude oil price varied significantly, and fluctuated between US$45 per barrel and US$66 per barrel. Given the high price volatility, the Group bears a significant risk of price difference between the time when it placed purchase orders with the suppliers and the time it received orders from customers. While the gross profit margin of the energy trading business is very thin (i.e. around 1%), any material price fluctuation could have a significant impact on the Group's profitability. Therefore, the Group was cautious in placing purchase orders and taking up sales orders during times of significant price volatility.

Further, during the first half of 2019, the global market remained volatile facing uncertainties such as the U.S. interest rate outlook, outcome of Brexit and the U.S.-China Trade War and the slowing global economic growth momentum. Against such backdrop, customers of the Group withheld or postponed their purchase orders in the six months ended 30 June 2019 leading to the decrease in revenue of the Group's energy trading segment.

Lastly, during the six months ended 30 June 2019, significant amount of the Group's working capital was locked in impaired trade and other receivables, hence limiting the Group's ability to purchase inventory, and in turn hindering the business of the Group. During such period, the Group focused on internal restructuring, including streamlining corporate structure and human resources, pursuing settlement of trade and other receivables and exploring new energy trading products. Therefore, the business scale of the Group during such period was limited.

The management of the Company had been actively reviewing its business from time to time. Subsequent to 30 June 2019, the Company has completed several fundraising exercises (including a placing of shares, issue of notes and obtaining shareholder's loan), raising a total of approximately HK$255.7 million for, among others, working capital and repayment of borrowings. With such new capital, the Group has been gradually resuming its sales operation to a normal level. The Company may continue to raise funds through equity and/or debt fundraising via the listing platform to increase its ability to take on large sales transactions so as to expand its scale of operation. The Group has been actively seeking new customers and expanding its product portfolio. In August 2019, the Group entered into long-term agreements with two new customers, namely (i) a framework agreement on 23 August 2019 with Guangxi Yongsheng Petrochemical Co. Ltd.* (廣西永盛石油化工有限公司) ("**Guangxi Yongsheng**"), a wholly-owned subsidiary of a state-controlled A-shares company listed on the Shanghai Stock Exchange (600310.SH) with total assets of approximately RMB16.4 billion as at 30 June 2019, and is engaged in electricity generation and trading of petrochemical products, pursuant to which it will procure from the Group fuel oil products and petrochemical products of no less than 2 million tonnes with amount not less than RMB10 billion from 23 August 2019 to 31 December 2022 ("**Framework Agreement 1**"); and (ii) a framework agreement on 29 August 2019 with Dalian Bonded Area Shengyang Petrochemical Co. Ltd.* (大連保稅區盛洋石化有限公司) ("**Dalian Shengyang**"), a Dalian-based company engaged in petrochemical business, pursuant to which it will procure from the Group fuel oil products and petrochemical products of no less than 1.2 million tonnes with amount not less than RMB6 billion from 1 September 2019 to 31 December 2021 ("**Framework Agreement 2**").

In September 2019, the Group engaged five new customers, including Guangxi Yongsheng and Dalian Shengyang. Instead of selling to purely trading companies previously, moving forward, the Group intends to engage more new end-user corporate customers with sound financials and sizeable business and assets, such as petrochemical refinery companies, gas station operators and sizeable trading companies with oil depots, state-owned enterprises and listed companies (such as Guangxi Yongsheng), which are more credible and have more stable demand. The Group will engage new customers through the network of the new Directors and substantial Shareholders. Mr. Chen Jinle ("**Mr. Chen**"), the chairman of the Board, an executive Director and a substantial Shareholder, has 12 years of work experience in the energy industry. Mr. Chen is currently the chairman of the board of directors of Shanghai Genting Energy Group Limited* (上海雲頂能源集團有限公司), and the chief executive officer of Shandong Bingang International Supply Chain Management Co., Ltd.* (山東濱港國際供應鏈管理有限公司). Mr. Cui Xianguo, who became a substantial Shareholder since August 2019, has been working in the oil trading business since 2000 and is currently the general manager of Dongying Hengfeng Chemical Co., Ltd.* (東營市恒豐化工有限公司). The Group intends to enter into long-term framework agreements with its key customers to secure the customers and require its customers to make upfront deposits or full payments upon receiving the orders to reduce default risk and to reduce the Group's needs on working capital.

It is expected that for the years ending 31 December 2019, 2020 and 2021, the Group will generate revenue of approximately RMB500 million, RMB3.0 billion, and RMB3.2 billion under Framework Agreement 1, and approximately RMB400 million, RMB2.6 billion, and RMB3.0 billion under Framework Agreement 2, respectively.

Based on the unaudited management accounts of the Group, during September 2019, the Group generated revenue of approximately RMB461.9 million from energy trading business, of which approximately RMB33.5 million was generated from Framework Agreement 1 and approximately RMB114.2 million was generated from Framework Agreement 2, respectively. Besides engaging new customers, the Group had also been exploring new products to expand its product portfolio. During September 2019, the Group traded two new types of products, which contributed sales revenue of approximately RMB122.1 million, representing approximately 26.4% of total revenue of such period. Given that transaction amount is generally relatively smaller when starting business with new customers, the management of the Company expects that the sales volume will gradually increase when the Group builds up its track record with the new customers. During the nine months ended 30 September 2019, the Group did not generate sales revenue from its previous customers in 2018. Going forward, the Group intends to focus on exploring new customers and may not actively promote sales to such previous customers.

Recently, the Group has also been actively identifying new suppliers to expand its supplier base and reduce reliance on any single large supplier. In September 2019, the Group has engaged 28 new suppliers in order to diversify its supplier base to reduce default risk. The Group also reduced the prepayment percentage to approximately 20–30% of the transaction amount. Moving forward, the Group intends to further diversify its supplier base and continue to assess the payment terms to optimise its financials.

(2) Energy Transportation Business

Based on the currently available information, a potential acquisition of the entire equity interest in a company engaged in the provision of energy transportation services (the "**Proposed Acquisition**") (Further details about the Proposed Acquisition are disclosed in the announcement of the Company dated 27 August 2019) may constitute a notifiable and connected transaction, which is subject to Shareholders' approval.

As at the date of this announcement, the Company has engaged a financial adviser for the Proposed Acquisition. The Company is expected to commence conducting due diligence on the target company soon. The consideration is expected to be settled by cash, equity and/or debt and the Proposed Acquisition is targeted to complete on or before 31 December 2019.

The target company is a limited liability company established in the PRC in 2006 with registered capital of RMB30 million, and holds a road transport operation license. It owned a car fleet of over 80 oil transport vehicles with transport capacity of 32 tonnes each. For the three years ended 31 December 2018, the average revenue of the target company was over RMB60 million per year.

Given that the Group is engaged in energy trading business, the management believes that the Proposed Acquisition represents a good opportunity for the Group to expand vertically, and achieve synergy effects of lowering cost and offering diversified services to customers, such as transporting the Group's products/other suppliers' products from the ports to the customers' refineries/depots, so as to increase their loyalty.

(3) Speaker Unit Business

The speaker unit business shall remain as the non-core business of the Group. The management of the Company has been reviewing the business to formulate a business plan to turnaround the business, including increasing the pricing by selling more high-end products, cease selling products with low or no profit margin and control product costs.

The management intends to work closer with the Group's customers to understand their needs and expand the product portfolio with higher gross profit margins, and to transfer the non-core products OEMs to factories in other Asian countries with lower cost.

The Group will exercise caution and intends to adopt a conservative approach in managing the operation of and making investments into such non-core business. The Group will focus on controlling the expenses of the non-core business and avoiding any unexpected and/or non-recurring material expenses/losses. Therefore, it is expected that the non-core business will remain stable and turnaround in the medium term.

FURTHER INFORMATION ON THE GROUP'S FINANCIAL POSITIONS

As at 30 June 2019, the Group had net liabilities of approximately HK$582 million, mostly comprised of (i) HK$311 million of bank borrowings; (ii) HK$98 million of notes payable with maturity in 2020; and (iii) HK$102 million of trade and other payables. The table below sets out the borrowings of the Group as at 30 September 2019:

Nature of borrowing	**Outstanding principal as at 30 September 2019** *(HK$ million)*	**Due date**
Bank loan	13.5	December 2021
Convertible Bond	111.0	July 2020
Bank loan	217.1	March 2020
Bank loan	21.0	December 2021
Bank loan	33.0	September 2019 *(Note)*
Bank loan	27.2	March 2020
Shareholder's loan	88.4	August 2021
Shareholder's loan	100.0	September 2020

Note: The bank has filed legal claim against two subsidiaries of the Company, namely YuHua Energy (Xiamen) Co. Ltd.* (裕華能源(廈門)有限公司) and YuHua Energy Holdings Group (Fujian) Co., Ltd.* (裕華能源控股集團(福建)有限公司) (collectively, the "**Relevant Subsidiaries**"), Xiamen Oceanstar Shipping Co., Ltd.* (廈門海之星航運有限公司), Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司), Mr. Lin Caihuo (the honorary chairman of the Company and an executive Director) ("**Mr. Lin**") and his wife, Ms. Lin Aihua (Mr. Lin's spouse) ("**Ms. Lin**") (collectively, the "**Defendants**") for the overdue bank loan. Xiamen Oceanstar Shipping Co., Ltd.* (廈門海之星航運有限公司) and Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司) are companies owned by Mr. Lin and Ms. Lin. In relation to such claim, the Intermediate People's Court of Xiamen City, Fujian Province (廈門市中級人民法院) has issued an order in September 2019 to freeze, seize, auction and realise (i) cash or other property in the aggregate amount of RMB30,350,000 of the Defendants; (ii) certain pledged properties of Mr. Lin and Ms. Lin; and (iii) certain pledged properties of Xiamen Oceanstar Shipping Co., Ltd.* (廈門海之星航運有限公司). For further details, please refer to the announcement of the Company dated 11 October 2019. The Directors confirm that the Relevant Subsidiaries did not engage in any material business operation during the six months ended 30 June 2019 and did not hold any material assets as at 30 June 2019. The Relevant Subsidiaries are no longer the main operating subsidiaries of the Group. Given that (i) the amount of the overdue bank loan is not material; (ii) the Relevant Subsidiaries were not the main operating subsidiaries of the Group and did not hold any material assets as at 30 June 2019; (iii) the relevant pledged properties are not the Group's assets; and (iv) the Company is not a defendant of the claim, the Directors consider the court action will not have a material impact on the Group's business and financial position.

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK$28.9 million. In August 2019, the Group obtained an unsecured loan in the amount of RMB80 million from Mr. Chen. Also in August 2019, the Company completed a placing with net proceeds of approximately HK$67.3 million. In September 2019, the Group issued a 3-year note of principal amount of HK$100 million to a substantial Shareholder. Based on the unaudited management accounts of the Group, as at 30 September 2019, the Group had cash and cash equivalents of approximately RMB76.4 million. The Group has bank borrowings of approximately HK$244.3 million in aggregate falling due in March 2020. The Directors consider that while the Group resumes normal business operation, it will be able to pay the relevant interest on the bank loans and the relevant banks will agree to renew the loans upon expiry.

Based on the Group's cash position, and the fact that the Group's operation is resuming and considering the repayment schedule of the Group's borrowings, the Directors consider that the Group has sufficient funds to meet its repayment obligations and maintain sufficient level of operations.

The Company will keep the public informed of the latest developments by making further announcement(s) as and when appropriate.

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

Hong Kong, 17 October 2019

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