



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)



2019
Interim Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Caihuo (*Chairman of the Board*)
Mr. Yuan Hongbing
(*appointed with effect from 31 May 2019*)
Mr. Chen Jinle (*Chief Executive Officer*)
(*appointed with effect from 31 May 2019*)
Mr. Wang Enguang
(*resigned with effect from 31 May 2019*)

Non-Executive Director

Mr. Wang Shoulei

Independent Non-Executive Directors

Mr. Liu Yang
Mr. Xu Changyin
(*appointed with effect from 16 March 2019*)
Mr. Tche Heng Hou Kevin
(*appointed with effect from 25 June 2019*)
Mr. Lum Pak Sum
(*resigned with effect from 25 April 2019*)

AUDIT COMMITTEE

Mr. Tche Heng Hou Kevin
(*appointed with effect from 25 June 2019*)
(*Chairman of the Committee*)
Mr. Liu Yang
Mr. Xu Changyin
(*appointed with effect from 16 March 2019*)
Mr. Lum Pak Sum
(*resigned (as Chairman of the Committee)*
with effect from 25 April 2019)

REMUNERATION COMMITTEE

Mr. Liu Yang (*Chairman of the Committee*)
Mr. Xu Changyin
(*appointed with effect from 25 April 2019*)
Mr. Lin Caihuo
Mr. Lum Pak Sum
(*resigned with effect from 25 April 2019*)

NOMINATION COMMITTEE

Mr. Xu Changyin
(*appointed with effect from 16 March 2019*)
(*Chairman of the Committee*)
Mr. Liu Yang
Mr. Lin Caihuo
Mr. Lum Pak Sum
(*resigned with effect from 25 April 2019*)

AUTHORIZED REPRESENTATIVES

Mr. Lin Caihuo
Mr. Zhou Chen
(*appointed with effect from 10 June 2019*)

COMPANY SECRETARY

Mr. Zhou Chen
(*appointed with effect from 10 June 2019*)
Ms. Mak Po Man Cherie
(*resigned with effect from 10 June 2019*)

REGISTERED OFFICE

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

Corporate Information (Continued)

HEAD OFFICE

22/F, Building B, No. 86, Haijing Road
Xiamen Area
Fujian Free Trade Area
Fujian Province
the People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18/F
Ruttonjee House
11 Duddell Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House — 3rd Floor,
24 Shedden Road, P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

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
Raymond Siu & Lawyers

As to Cayman Islands law
Conyers Dill & Pearman

STOCK CODE

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

WEBSITE

www.yuhuaenergy.com

Management Discussion and Analysis

BUSINESS REVIEW

The Group was principally engaged in the manufacture, trading and transportation businesses during the six months ended 30 June 2019 (the "Current Period"). The Group's revenue was approximately HK\$20.99 million, representing a decrease of approximately 98.7% as compared to approximately HK\$1,672.56 million for the same period of last year. Consequently, the gross loss from continuing operations was approximately HK\$3.42 million (2018 interim: Gross profit approximately HK\$27.00 million), representing a decrease of approximately 112.66%, during the Current Period.

During the Current Period, our activities can be segmented into energy trading and speaker units businesses.

Energy trading business

Suffered from geopolitics and US-China Trade War, the Company faced challenges on the energy trading business during the Current Period. The revenue from energy trading has decreased to approximately HK\$138,000 (2018 interim: approximately HK\$1,620.38 million), representing a decrease of approximately 99.99% from the corresponding period in 2018. Its revenue also accounted for approximately 6.58% (2018 interim: approximately 96.88%) of the consolidated revenue from continuing operations. The decrease of revenue was mainly attributable to a decrease in sales orders from customers in view of the price instability in oil market under the uncertain outcome of trade tensions.

Oil tanker transportation business

Although the business of oil tanker transportation involved the transfer of ownership of vessels in August 2018 and this segment had no contribution of the business to the Group during the Current Period, the management is still making its best endeavour to seek business opportunities to develop this segment in the second half of 2019.



Management Discussion and Analysis (Continued)

BUSINESS REVIEW (Continued)

Speaker units business

The revenue from speaker units business recorded a decrease during the Current Period. Its revenue amounted to approximately HK\$20.85 million (2018 interim: approximately HK\$29.43 million), representing a decrease of approximately 29.16%. Nonetheless, its revenue accounted for approximately 99.34% (2018 interim: approximately 1.76%) of the consolidated revenue from continuing operations.

The operating costs were approximately HK\$18.34 million during the Current Period (2018 interim: approximately HK\$14.98 million), representing an increase of approximately 22.47% as compared with the corresponding period in 2018.

The finance costs were approximately HK\$8.22 million during the Current Period, representing a decrease of approximately 29.10% as compared with approximately HK\$11.60 million for the corresponding period of 2018.

During the Current Period, the Group recorded a net loss attributable to the Company's equity holders of approximately HK\$306.60 million (2018 interim: net loss approximately HK\$1.27 million). Apart from the abovementioned factors, the net loss recorded was also due to impairment of prepayments for the Current Period (2018 interim: nil).

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$28.88 million (31 December 2018: approximately HK\$16.46 million), which were mainly denominated in Hong Kong dollars, US dollars and Renminbi.

As at 30 June 2019, the Group's net current liabilities were HK\$334.72 million (31 December 2018: approximately HK\$33.51 million). The Group's current ratio, being the ratio of total current assets to total current liabilities, was approximately 0.43 as compared to approximately 0.94 as at 31 December 2018. The Group had bank and other borrowings of approximately HK\$410.04 million (31 December 2018: approximately HK\$396.53 million) which were denominated in Renminbi and Hong Kong dollars. The interest rates of the bank and other borrowings for the Current Period was ranged from approximately 4.437% to approximately 5.22% (31 December 2018: ranged from 5.069% to 7.347%) per annum. The above bank and other borrowings was accounted for as current liabilities of the Group and repayable within one year.

As at 30 June 2019, the gearing ratio of the Group was nil (as at 31 December 2018: approximately 632.42%), which was computed by dividing the total borrowings of approximately HK\$410.04 million (31 December 2018: approximately HK\$396.53 million) by shareholder's equity of approximately negative HK\$239.19 million (31 December 2018: approximately HK\$62.70 million).

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW *(Continued)*

Charge on Assets

As at 30 June 2019, the investment properties of the Group have been pledged as security for the borrowings of the Group.

Significant Investments and Material Acquisitions and Disposals

The Group has made no significant investment or any material acquisition or disposal of subsidiaries for the six months ended at 30 June 2019.

Treasury Policies

The Group does not engage in any leveraged or derivative products. 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 Current Period, the Group believes that the 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.

Contingent Liabilities

As at 30 June 2019, the Group has no material contingent liabilities.

Human Resources

The Group has employed a total of approximately 30 employees as at 30 June 2019 (2018 interim: approximately 65) in Hong Kong and the PRC. Staff costs (excluding Directors' emoluments) from continuing operations amounted to approximately HK\$4.2 million (2018 interim: approximately HK\$5 million). The Group recruits and selects candidates on the basis of their qualifications and suitability for the position. It is the Group's policy to recruit the most capable person available for each position.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Future Prospects

Whereas the interim results of the Group for the Current Period may not meet the Group's expectation, the Group's management is confident on improving the Group's business operation in the energy trade industry. At the same time, the Group will continue to explore new investment and business opportunities in different sectors such as energy transportation, petroleum exploration technology services, petroleum refinery services and retail of the petroleum products. In addition to the implementation of the aforesaid investment and improvement plans, the Group will further optimize its management team and cost control measures in order to enhance the profitability of the Group.

In the second half of 2019, under the existing economic challenges, the Group will continue to seek new opportunities and areas of business growth for creating long-term value for its shareholders with the implementation of the plans below:

1. *Funding*

On 21 August 2019, the Group has raised fund in the sum of HK\$67,500,000 through the issuance of new shares. Further details of the issuance of new shares, please refer to the announcements of the Company dated 7 August 2019, 12 August 2019 and 22 August 2019.

On 23 August 2019, the Group has obtained an unsecured loan in the amount of RMB80,000,000 from an executive director, whom is also a substantial shareholder. For further details of the unsecured loan facility, please refer to the announcement of the Company dated 23 August 2019.

2. *Energy Trading Business*

On 23 August 2019, the Group has entered into a product procurement framework agreement with a company in the People's Republic of China which is engaged in petrochemical business (the "Purchaser"). Pursuant to the framework agreement, the Purchaser will procure from the Group fuel oil products and petrochemical products from time to time, the aggregate purchase volume of which is expected to be not less than 2,000,000 tonnes with an aggregate purchase amount of not less than RMB10,000,000,000 during the period between 23 August 2019 and 31 December 2022. Further details of the product procurement framework, please refer to the announcement of the Company dated 23 August 2019.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Future Prospects (Continued)

2. *Energy Trading Business (Continued)*

On 29 August 2019, the Group has entered into a product procurement framework agreement with a company in the People's Republic of China which is engaged in petrochemical business (the "Purchaser 2"). Pursuant to the framework agreement, the Purchaser 2 will procure from the Group fuel oil products and petrochemical products from time to time, the aggregate purchase volume of which is expected to be not less than 1,200,000 tonnes with an aggregate purchase amount of not less than RMB6,000,000,000 during the period between 1 September 2019 and 31 December 2021.

3. *Energy Transportation Business*

The Group is considering acquiring a company in petroleum products transportation sector and the Group has entered into a non legally-binding memorandum of understanding. Further details of the potential acquisition of the company, please refer to the announcement of the Company dated 27 August 2019. The Group will continue to explore further business probabilities in acquiring businesses in the aforesaid sector (if any) if the opportunities arise.

4. *Development of the Industry Chain Business*

The Group is considering further expansion on its business on petroleum extraction services, petroleum refining and retail of petroleum products.

5. *Merge and Acquisition*

The Group is envisaging the acquisition of business (if any) if opportunities arise and which is beneficial to the Group as a whole. The Group is also contemplating in setting up a fund to sustain the possible acquisition of new business of the Group.

Subsequent Event

On 7 August 2019, the Company entered into a subscription agreement with Super Wise International Investment Limited for the subscription of an aggregate of 540,000,000 new shares, representing approximately 14.858% of the enlarged issued share capital of the Company, in the aggregate consideration of HK\$67,500,000 at the subscription price of HK\$0.125 per subscription. Completion of the subscription has taken place on 21 August 2019. Among the net proceeds of HK\$67,300,000, (i) approximately HK\$54.3 million will be allocated for the general working capital of the Company; (ii) approximately HK\$5 million will be allocated for acquisition of business (if any) if opportunities arise and (iii) approximately HK\$8 million will be allocated for repayment of some of the indebtedness of the Group. Further details about the subscription are disclosed in the announcements of the Company dated 7, 12 and 22 August 2019.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (Continued)

Subsequent Event (Continued)

On 23 August 2019, the Group has entered into a product procurement framework agreement with a company in the People's Republic of China which is engaged in petrochemical business (the "Purchaser"). Pursuant to the framework agreement, the Purchaser will procure from the Group fuel oil products and petrochemical products from time to time, the aggregate purchase volume of which is expected to be not less than 2,000,000 tonnes with an aggregate purchase amount of not less than RMB10,000,000,000 during the period between 23 August 2019 and 31 December 2022. Further details of the product procurement framework, please refer to the announcement of the Company dated 23 August 2019.

On 29 August 2019, the Group has entered into a product procurement framework agreement with a company in the People's Republic of China which is engaged in petrochemical business (the "Purchaser 2"). Pursuant to the framework agreement, the Purchaser 2 will procure from the Group fuel oil products and petrochemical products from time to time, the aggregate purchase volume of which is expected to be not less than 1,200,000 tonnes with an aggregate purchase amount of not less than RMB6,000,000,000 during the period between 1 September 2019 and 31 December 2021.

DISCLAIMER OF OPINION IN THE ANNUAL REPORT 2018

In the annual report 2018 of the Company, the auditors of the Company has issued disclaimer of opinion, mentioning impairments of trade and other receivables and issue of going concern. With respect to impairments of trade and other receivables, since the trade deposits have already been fully written off, the auditors will not issue disclaimer of opinion on the recoverability of such trade receivables. With respect to the issue of going concern, since the Company has recently complete an issue of convertible bonds in the principal sum of HK\$110,952,907 and a placing of 540,000,000 shares and raised additional funds of approximately HK\$67,300,000, and the Company has entered into a product procurement framework agreement and a memorandum of understanding of a potential major transaction, the Directors believe that the possibility that auditors will issue disclaimer of opinion in the financial statements for the year ending 31 December 2019 may not be high. Nevertheless, this will be subject to the actual circumstances of the Company and the views of the auditors at the material time.

INTERIM DIVIDEND

The board (the "Board") of Directors (the "Directors") of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).



Management Discussion and Analysis (Continued)

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 in conjunction with the Directors and senior management of the Group.

By order of the Board

Yuan Hongbing

Executive Director

Hong Kong, 30 August 2019

Corporate Governance and Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company devotes to the corporate governance, and has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing (the "Listing Rules") of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the Current Period, except for the following deviation:

Pursuant to code provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Our independent non-executive Directors, Mr. Liu Yang and Mr. Xu Changyin were unable to attend the annual general meeting of the Company held on 31 May 2019 due to other commitments.

Ms. Mak Po Man Cherie resigned as the Company Secretary of the Company with effect from 10 June 2019 and replaced by Mr. Zhou Chen on the same date.

COMPLIANCE WITH THE MODEL CODE

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

Corporate Governance and Other Information (Continued)

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The primary duties of the Audit Committee are to, among others, review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Liu Yang, Mr. Xu Changyin and Mr. Tche Heng Hou Kevin. The chairman of the Audit Committee is Mr. Tche Heng Hou Kevin, who holds the appropriate professional accounting qualification and financial management expertise as required under the Listing Rules.

The interim results of the Group for the six months ended 30 June 2019 have not been audited. The Audit Committee has reviewed the unaudited condensed consolidated financial statements and this interim report of the Group for the six months ended 30 June 2019 with the Directors and senior management of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Current Period.

Corporate Governance and Other Information (Continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors and the chief executives of the Company 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 (Chapter 571, Laws of Hong Kong) ("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 ⁽¹⁾	Approximate percentage of the issued Shares
Lin Caihuo ("Mr. Lin")	Beneficial owner	928,284,839	29.99%
Chen Jinle ("Mr. Chen")	Interest of controlled corporations	892,768,273 ⁽²⁾	28.85%

Notes:

- (1) Interests in shares stated above represent long positions.
- (2) These shares were held by Oriental Gold Honour Joy International Holdings Limited, a company wholly-owned by Mr. Chen.

Save as disclosed above, as at 30 June 2019, none of the Directors and the chief executives of the Company 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.

Corporate Governance and Other Information (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2019, according to the register kept by the Company under section 336 of the SFO, the corporations or persons (other than a Director or chief executive of the Company) 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 (as at 30 June 2019)
Lin Aihua ("Ms. Lin") ⁽²⁾	Interest of spouse	928,284,839	29.99%
Zhongtai International Asset Management Limited ("Zhongtai International") ⁽³⁾	Investment manager	1,821,053,112	58.85%
Oriental Gold Honour Joy International Holdings Limited ("Oriental Gold") ⁽⁴⁾	Beneficial owner	892,768,273	28.85%
Win Win International Strategic Investment Funds SPC (acting for and on behalf of Win Win Stable No. 1 Fund SP) ("Win Win")	Person having a security interest in shares	1,821,053,112 ⁽⁵⁾	58.85%
Zhongtai Innovation Capital Management Limited ("Zhongtai Innovation") ⁽⁶⁾	Investment manager	1,821,053,112	58.85%

Corporate Governance and Other Information (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

- (1) Interests in Shares stated above represent long positions.
- (2) Ms. Lin is the spouse of Mr. Lin and therefore by virtue of the SFO, Ms. Lin is deemed or taken to be interest in all the Shares held by Mr. Lin.
- (3) Zhongtai International is the fund management of Win Win and therefore by virtue of the SFO, Zhongtai International is deemed or taken to be interested in all the Shares held by Win Win.
- (4) Oriental Gold is wholly owned by Mr. Chen.
- (5) The 1,821,053,112 Shares were charged in favour of Win Win.
- (6) Zhongtai Innovation is the fund management of Win Win and therefore by virtue of the SFO, Zhongtai Innovation is deemed or taken to be interested in all the Shares held by Win Win.

Save as disclosed above, as at 30 June 2019, no other person (other than a Director or chief executive of the Company) had registered an interest or short position in the Shares, underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Corporate Governance and Other Information (Continued)

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 participants (including any executive Directors) to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. The Share Option Scheme was expired on 25 June 2015.

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

Name	Date of grant (dd/mm/yyyy)	Exercise price after (before) share subdivision HK\$	Vesting date (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Number of share options					
					As at 01/01/2019	Granted	Exercised	Adjustment on share subdivision	Lapsed	As at 30/06/2019
Eligible employees ⁽¹⁾	19/06/2015	0.64125 (1.2825)	19/06/2015	19/06/2015 – 18/06/2025	123,200,000	-	-	-	-	123,200,000

Note:

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

As at 30 June 2019, there was no Share Option Scheme of the Company in place. An extraordinary general meeting will be held on 16 September 2019 to consider, and if thought fit, approve a new share option scheme.

Corporate Governance and Other Information (Continued)

DISCLOSURE PURSUANT TO 13.21 OF THE LISTING RULES

On 26 April 2017, the Company and Zhongtai Financial Investment entered into the subscription agreement (“Subscription Agreement”), pursuant to which, the Company conditionally agreed to issue the notes with an aggregate principal amount of HK\$100,000,000 with interest rate of 6% per annum, due in 2018 (which was subsequently extended to 28 October 2018) (“Notes”) to Zhongtai Financial Investment and Zhongtai Financial Investment conditionally agreed to subscribe the Notes from the Company.

In connection with the Subscription Agreement, Mr. Lin, the executive Director, chairman and controlling Shareholder of the Company and Zhongtai Financial Investment entered into the share charge agreement (“Share Charge Agreement”) on 28 April 2017, whereby Mr. Lin agreed to charge 910,526,556 ordinary shares of the Company of HK\$0.0025 each (equivalent to 1,821,053,112 ordinary shares of HK\$0.00125 each after the Share Subdivision on 17 January 2018) (representing 58.85% of the issued share capital of the Company as at the date of this interim report) in favour of Zhongtai Financial Investment by way of a second-ranking charge.

It is an event of default under the conditions of the Notes if, among others, (i) Mr. Lin owns or beneficially owns less than 58.85% of the voting shares of the Company; (ii) Mr. Lin is no longer in a position to control the composition of a majority of the Board; or (iii) the shares of the Company charged under the Share Charge Agreement constitutes less than 58.85% of the issued shares of the Company.

Upon occurrence of an event of default, the Notes shall become immediately due and repayable in accordance with the conditions of the Notes, and Zhongtai Financial Investment is entitled to redeem all the Notes.

For further details, please refer to the announcement of the Company dated 26 April 2017.

Corporate Governance and Other Information (Continued)

PLACING OF CONVERTIBLE NOTES

Reference is made to the announcements of the Company dated 29 May 2019, 11 June 2019, 2 July 2019, 5 July 2019 and 17 July 2019 respectively, in relation to, among other matters, the placing (the "Placing") of the convertible notes (the "Convertible Notes"). On 29 May 2019, the Company, Mr. Lin, Mr. Chen, Mr. Han and Win Win International Strategic Investment Funds SPC (for the account and on behalf of Win Win Stable No. 1 Fund SP) (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement"). The Company has agreed to issue and the Subscriber has agreed to subscribe for the Convertible Notes in the aggregate principal amount of HK\$110,952,907.

Assuming there is no further issue or repurchase of the Shares, based on the conversion price at HK\$0.184 (the "Conversion Price") and assuming full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be convertible into 603,004,929 Shares, representing approximately 19.49% of the issued share capital of the Company as at the date of this interim report and approximately 16.31% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes.

All conditions set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 17 July 2019 in accordance with the terms and conditions of the Subscription Agreement. During the reporting period, there was no conversion or redemption of the Convertible Bonds.

For the actual net proceeds of approximately HK\$110,952,907 from the subscription of Convertible Notes, all has been used for redemption of the Notes. The uses are consistent with the intended use of proceeds as disclosed in the announcement of the Company dated 29 May 2019.

Corporate Governance and Other Information (Continued)

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes in the information of directors of the Company subsequent to the date of 2018 annual report of the Company and up to the date of this report pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

1. Mr. Xu Changyin (徐長銀) ("Mr. Xu") had been appointed as an independent non-executive Director, member of the audit committee (the "Audit Committee") and as a chairman of the nomination committee (the "Nomination Committee") of the Company with effect from 16 March 2019 and further been appointed as a member of the remuneration committee (the "Remuneration Committee") of the Company with effect from 25 April 2019;
2. Mr. Lum Pak Sum ("Mr. Lum") had resigned as an independent non-executive Director, the chairman of the Audit Committee, a member of each of the Remuneration Committee and the Nomination Committee of the Company with effect from 25 April 2019;
3. Mr. Wang Enguang ("Mr. Wang") had resigned as an executive director (the "Director(s)") of the Company with effect from 31 May 2019;
4. Mr. Chen Jinle (陳金樂) had been appointed as an executive Director with effect from 31 May 2019;
5. Mr. Yuan Hongbing (袁紅兵) had been appointed as an executive Director with effect from 31 May 2019; and
6. Mr. Tche Heng Hou Kevin ("Mr. Tche") has been appointed as an independent non-executive Director and the chairman of the Audit Committee with effect from 25 June 2019.

Save as disclosed in this interim report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Continuing operations			
Revenue	6	20,988	1,672,559
Cost of sales		(24,407)	(1,645,562)
Gross (loss)/profit		(3,419)	26,997
Distribution expenses		(1,391)	(1,780)
Administrative expenses		(16,952)	(13,198)
Other income		35	536
Other gains — net		3,433	269
Impairment of prepayments		(280,325)	—
Operating (loss)/profit	6, 7	(298,619)	12,824
Finance income		238	537
Finance expenses		(8,221)	(11,595)
Finance expenses — net		(7,983)	(11,058)
(Loss)/profit before income tax		(306,602)	1,766
Income tax credit/(expense)	8	1	(5,708)
Loss from continuing operations		(306,601)	(3,942)
Profit from discontinued operation	18	—	2,676
Loss for the period, all attributable to owners of the Company		(306,601)	(1,266)

Condensed Consolidated Statement of Profit or Loss (Continued)

For the six months ended 30 June 2019

		Unaudited	
		Six months ended 30 June	
	Note	2019	2018
Loss per share for loss from continuing operations attributable to owners of the Company			
Basic and diluted loss per share (in HK cents per share)	9	(9.91)	(0.13)
Loss per share attributable to owners of the Company			
Basic and diluted loss per share (in HK cents per share)	9	(9.91)	(0.04)

The notes on pages 27 to 63 from an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(306,601)	(1,266)
Other comprehensive income/(loss) for the period		
<i>Items that may be reclassified to profit or loss</i>		
— Currency translation differences	4,567	(4,595)
— Reclassification of translation reserve upon disposal of subsidiaries	146	—
Total comprehensive loss for the period, all attributable to owners of the Company	(301,888)	(5,861)
Total comprehensive (loss)/income for the period arises from:		
Continuing operations	(301,888)	(9,258)
Discontinued operation	—	3,397
	(301,888)	(5,861)

The notes on pages 27 to 63 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Note	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	947	1,372
Investment properties	11	94,765	95,028
		95,712	96,400
Current assets			
Inventories		3,074	8,710
Trade and other receivables and prepayments	12	215,481	522,743
Cash and cash equivalents		28,882	16,462
Restricted cash		201	19,694
		247,638	567,609
Total assets		343,350	664,009
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	3,868	3,868
Other reserves		187,520	183,243
Accumulated losses		(430,575)	(124,410)
Total equity		(239,187)	62,701

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2019

	Note	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	15	183	190
Current liabilities			
Trade and other payables	17	101,675	132,746
Contract liabilities		66,567	67,764
Current income tax liabilities		4,074	4,076
Borrowings	16	410,038	396,532
		582,354	601,118
Total liabilities		582,537	601,308
Total equity and liabilities		343,350	664,009

The notes on pages 27 to 63 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited			
	Attributable to owners of the Company			
	(Accumulated losses)/			
	Share capital	Other reserves	Retained profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2019	3,868	183,243	(124,410)	62,701
Loss for the period	–	–	(306,601)	(306,601)
Currency translation differences	–	4,567	–	4,567
Reclassification of translation reserve upon disposal of subsidiaries	–	146	–	146
Total comprehensive loss for the period ended 30 June 2019	–	4,713	(306,601)	(301,888)
Reclassification of statutory reserve upon disposal of subsidiaries	–	(436)	436	–
Balance at 30 June 2019	3,868	187,520	(430,575)	(239,187)
Balance at 1 January 2018	3,868	203,161	220,558	427,587
Profit for the period	–	–	(1,266)	(1,266)
Currency translation differences	–	(4,595)	–	(4,595)
Total comprehensive loss for the period ended 30 June 2018	–	(4,595)	(1,266)	(5,861)
Appropriation to statutory reserves	–	606	(606)	–
Balance at 30 June 2018	3,868	199,172	218,686	421,726

The notes on pages 27 to 63 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Cash flows from operating activities			
Cash generated from/(used in) operations		208	(30,672)
Income tax paid		–	(4,384)
Net cash generated from/(used in) operating activities		208	(35,056)
Cash flows from investing activities			
Purchases of property, plant and equipment	11	–	(373)
Prepayment for non-current assets		–	(173)
Proceeds from disposal of subsidiaries	18	–	12,236
Net cash generated from investing activities		–	11,690
Cash flows from financing activities			
Proceeds from bank borrowings	16	28,506	262,918
Repayments of bank borrowings	16	(13,745)	(209,050)
Interest paid		(2,253)	(8,472)
Net cash generated from financing activities		12,508	45,396
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		16,462	20,323
Effect of foreign exchange rate changes		(296)	47
Cash and cash equivalents at end of the period		28,882	42,400

The notes on pages 27 to 63 form an integral part of this condensed consolidated financial information.

Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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 Unit 1802, 18/F, Ruttonjee House, 11 Duddell Street, Central, Hong Kong.

The Company and its subsidiaries (together, “the Group”) are engaged in energy trading, including mainly trading of fuel oil and kerosene, oil tanker transportation and speaker manufacturing and sale businesses. During the six months ended 30 June 2019, the Group disposed of two subsidiaries in the manufacturing and sales of consumer and automotive speaker systems business of the speaker manufacturing and sale segment to a third party (“the Disposal”). The Disposal was completed on 4 June 2018. Information about this discontinued operation is provided in Note 18. Subsequent to the Disposal, the Group retains the business of trading of audio speaker for audio consumer electronic products.

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

This condensed consolidated financial information was approved for issue by the Board of Directors on 30 August 2019.

2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) except for the adoption of new standards and amendments as disclosed in Note 3.

This condensed consolidated financial information was unaudited but have been reviewed by the Audit Committee of the Company.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the preparation of the annual financial statements of the Group for the year ended 31 December 2018.

(a) Application of new and amendments to HKFRSs

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRSs, Annual Improvements to HKFRSs 2015-2017 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases

The Group has applied HKFRS 16 for the first time in the six months ended 30 June 2019. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of rented premises and department store counters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessor (Continued)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply HKFRS16 to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by- lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$Nil and right-of-use assets of HK\$Nil at 1 January 2019.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

	At 1 January 2019
	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	146
Less: Recognition exemption — short-term leases	(146)
Lease liabilities as at 1 January 2019	—

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

Actual results may differ from these estimates.

In preparing this condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to meet obligations when due.

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and business commitments.

In the opinion of the directors, the Group should have adequate resources to meet its obligations in the forthcoming year.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK\$'000	HK\$'000	HK\$'000
At 30 June 2019			
Trade and other payables (excluding non-financial liabilities)	90,926	90,926	90,926
Borrowings	410,038	413,582	413,582
At 31 December 2018			
Trade and other payables (excluding non-financial liabilities)	129,642	129,642	129,642
Borrowings	396,532	400,076	400,076

5.3 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).

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

5 FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

(a) Financial assets and liabilities

The fair value of the following financial assets and liabilities approximate their carrying amount as at dates of 30 June 2019 and 31 December 2018 due to their short term maturity:

- Trade and other receivables (excluding prepayments to suppliers and export tax rebate receivables)
- Cash and cash equivalents
- Rental deposits
- Trade and other payables (excluding payroll and welfare payables and taxes payables)
- Borrowings

(b) Non-financial assets and liabilities

(i) Fair value hierarchy

The Group has classified its investment properties into the three levels prescribed under the accounting standards.

	Note	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Level 3			
Investment properties			
– leased office	11	94,765	95,028
Total non-financial assets		94,765	95,028

(ii) Fair value measurements using significant unobservable inputs (level 3)

The changes in level 3 items for the periods ended 30 June 2019 and 30 June 2018 for recurring fair value measurements are set out in Note 11.

There were no transfers among Level 1, Level 2 and 3 during the periods.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

6 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, (1) energy trading which comprises mainly the trading of fuel oil and kerosene, and (2) speaker trading.

The board of directors assesses the performance of the operating segments based on a measure of the segment results of the operating segments. Finance income or expenses, fair value changes on investment properties and the unallocated operating expenses are not allocated to segments since these activities are driven by the central function and the related income or expenses are undividable between segments.

The Group's deferred income tax assets, intangible assets, prepayment for non-current assets and investment properties are not considered to be segment assets and the Group'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.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

6 SEGMENT INFORMATION (Continued)

Segment information is as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Revenue from external customers		
Energy trading	138	1,620,382
Oil tanker transportation	–	22,744
Speaker trading	20,850	29,433
Total continuing operations	20,988	1,672,559
Discontinued operation (Note 18)	–	229,868
Total	20,988	1,902,427
Timing of revenue recognition		
At a point in time	20,988	1,879,683
Over time	–	22,744
Total	20,988	1,902,427
Segment (loss)/profit		
Energy trading	(286,615)	10,016
Oil tanker transportation	–	9,944
Speaker trading	(9,506)	(4,528)
Total continuing operations	(296,121)	15,432
Discontinued operation (Note 18)	–	3,768
Total	(296,121)	19,200

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

6 SEGMENT INFORMATION (Continued)

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Segment assets		
Energy trading	209,033	515,838
Speaker trading	37,354	52,093
Total	246,387	567,931
Segment liabilities		
Energy trading	138,099	177,399
Speaker trading	3,654	8,004
Total	141,753	185,403

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

6 SEGMENT INFORMATION (Continued)

A reconciliation of total segment profit to net profit is provided as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Segment (loss)/profit from continuing operations	(296,121)	15,432
Rental income from investment properties	35	–
Unallocated operating expenses	(2,533)	(2,608)
Operating (loss)/profit from continuing operations	(298,619)	12,824
Finance income	238	537
Finance expenses	(8,221)	(11,595)
(Loss)/profit before income tax from continuing operations	(306,602)	1,766
Income tax expense	1	(5,708)
Loss from continuing operations	(306,601)	(3,942)
Profit from discontinued operation (Note 18)	–	2,676
Loss for the period	(306,601)	(1,266)

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

6 SEGMENT INFORMATION (Continued)

Reportable segments' assets are reconciled to total assets as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Total segment assets	246,387	567,931
Unallocated assets	2,198	1,050
Investment properties	94,765	95,028
Total assets	343,350	664,009

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Total segment liabilities	141,753	185,403
Unallocated liabilities	29,565	15,107
Borrowings	410,038	396,532
Current income tax liabilities	998	4,076
Deferred income tax liabilities	183	190
Total liabilities	582,537	601,308

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

7 OPERATING (LOSS)/PROFIT

An analysis of the amounts presented as operating items in the financial information is given below.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Continuing operations		
Employee benefit expense	6,134	5,995
Depreciation of property, plant and equipment (Note 11)	426	1,636
Net foreign exchange loss/(gain)	11	(35)
Government grant related to income	–	(372)

8 INCOME TAX (CREDIT)/EXPENSE

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current income tax		
— PRC income tax	–	4,920
Deferred income tax	(1)	1,892
	(1)	6,812
Income tax (credit)/expenses is attributable to:		
(Loss)/profit from continuing operations	(1)	5,708
Profit from discontinued operation (Note 18)	–	1,104
	(1)	6,812

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

8 INCOME TAX (CREDIT)/EXPENSE (Continued)

Hong Kong profits tax has been provided for at the rate of 16.5% (six month ended 30 June 2018: 16.5%) on the estimated assessable profits of the Group's subsidiaries in Hong Kong for the period.

Taxation on PRC income has been calculated on the estimated assessable profit for the period 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% (six month ended 30 June 2018: 25%, except for Dongguan Shinhint Audio Technology Limited 'Discontinued Operations' which are subject to CIT at the rate of 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 October 2015 to October 2018).

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 15).

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

9 (LOSS)/EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
(Loss)/earnings attributable to owners of the Company used in calculating basic (loss)/earnings per share:		
From continuing operations	(306,601)	(3,942)
From discontinued operation	-	2,676
	(306,601)	(1,266)
	shares '000	shares '000
Issued ordinary shares at 1 January	3,094,516	1,547,258
Effect of share subdivision	-	1,547,258
Weighted average number of ordinary shares at 30 June for the purpose of basic and diluted loss per share	3,094,516	3,094,516
Basic (loss)/earnings per share (in HK cents per share)		
From continuing operations	(9.91)	(0.13)
From discontinued operation	-	0.09
	(9.91)	(0.04)
Diluted (loss)/earnings per share (in HK cents per share)		
From Continuing operations	(9.91)	(0.13)
From Discontinued operations	-	0.09
	(9.91)	(0.04)

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

9 (LOSS)/EARNINGS PER SHARE (Continued)

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2019.

For the six months ended 30 June 2019 and 2018, the Company's share options (note 14) have no dilutive effect on the (loss)/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 six months ended 30 June 2019) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is therefore equal to basic (loss)/earnings per share.

10 DIVIDENDS

The Board of Directors did not propose any interim dividend for the period ended 30 June 2019 (six months ended 30 June 2018: Nil).

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

11 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Intangible assets HK\$'000
Six months ended 30 June 2019			
— Unaudited			
Net book value			
Opening amount as at			
1 January 2019	1,372	95,028	–
Depreciation and amortisation	(426)	–	–
Currency translation differences	1	(263)	–
Closing amount as at 30 June 2019	947	94,765	–
Six months ended 30 June 2018			
— Unaudited			
Net book value			
Opening amount as at 1 January 2018	49,598	122,005	978
Additions	373	–	–
Transfer from prepayment for non-current assets	234	–	–
Disposals	(1,437)	–	–
Depreciation and amortisation	(2,431)	–	–
Discontinued operations — sale of subsidiaries (Note 18)	(1,907)	–	–
Currency translation differences	90	(1,040)	–
Closing amount as at 30 June 2018	44,520	120,965	978

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

12 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade receivables from third parties	112,258	131,089
Trade receivables from related parties	183	187
Less: allowance for impairment of trade receivables	(21,078)	(21,137)
Trade receivables — net	91,363	110,139
Prepayments to suppliers	672,949	683,267
Less: allowance for impairment of prepayment to suppliers	(550,664)	(276,097)
Prepayment to suppliers — net	122,285	407,170
Export tax rebate receivables	951	1,343
Other receivables and deposits	882	4,091
	215,481	522,743

The Group normally allows a credit period of 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. As at 30 June 2019 and 31 December 2018, the aging analysis of trade receivables based on date of revenue recognition was as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
0–90 days	5,696	26,410
90–180 days	–	–
over 180 days	85,667	83,729
	91,363	110,139

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

12 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Included in the above provision for impairment of trade and other receivables is a provision for individually impaired trade receivables and prepayments of approximately RMB18,520,000 (equivalent to HK\$21,891,000) and RMB483,832,000 (equivalent to HK\$566,277,000), respectively. The individually impaired trade receivables and prepayments related to customers and suppliers that were in financial difficulties. The directors of the Company estimated the amounts of impairment is after taking into consideration the below event:

It came to the attention of management that there were media reports about the liquidity problem of a customer, Zhangjiagang Free Trade Zone Baota Petrochemical Co., Ltd* (張家港保稅區寶塔石化有限公司) and a supplier, Shanghai Baota Petrochemical Co., Ltd* (上海寶塔石化有限公司), and their performance on subsequent settlements of the Group's trade receivables and prepayments respectively.

* For identification purpose only

13 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	Share capital HK\$'000
Unaudited		
Opening balance 1 January 2019	3,094,517,408	3,868
Share subdivision	–	–
At 30 June 2019	3,094,517,408	3,868
Unaudited		
Opening balance 1 January 2018	1,547,258,704	3,868
Share subdivision	1,547,258,704	–
At 30 June 2018	3,094,517,408	3,868

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 16 January 2018, each of the issued and unissued shares of par value of HK\$0.0025 in the share capital of the Company was subdivided into two subdivided shares of par value of HK\$0.00125 each with effect from 17 January 2018. Accordingly, the number of issued ordinary shares of the Company was increased from 1,547,258,704 shares to 3,094,517,408 shares since 17 January 2018.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

14 SHARE-BASED PAYMENTS

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.

Eligible Participants

Eligible participants of the Share Option Scheme include any director or officer or full time or part time employee of or any person who has accepted an employment offer (whether full time or part time) and other persons and parties as defined in the scheme document.

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.

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.

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.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

14 SHARE-BASED PAYMENTS (Continued)

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

For the period from 1 January 2019 to 30 June 2019:

Category of participants	Grant date	Exercise price (before) share subdivision	Vesting date	Exercisable period	Number of share options		
					As at 01/01/2019	Adjustment on share	As at 30/06/2019
Employees	19/06/2015	HK\$0.64125 HK\$(1.2825)	19/06/2015	19/06/2015- 18/06/2025	123,200,000	-	123,200,000

For the period from 1 January 2018 to 30 June 2018:

Category of participants	Grant date	Exercise price (before) share subdivision	Vesting date	Exercisable period	Number of share options		
					As at 01/01/2018	Adjustment on share ^(a)	As at 30/06/2018
Employees	19/06/2015	HK\$0.64125 HK\$(1.2825)	19/06/2015	19/06/2015- 18/06/2025	61,600,000	61,600,000	123,200,000

- (a) Pursuant to the subdivision of ordinary shares of the Company effective on 17 January 2018 as mentioned in Note 13, the number of shares and the exercise price related to the share options granted on 19 June 2015 were adjusted accordingly to 123,200,000 shares and HK\$0.64125 respectively.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

15 DEFERRED INCOME TAX

The analysis of deferred income tax liabilities is as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Deferred income tax liabilities:		
— to be recovered after more than 12 months	(183)	(6,344)
— to be recovered within 12 months	–	(3,151)
	(183)	(9,495)

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

	Provision	Unaudited		
	for	Provision		
	inventory	for		
	write-down	long-term	Tax loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred income tax assets				
At 1 January 2019 and 30 June 2019	–	–	–	–
At 1 January 2018	71	213	3,676	3,960
(Charge)/credit to profit or loss	18	(57)	(1,700)	(1,739)
Discontinued operations — sale of subsidiaries (<i>Note 18</i>)	(91)	(163)	–	(254)
Currency translation differences	2	7	–	9
At 30 June 2018	–	–	1,976	1,976

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

15 DEFERRED INCOME TAX (Continued)

	Unaudited			Total HK\$'000
	Changes in fair value of investment property HK\$'000	Withholding tax HK\$'000	Acceleration depreciation difference HK\$'000	
Deferred income tax liabilities				
At 1 January 2019	–	(190)	–	(190)
Credit to profit or loss	–	1	–	1
Currency translation differences	–	6	–	6
Closing balance at 30 June 2019	–	(183)	–	(183)
At 1 January 2018	(3,178)	(4,688)	(4,493)	(12,359)
(Charge)/credit to profit or loss	–	(207)	54	(153)
Discontinued operations — sale of subsidiaries (Note 18)	–	1,014	–	1,014
Currency translation differences	27	–	–	27
Closing balance at 30 June 2018	(3,151)	(3,881)	(4,439)	(11,471)

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

16 BORROWINGS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Current		
— Bank borrowings (i)	311,649	298,143
— Notes payable (ii)	98,389	98,389
	410,038	396,532

- (i) The bank borrowings as at 30 June 2019 were secured by (i) investment properties of the Group (Note 11), (ii) investment properties of Mr. Lin Caihuo (“Mr. Lin”), the chairman of the Board, and a related company beneficially owned by Mr. Lin and, (iii) guarantees provided by Mr. Lin and his spouse and two related companies beneficially owned by Mr. Lin.
- (ii) On 26 April 2017, the Company and Win Win International Strategic Investment Funds SPC (“Win Win”) (formerly named as Zhongtai Financial Investment Limited) entered into a subscription agreement, pursuant to which, the Company issued notes with an aggregate principal amount of HK\$100,000,000 with interest rate of 6% per annum and due on 28 April 2018 (“the Notes”).

The Notes were further renewed by amendment deed signed on 27 April 2018 and 9 November 2018 with extended maturity date of 28 April 2019. The Notes were supported by the Mr. Lin providing a personal guarantee and the pledged his 1,821,053,112 (2018: 1,821,053,112) ordinary shares of the Company (representing 58.85% of the issued share capital of the Company as at 30 June 2019) in favour of Win Win. The Notes bear interest from 28 April 2017 at the rate of 6% per annum, payable quarterly in arrear up to 28 April 2019. In addition to the interest payments, the arrangement fee of 5%, 2.5% and 2.5% of the principal amount have to be paid on 27 April 2017, 28 April 2018 and 28 October 2018.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

16 BORROWINGS (Continued)

(ii) (Continued)

The Company failed to pay the total arrangement fee of HK\$5,000,000 on 28 April 2018 and 28 October 2018. In addition to the default in payments of arrangement fee, the Company failed to pay the interest payments and the overdue interest payments of approximately HK\$4,149,000 as at 30 June 2019 (2018: approximately HK\$4,149,000).

On 29 May 2019, the Company renewed the subscription agreement with Win Win and extended the maturity to 2020. The Company further renewed by the supplemental deed on 4 July 2019 and the issue of convertible notes was completed on 17 July 2019 with maturity date to 17 July 2020. Details refer to subsequent event after the period end in note 21.

17 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade payables to third parties	41,370	53,625
Trade payables to related parties	2,627	284
Trade payables	43,997	53,909
Bills payables (i)	8,877	55,923
Payroll and welfare payables	466	1,077
Amounts due to related parties	9,545	7,051
Other payable and accrued expenses	38,790	14,786
	101,675	132,746

- (i) The bills payables as at 30 June 2019 were secured by (i) restricted bank deposits of the Group amounting to approximately HK\$201,000 (2018: approximately HK\$19,694,000), (ii) guarantees provided by Mr. Lin and a related company beneficially owned by Mr. Lin.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

17 TRADE AND OTHER PAYABLES (Continued)

As at 30 June 2019 and 31 December 2018, the aging analysis of trade payables (including bills payable of trading in nature) based on invoice date was as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
0–30 days	1,778	6,366
31–60 days	286	12,712
61–90 days	281	5,767
91–120 days	282	28,871
Over 120 days	50,247	56,116
	52,874	109,832

18 DISCONTINUED OPERATION

(a) Description

On 25 May 2018, the Group entered into a Disposal Agreement with an independent third party in relation to the disposal of the entire issued share capital in a wholly owned subsidiary of the Company, Crown Million Industries (International) Limited (冠萬實業(國際)有限公司) (the “Target Company” together with its subsidiary, collectively the “Target Group”) (“the Disposal”).

The Target Group is principally engaged in manufacturing and trading of home theatre and automotive speaker systems.

The Target Group was sold on 4 June 2018 (the “Completion Date”) for an estimated cash consideration of HK\$34,134,000. No gain or loss was resulted from the Disposal. The results of the Target Group are presented in this condensed consolidated financial information as a discontinued operation.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

18 DISCONTINUED OPERATION (Continued)

(b) Financial performance and cash flow information

Financial information relating to the Target Group for the period to the date of disposal of 4 June 2018 is set out below.

	Unaudited Six months ended 30 June 2018 HK\$'000
Revenue	229,868
Cost of sales	(209,187)
Gross profit	20,681
Distribution expenses	(1,455)
Administrative expenses	(12,053)
Other income	18
Other losses — net	(3,423)
Operating profit	3,768
Finance income	12
Profit before income tax	3,780
Income tax expense	(1,104)
Profit from discontinued operation	2,676
Currency translation differences from discontinued operations	721
Other comprehensive income from discontinued operations	721
Net cash outflow from operating activities	(7,778)
Net cash outflow from investing activities	(340)
Net decrease in cash from discontinued operation	(8,118)

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

18 DISCONTINUED OPERATION (Continued)

(c) Result of the disposal of the Target Group

	Unaudited 30 June 2018 HK\$'000
Cash received or receivable as consideration	34,134
Carrying amount of net assets sold	(34,134)
Gain on sale before and after income tax	–

The consideration was determined by reference of the net asset value of the Target Group as at the Completion Date.

19 CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no significant contingent liability (31 December 2018: Nil).

20 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Except for disclosed elsewhere in this condensed consolidated financial information, during the period the Group had the following significant related party transactions:

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

20 RELATED-PARTY TRANSACTIONS (Continued)

(a) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Salaries and other short-term benefits	1,568	1,000

(b) Related party transactions

Name of related parties	Nature of transaction	Unaudited Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Tai Sing Industrial	Sales of goods	–	2,450
Company Limited	Technical service expense	–	1,200
(泰升實業有限公司)(i)	Operating lease payments	864	864

- (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 services expense and operating lease payments were conducted on mutually agreed terms.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

21 EVENTS AFTER THE REPORTING PERIOD

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

Issue of convertible notes

On 29 May 2019, the Group entered into the subscription agreement with Win Win International Strategic Investment Funds SPC (“the Noteholder”), Mr. Lin (“the Guarantor”), Mr. Chen (“the Guarantor”) and Mr. Han (“the Guarantor”), and agreed to subscribe for the convertible notes in aggregate principal amount of HK\$110,952,907. Assuming there is no further issue or repurchase of the shares, the Group has a total of 3,094,517,408 shares in issue. Based on the conversion price of HK\$0.184 per share and assuming full conversion of the convertible notes at the conversion price, the convertible notes will be convertible into 603,004,929 shares, representing approximately 19.49% of the issued share capital of the Group and approximately 16.31% of the issued share capital of the Group. The estimated proceeds from the issue of the convertible notes are expected to be approximately HK\$110,952,907, and the issuance of convertible notes should be completed before 30 June 2019. The Group intends to use the proceeds from the issue of the convertible notes for redemption of the Notes mentioned in note 16(ii) and settlement of any outstanding indebtedness in relation thereto.

Until the convertible notes are fully converted or redeemed and cancelled, the convertible notes shall bear interest at the rate of 10% per annum, which shall be payable by the Group in arrears on a semi-annually basis. The interest period shall commence on the issue date and in every 6 months thereafter to and including the maturity date (the date falling on the first anniversary date of the issue date).

On 4 July 2019, the Group entered into a supplemental deed regarding to the subscription agreement which signed on 29 May 2019, to extend the completion of issuance of convertible notes from 30 June 2019 to 30 September 2019.

On 17 July 2019, the issuance of convertible notes was completed.

Notes to the Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2019

21 EVENTS AFTER THE REPORTING PERIOD (Continued)

Share allotment

On 7 August 2019, the Group has entered into the subscription agreement with the subscriber for the subscription of an aggregate 540,000,000 new shares for an aggregate consideration of HK\$67,500,000 at the subscription price of HK\$0.125 per subscription share.

On 21 August 2019, the subscription was completed.

Potential acquisition

On 27 August 2019, the Group has entered into a non-legally binding memorandum of understanding with a connected person in relation to potential acquisition of the entire equity interest in a company engaged in the provision of energy transportation services. As at the reporting date of this report, the Group is still in the course of negotiation of the detailed terms of the potential acquisition.