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YUHUA ENERGY HOLDINGS LIMITED

裕華能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2728)

PROPOSED SHARE SUBDIVISION

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The Board proposes to subdivide every one (1) existing issued and unissued Share of a par value of HK\$0.0025 each into two (2) Subdivided Shares of a par value of HK\$0.00125 each.

The Share Subdivision will become effective upon the fulfilment of the conditions set out in the paragraph headed “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 become 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.

GENERAL

An EGM will be convened and held to consider and, if thought fit, to approve the Share Subdivision in which an ordinary resolution to approve the Share Subdivision will be proposed. No Shareholder will be required to abstain from voting at the EGM.

The Circular containing, among other things, further details of the Share Subdivision, together with the notice of the EGM and proxy form, will be despatched to the Shareholders on or before 22 December 2017.

PROPOSED SHARE SUBDIVISION

The Board proposes to subdivide every one (1) existing issued and unissued Share of a par value of HK\$0.0025 each into two (2) Subdivided Shares of a par value of HK\$0.00125 each. The Share Subdivision will become effective upon the fulfilment of the conditions set out in the paragraph headed “Conditions of the Share Subdivision” below. No fractional Subdivided Shares will arise.

Conditions of the Share Subdivision

The Share Subdivision is conditional upon:

- (i) the passing of an ordinary resolution to approve the Share Subdivision by the Shareholders at the EGM; and
- (ii) the Stock Exchange granting approval for the listing of, and permission to deal in, the Subdivided Shares.

The Share Subdivision will become effective after the conditions of the Share Subdivision above are fulfilled.

Listing Application

An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Subdivided Shares. Subject to the granting of the listing of, and permission to deal in, the Subdivided Shares on the Stock Exchange, the Subdivided Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Subdivided Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Effects of the Share Subdivision

As at the date of this announcement, the authorised share capital of the Company is HK\$20,000,000 divided into 8,000,000,000 Shares of par value of HK\$0.0025 each, of which 1,547,258,704 Shares have been issued and are fully paid or credited as fully paid.

Upon the Share Subdivision becoming effective and on the basis that no further Shares will be allotted and issued or repurchased prior thereto, the authorised share capital of the Company will be HK\$20,000,000 divided into 16,000,000,000 Subdivided Shares of par value of HK\$0.00125 each, of which 3,094,517,408 Subdivided Shares will be in issue and fully paid or credited as fully paid. 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 become 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.

As at the date of this announcement, the Company has outstanding Share Options entitling the holders thereof to subscribe for a total of 61,600,000 Shares at an exercise price of HK\$1.2825 per Share (subject to adjustment, if any). Under the relevant terms and conditions of the Share Option Scheme, the Share Subdivision may lead to adjustments to the exercise price and/or the number of Shares falling to be issued upon the exercise of the Share Options. The Company will make further announcement(s) on such adjustments as and when appropriate.

Exchange of Share Certificates

Upon the Share Subdivision becoming effective, the Shareholders can submit their existing share certificates for the existing Shares to 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, Wan Chai, Hong Kong, in exchange, at the expense of the Company, for the new share certificates for the Subdivided Shares during the business hours from 9:00 a.m. to 4:30 p.m. on any business day from 17 January 2018 to 26 February 2018 (both days inclusive). After the expiry of such period, existing share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each existing share certificate cancelled or new share certificate issued (whichever number of share certificates involved is higher). Nevertheless, existing share certificates for Shares will continue to be good evidence of legal title and may be exchanged for share certificates for Subdivided Shares for trading, settlement and registration purpose at any time after 26 February 2018.

It is expected that the new share certificates for the Subdivided Shares will be available for collection within a period of ten business days after the submission of the existing share certificates for the Shares to Computershare Hong Kong Investor Services Limited for exchange.

The new share certificates for the Subdivided Shares will be issued in purple colour to distinguish from the existing share certificates for the Shares which are in blue colour.

ODD LOT ARRANGEMENT

As it is expected that no odd lot of the Shares will be created as a result of the Share Subdivision, no odd lot arrangement to match the sales and purchase of odd lots will be made.

REASONS FOR THE SHARE SUBDIVISION

Upon the proposed Share Subdivision becoming effective, the par value of each Share will decrease and the total number of shares of the Company in issue will increase. The Share Subdivision will result in a downward adjustment to the trading price of the Shares. Based on the closing price of HK\$1.14 per Share as quoted on the Stock Exchange on 6 December 2017, being the last trading day prior to the issue of this announcement, the market value per board lot of 4,000 existing Shares is HK\$4,560. The estimated market value per board lot of 4,000 Subdivided Shares will theoretically be reduced to HK\$2,280, with a theoretical adjusted price of HK\$0.57 per Subdivided Share immediately upon the Share Subdivision becoming effective. The Board believes that the reduced market value of each board lot of Subdivided Shares helps the Subdivided Shares to be perceived as more attractive and therefore entice new investors, and hence may help improve the liquidity in trading of the Subdivided Shares. In fact, after the Previous Subdivision which was announced by the Company on 13 March 2017 and subsequently came into effect on 27 April 2017, the average daily trading volume of the Shares reached 5,378,100 Shares in May 2017, representing a substantial increase as compared to 459,059 Shares in April 2017. Meanwhile, the closing price of the Shares has increased by approximately 60.6% from HK\$0.71, being the closing price of the Shares on the effective date of the Previous Subdivision, to HK\$1.14 as at 6 December 2017. It is also noted that the closing price per Share remained at or above HK\$1.00 during the last six months prior to the proposed Share Subdivision (i.e. 5 June 2017 to 6 December 2017, the “**Six-month Period**”). There was an increasing trend of the closing price per Share during the Six-month Period. The closing price per Share increased from HK\$1.02 as at 5 June 2017 to HK\$1.14 as at 6 December 2017, representing a growth of approximately 11.76%. Meanwhile, the monthly average trading volume decreased from 5,378,100 Shares for May 2017 to 763,273 Shares for November 2017. Our Directors consider that as the Share price gets higher and higher, some investors may feel the price is too high for them to buy, or small investors may feel it is unaffordable.

The Directors have noted that among all the companies listed on the main board of the Stock Exchange with a market capitalisation ranging from HK\$1.0 billion to HK\$2.5 billion that are at similar level to that of the Company of approximately HK\$1.8 billion as at 6 December 2017, the liquidity of those companies that have a stock price lower than HK\$1.0 per share (the “**Low Price Companies**”) may generally be better than the liquidity of those companies with a share price equal to or above HK\$1.0 per share (the “**High Price Companies**”). Specifically, the average daily trading volume over the total number of shares in issue for the Six-months Period of the Low Price Companies was approximately 0.200% on average, which was approximately 15.6% higher than that for the High Price Companies of approximately 0.173%; and the average daily trading volume over the total number of shares in issue for the last three months up to 6 December 2017 of the Low Price Companies was approximately 0.230% on average, which was approximately 33.7% higher than that for the High Price Companies of approximately 0.172%.

It is noted that the average daily trading volume of the Shares over the total number of Shares in issue were approximately 0.043% and 0.070% during the last three months and six months up to 6 December 2017, respectively, which were lower than that of the Low Price Companies. Having considered the aforesaid factors, in particular, the fact that the liquidity of the Shares improved significantly after the Previous Subdivision became effective but subsequently lowered again as the Share price gradually increased during the Six-month Period, the Directors are of the view that the liquidity of the Shares may be improved by the Share Subdivision to reduce the stock price to below HK\$1.0 per Subdivided Share as demonstrated by the liquidity trend of the Shares since the Previous Subdivision, and no other available alternative methods (e.g. change in board lot size) can have such effect.

In addition, the Directors also considered the stock price of companies (the “**Comparable Companies**”) listed on the main board of the Stock Exchange which principally engaged in business similar to the Company as listed below:

| Stock code | Company name | Closing share price (HKD) | Board lot size (shares) | Market value per board lot (HKD) |
|-------------------|---|--|------------------------------------|---|
| 0332 | Yuan Heng Gas Holdings Limited | 0.820 | 4,000 | 3,280 |
| 0342 | Newocean Energy Holdings Limited | 1.800 | 2,000 | 3,600 |
| 0346 | Yanchang Petroleum International Limited | 0.120 | 10,000 | 1,200 |
| 0554 | Hans Energy Company Limited | 0.183 | 2,000 | 366 |
| 0681 | Chinese People Holdings Company Limited | 0.103 | 2,000 | 206 |
| 0852 | Strong Petrochemical Holdings Limited | 1.380 | 2,000 | 2,760 |
| 0934 | Sinopec Kantons Holdings Limited | 4.460 | 2,000 | 8,920 |
| 0956 | China Suntien Green Energy Corporation Limited | 1.840 | 1,000 | 1,840 |
| 2728 | The Company | 1.140 | 4,000 | 4,560 |

Source: Thomson Reuters

Note: Information as at 6 December 2017.

As illustrated above, the Directors noted that other than Sinopec Kantons Holdings Limited, which has an exceptionally high board lot value, all other seven Comparable Companies have market value per board lot lower than the Company, among which four of them has a market value per board lot lower than or similar to half of the Company’s current market value per board lot. The Directors believed that the proposed Share Subdivision helps reduce the market value of each board lot of Subdivided Share to a level similar to the Comparable Companies, and hence, may help the Subdivided Shares to be perceived as more attractive and therefore entice new investors.

Our Directors also considered the average daily trading volume of the shares over the total number of shares in issue of the Comparable Companies as listed below:

| Stock code | Company name | Total number of shares in issue (<i>'000 shares</i>) | Average daily trading volume – 3 months (<i>shares</i>) | Average daily trading ratio – 3 months (%) | Average daily trading volume – 6 months (<i>shares</i>) | Average daily trading ratio – 6 months (%) |
|-------------|--|---|--|---|--|---|
| 0332 | Yuan Heng Gas Holdings Limited | 6,518,339 | 9,735,253 | 0.145 | 6,312,890 | 0.097 |
| 0342 | Newocean Energy Holdings Limited | 1,473,030 | 1,316,480 | 0.089 | 1,268,576 | 0.086 |
| 0346 | Yanchang Petroleum International Limited | 12,145,573 | 5,382,061 | 0.044 | 4,388,443 | 0.036 |
| 0554 | Hans Energy Company Limited | 3,732,638 | 382,312 | 0.010 | 722,573 | 0.019 |
| 0681 | Chinese People Holdings Company Limited | 7,152,954 | 8,425,399 | 0.118 | 5,859,666 | 0.082 |
| 0852 | Strong Petrochemical Holdings Limited | 2,123,722 | 2,090,140 | 0.098 | 3,656,638 | 0.172 |
| 0934 | Sinopec Kantons Holdings Limited | 2,486,160 | 3,313,531 | 0.133 | 3,982,552 | 0.160 |
| 0956 | China Suntien Green Energy Corporation Limited | 1,839,004 | 14,536,490 | 0.791 | 10,893,469 | 0.592 |
| 2728 | The Company | 1,547,259 | 668,625 | 0.043 | 1,077,015 | 0.070 |

Source: Thomson Reuters

Note: Information as at 6 December 2017.

As illustrated above, the Directors noted that other than Hans Energy Company Limited and Yanchang Petroleum International Limited, all other six Comparable Companies have average daily trading volume ratio higher than that of the Company, the Directors believed that the proposed Share Subdivision may increase the average daily trading volume to a level similar to the Comparable Companies, and hence, may help improve the liquidity trading of the Company's share.

Other than the expenses to be incurred in relation to the Share Subdivision, including professional fees and printing charges that are expected to be approximately HK\$300,000, the implementation of the Share Subdivision will not alter the underlying assets, business operations, management or financial position of the Company or rights and interest of the Shareholder. In addition, it is expected that no odd lot of the Share will be created as a result of the proposed Share Subdivision, hence, no negative impact on rights and interest of the Shareholders is expected resulting from the Share Subdivision. Hence, the proposed Share Subdivision is justifiable given the insignificant expenses to be incurred and that no odd lots will be created.

The Directors confirm that there is no agreement, arrangement, understanding, intention, negotiation (concluded or otherwise) on any potential fund raising activities in the next twelve months. The Directors further confirm that there is no intention to carry out other corporate action in the next twelve months which may have an effect of undermine or negate the intended purpose of the Share Subdivision.

In view of the foregoing, the Board (including the independent non-executive Directors) considers that the Share Subdivision is justifiable and is in the interest of the Company and the Shareholders as a whole.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Subdivision is set out below:

Despatch of the circular in relation to the Share Subdivision
together with the notice of the EGM and proxy form on or before Friday,
22 December 2017

Latest time for lodging transfers of shares to
qualify for attending the EGM 4:30 p.m. on Wednesday,
10 January 2018

Closure of register of members for the purpose of
determining members who are entitled to
attend the EGM (both dates inclusive) Thursday, 11 January 2018 to
Tuesday, 16 January 2018

Latest time for lodging proxy form for the EGM (not less than
48 hours prior to the time of EGM) 11:00 a.m. on Sunday,
14 January 2018

Record date for attending and voting at the EGM Tuesday,
16 January 2018

Expected date and time of the EGM. 11:00 a.m. on Tuesday,
16 January 2018

Announcement of poll results of the EGM. Tuesday,
16 January 2018

The following events are conditional on the fulfilment of the conditions for the implementation of the Share Subdivision as set out in the paragraph headed “Conditions of the Share Subdivision” above.

Effective date of the Share Subdivision Wednesday,
17 January 2018

First day of free exchange of existing share certificates for
new share certificates for the Subdivided Shares Wednesday,
17 January 2018

Dealings in the Subdivided Shares commence 9:00 a.m. on Wednesday,
17 January 2018

Original counter for trading in the existing Shares
(in board lots of 4,000 existing Shares) temporarily closes 9:00 a.m. on Wednesday,
17 January 2018

Temporary counter for trading in the Subdivided Shares
in board lot of 8,000 Subdivided Shares (in the form of
existing share certificates in blue colour) opens 9:00 a.m. on Wednesday,
17 January 2018

Original counter for trading in the Subdivided Shares
in board lots of 4,000 Subdivided Shares (in the form of
new share certificates in purple colour) re-opens 9:00 a.m. on Wednesday,
31 January 2018

Parallel trading in existing Shares and the Subdivided Shares
(in the form of existing share certificates in blue colour
and new share certificates in purple colour) commences 9:00 a.m. on Wednesday,
31 January 2018

Temporary counter for trading in the Subdivided Shares
in board lots of 8,000 Subdivided Shares (in the form of
existing share certificates in blue colour) closes. 4:00 p.m. on Thursday,
22 February 2018

Parallel trading in existing Shares and the Subdivided Shares
(in the form of existing share certificates in blue colour
and new share certificates in purple colour) ends 4:00 p.m. on Thursday,
22 February 2018

Free exchange of existing share certificates for
new share certificates for the Subdivided Shares ends Monday,
26 February 2018

Note: All times and dates in this announcement refer to Hong Kong local times and dates.

Date or deadlines specified in this announcement are indicative only and may be varied by the Company. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

GENERAL

An EGM will be convened and held to consider and, if thought fit, to approve the Share Subdivision in which an ordinary resolution to approve the Share Subdivision will be proposed. No Shareholder will be required to abstain from voting at the EGM.

The Circular containing, among other things, further details of the Share Subdivision, together with the notice of the EGM and proxy form, will be despatched to the Shareholders on or before 22 December 2017.

DEFINITIONS

In this announcement, unless the context otherwise defined, the following expressions shall have the following meanings:

| | |
|------------------------|--|
| “Board” | the board of Directors |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | Yuhua Energy Holdings Limited (Stock code: 2728), a company incorporated in the Cayman Islands whose Shares are listed on the Stock Exchange |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened to consider, and if thought fit, to approve the Share Subdivision |
| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Previous Subdivision” | the subdivision of every one (1) existing issued and unissued share of the Company into two (2) subdivided shares, which is announced by the Company on 13 March 2017 and effective on 27 April 2017 |
| “Share(s)” | existing ordinary share(s) of a par value of HK\$0.0025 each in the share capital of the Company |

| | |
|-----------------------|--|
| “Shareholder(s)” | holder(s) of the Share(s) or Subdivided Share(s), as the case may be |
| “Share Option(s)” | option(s) to subscribe for Shares granted by the Company in accordance with the Share Option Scheme |
| “Share Option Scheme” | the share option scheme adopted by the Company on 25 June 2005 |
| “Share Subdivision” | the proposed subdivision of every one (1) existing issued and unissued Share into two (2) Subdivided Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subdivided Share(s)” | ordinary share(s) of a par value of HK\$0.00125 each in the share capital of the Company upon the Share Subdivision becoming effective |

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

Hong Kong, 6 December 2017

As at the date of this announcement, the Company has two executive Directors, namely Mr. Lin Caihuo (Chairman) and Mr. Wang Enguang, one non-executive Director, Mr. Wang ShuoLei and three independent non-executive Directors, namely Mr. Liu Yang, Mr. Lum Pak Sum and Ms. Wong Yan Ki, Angel.