YONGAN HOLDINGS

浙江永安融通控股股份有限公司
ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock code: 8211)

Executive Directors:
Mr. Lou Lijiang *(Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

Non-executive Director:
Mr. Xia Zhenbo

Independent non-executive Directors:
Mr. Yu Weidong
Mr. Zhang Jianyong
Mr. Yuan Lingfeng

Legal address:
Xiwu Industrial Park
Hutang Street, Keqiao District
Shaoxing City
Zhejiang Province
The People's Republic of China

Place of business in Hong Kong:
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Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

5 February 2024

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 3 January 2024 in relation to, among other things, the Disposal. The Disposal constitutes a major and connected transaction of the Company under the GEM Listing Rules.

On 22 December 2023, the Vendor and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Target Shares at a Consideration of RMB32.5 million. Upon completion, the Company will cease to have any interests in the Target Company and Tepia. The Target Company and Tepia will cease to be a subsidiary and an associate of the Company, respectively.

* *For identification purposes only*

The purpose of this circular is to provide you with, among other things, (i) further information on the Equity Transfer Agreement and the transaction contemplated thereunder; (ii) the recommendations from the Independent Board Committee on the Equity Transfer Agreement and the transactions contemplated thereunder; (iii) the advice from the Independent Financial Adviser on the Equity Transfer Agreement and the transaction contemplated thereunder; (iv) the financial information of the Group; (v) the valuation report on the Target Group prepared by the Valuer; and (vi) a notice for convening the EGM (to consider and, if thought fit, to approve the Equity Transfer Agreement and the transaction contemplated thereunder).

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

Date

22 December 2023

Parties

The Vendor	:	The Company
The Purchaser	:	Shaoxing Keqiao Lingyue Automotive Parts Co., Ltd.* (紹興柯橋領悅汽車配件有限公司) is a wholly-owned subsidiary of Zhejiang Yongli, the ultimate holding company of the Company
The Target Company	:	Zhejiang Shaoxing Huiju Water Technology Co., Ltd.* (浙江紹興慧聚水務科技有限公司), a wholly-owned subsidiary of the Company in the PRC

Subject matter

The Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Target Shares free from all encumbrances. As at the date of signing the Equity Transfer Agreement, the Target Company held 41.67% of the issued share capital of a PRC company listed on the NEEQ, namely Beijing Tepia Technology Co., Ltd* (北京太比雅科技股份有限公司) (Stock code: 838941). Besides this investment, the Target Company had no other material assets and liabilities as at the Latest Practicable Date. Further particulars of the Target Company are set out in the section headed "Information on the Parties — The Target Company" below.

Consideration and payment terms

The Consideration of RMB32.5 million shall be settled in cash.

The Consideration was determined on the basis of normal commercial terms and after arm's length negotiations between the Vendor and the Purchaser after taking into account the preliminary valuation of the Target Group at approximately RMB32.5 million, mainly included the fair market value of the 41.67% interest of Tepia held by the Target Company as at 30 September 2023 by the Valuer, adopting the market approach which considered enterprise-to-sales multiple of comparable companies within similar industry as the Target Group. The valuation report is set out in Appendix II to this circular.

According to the valuation report, the Valuer adopted the lack of marketability discount (the "**LOMD**") on the valuation of the Target Group. The Board noticed that Tepia is listed in the NEEQ, which is an over-the-counter trading platform in the PRC. Owing to the nature of NEEQ and based on the information that was obtained from NEEQ, the shares of Tepia were not actively traded and the trading volume was negligible. During the period from 1 January 2023 up to 22 December 2023, being approximately a one-year period prior to the date of the Equity Transfer Agreement, the total monthly trading volume was recorded at approximately 67,100 shares. The trading volume suggests that the listing status of Tepia on NEEQ does not provide sufficient liquidity for immediate transaction of the shares of Tepia. Considering the illiquidity of the shares of Tepia and the substantial amount of the 60,000,000 Tepia Shares which represents 41.67% of Tepia's issued share capital, it will be unlikely for the Company to dispose the 60,000,000 shares of Tepia in the market via NEEQ. As such, the Board deems the listing status of Tepia is unable to provide any significant advantage on marketability compared to private companies and considers the application of the LOMD on the valuation of the Target Group is appropriate.

Conditions precedent

The Disposal is conditional upon and subject to the satisfaction of the following conditions:

(1) the Independent Shareholders having approved the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM in accordance with the requirements of the GEM Listing Rules and such approval not being revoked;

(2) the Purchaser being satisfied with the results of due diligence review conducted in respects of the Target Group's assets, liabilities, business and affairs; and

(3) the parties to the Equity Transfer Agreement having obtained all the necessary waivers, approvals, grants, licenses, authorisations, consents and orders (if required) in relation to the Equity Transfer Agreement and the transactions contemplated thereunder required by laws, regulations and rules (including the GEM Listing Rules) and other third parties and such waivers, approvals, grants, licenses, authorisations, consents and orders not being revoked.

If any of the aforesaid conditions precedent has not been fulfilled on or before 5:00 p.m. on 30 April 2024 (or such other later date as may be agreed between the Vendor and the Purchaser), the Equity Transfer Agreement shall cease and terminate and no party to the Equity Transfer Agreement shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, conditions (2) and (3) have been fulfilled.

Completion

Completion of the Equity Transfer Agreement shall take place within 10 business days after the fulfilment of the conditions precedent save and except for any delays caused by regulatory authorities and force majeure. The completion date of the Equity Transfer Agreement shall be the date on which the change in industrial and commercial registration in the name of the Purchaser is completed, whichever is later. From and inclusive of the completion date of the Equity Transfer Agreement, the risks, benefits and burden of the Target Shares are transferred from the Vendor to the Purchaser.

Upon completion, the Company will cease to have any interests in the Target Company and Tepia. The Target Company and Tepia will cease to be a subsidiary and an associate of the Company, respectively.

As at the Latest Practicable Date, save and except for the approval from the approval from the Independent Shareholders at the EGM, there are no licences, permissions, regulatory approvals and consents required for the Disposal.

INFORMATION ON THE PARTIES

The Company

The Company is a joint stock limited company established in the PRC and the H Shares are listed on the GEM. The principal activities of the Group are (i) the manufacture and sale of woven fabrics; and (ii) the provision of woven fabrics subcontracting services.

Guizhou Yongli

Guizhou Yongli was established in 2015 and has a registered share capital of RMB200 million. The company is a subsidiary of Zhejiang Yongli and principally engaged in investment holdings. As at the Latest Practicable Date, Guizhou Yongli is owned by Zhejiang Yongli as to 65%. The remaining equity interest of Guizhou Yongli is owned by two PRC established companies, none of them has control over Guizhou Yongli. As at the Latest Practicable Date, Guizhou Yongli is the controlling shareholder of the Group which owns approximately 55.29% of the issued share capital of the Company.

Zhejiang Yongli

Zhejiang Yongli was established in 1993 and has a registered share capital of RMB5,800 million. The majority ownership of the company is held by Mr. Zhou Yongli, who owns 94.25% of the shares, while Ms. Xia Wanmei, his spouse, owns 3.49%. As at the Latest Practicable Date, the company holds 65% interests in Guizhou Yongli. The company's business includes industrial trade (textiles, printing and dyeing, thermal power, catering, and commerce), real estate (construction, building materials, and properties), and financial industry (investment in banking, insurance, leasing, and investment funds).

The Purchaser

The Purchaser was established in 2018 and has a registered share capital of RMB100 million. The company is a wholly-owned subsidiary of Zhejiang Yongli and hence, a connected person of the Group. It is principally engaged in manufacture and sales of automotive parts. As at the Latest Practicable Date, the Purchaser holds 8.34% of Tepia.

The Target Company

The Target Company holds 41.67% of the issued share capital of a PRC company listed on the NEEQ, namely Beijing Tepia Technology Co., Ltd* (北京太比雅科技股份有限公司) (Stock code: 838941). Besides this investment, the Target Company had no other material assets and liabilities as at the Latest Practicable Date. Tepia is principally engaged in providing information planning and design, software development, system integration and project-based systems operation and maintenance services for water management systems. The relevant systems and services are used in waterworks planning and management, water resources conservation and utilization, flood prevention and drought control, water environment management and aquatic ecological restoration. According to the interim report of Tepia for the six months ended 30 June 2023, Tepia has one subsidiary, namely Tepia Electrical Equipment (Wuhan) Co., Ltd.* (太比雅機電設備(武漢)有限公司), principally engaged in research and development and manufacturing and sales of mechanical equipment and environmental protection special equipment. It did not conduct any business activities since January 2022.

The preliminary valuation of the fair market value of the entire issued share capital of the Target Group prepared by the Valuer as at 30 September 2023 is approximately RMB32.5 million. The unaudited net asset value of the Target Group as at 30 September 2023 was RMB28.53 million.

For illustrative purpose only, set out below is certain financial information of Tepia (prepared in accordance with the PRC GAAP) for the two years ended 31 December 2022 and six months ended 30 June 2023:

	For the year ended 31 December 2021 *RMB'000* (audited)	For the year ended 31 December 2022 *RMB'000* (audited)	For the six months ended 30 June 2023 *RMB'000* (unaudited)
Revenue	28,521	24,034	9,885
Loss before taxation	(15,307)	(10,914)	(5,005)
Loss after taxation	(15,205)	(10,410)	(4,789)

Source: Published annual reports and interim report of Tepia in NEEQ's website.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the manufacture and sales of woven fabrics. The Group primarily operates in the textile industry. Although China has successfully controlled the outbreak of COVID-19 epidemic and gradually released the COVID-19 pandemic prevention control in late 2022 and early 2023, the textile industry still needs time to recover. According to the interim report of the Group for the six months ended 30 June 2023, both domestic and export sales of woven fabrics of the Group decreased by approximately 24.26% and approximately 32.74% respectively. In addition, the rise of electricity and labour cost continue to impact the Group and the peer manufacturers. Due to the challenging business environment, the Group understands that it is important to preserve its financial strength. In this regard, the Company has continued to carry out measures to increase efficiency, reduce cost and improve liquidity.

The Group has been accounting for the share of results from the Target Group since its acquisition was completed in August 2019. However, since then, the Target Group has experienced a decline in revenue and has been consistently incurring losses. Consequently, the return on the Group's investment in the Target Group has been unsatisfactory. Additionally, the slow recovery of the PRC economy and the tightened budgets of local governments, who were previously major customers of the Target Group, have adversely affected the demand for its services and the timely payment progress. These challenging operating conditions have also resulted in intense price competition during the project tendering process for the Target Group, leading to fewer large-scale and profitable projects in the pipeline.

Based on the abovementioned, the Directors are of the view that the water management business of the Target Group is facing weak demand and a challenging operating environment. Therefore, the Disposal presents a favorable opportunity for the Group to realise its investment in the Target Group and redirect its resources towards its core business.

The Directors considered that the terms of the transactions contemplated under the Equity Transfer Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL AND PROPOSED USE OF PROCEEDS

As at 30 September 2023, the unaudited net assets value of the Target Group was approximately RMB28.53 million. The Company is expected to recognize an unaudited gain of approximately RMB4.0 million, being the difference between the Consideration over the above-mentioned net assets value of the Target Group. The actual gain in relation to the Disposal is subject to assessment and audit upon completion of the Disposal, and accordingly, it may be different from the amount stated above.

The net proceeds arising from the Disposal of approximately RMB32.5 million will be utilised as general working capital of the Group. Below is a detailed breakdown of intended proceeds by nature of general working capital:

— approximately 30.84% or approximately RMB10 million be utilised in purchase of raw materials for manufacturing of woven fabrics;

— approximately 51.97% or approximately RMB16.9 million be utilised in payment of labour costs and other overheads such as electricity, water and dyeing cost etc.;

— approximately 4.04% or approximately RMB1.3 million be utilised in payment of selling expenses such as salaries for sales staff, freight & transportation, exhibition expenses, sampling etc.; and

— approximately 13.15% or approximately RMB4.3 million be utilised in payment of administrative expenses such as salaries for administrative staff, retirement benefits fund, office supplies etc.

GEM LISTING RULES IMPLICATIONS

As the Purchaser is a subsidiary of Zhejiang Yongli, the ultimate holding company of the Company, the Equity Transfer Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Further, as one or more of the applicable percentage ratios calculated by reference to Rule 19.07 of the GEM Listing Rules in respect of the Disposal under the Equity Transfer Agreement exceed(s) 25% but less than 75%, the Equity Transfer Agreement and the transactions contemplated thereunder constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules and it is therefore subject to reporting, announcement, circular and Independent Shareholders' approval requirements thereunder.

Ms. He Lianfeng, an executive Director and her spouse totally have approximately 0.039% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Mr. Xia Zhenbo, a non-executive director of the Company, who holds the positions of director and general manager of Guizhou Yongli, is beneficially interested in 640,000 H Shares. Accordingly, Ms. He and Mr. Xia are considered to have a material interest in the Equity Transfer Agreement and have abstained from voting on the resolutions in relation to the Equity Transfer Agreement proposed to the Board. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Equity Transfer Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held by the Company at the conference room of the office building of the Company at Xiwu Industrial Park, Hutang Street, Keqiao District, Shaoxing City, Zhejiang Province, the PRC at 10:00 a.m. on Friday, 22 March 2024 to consider, if thought fit, approve the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on page 67 to 69 of this circular.

As at the Latest Practicable Date, the Purchaser is a wholly-owned subsidiary of Zhejiang Yongli, the ultimate controlling shareholder of the Company. Accordingly, the Purchaser is a connected person of the Company. Guizhou Yongan, a subsidiary of Zhejiang Yongli and a direct controlling shareholder of the Company, is required to abstain from voting on the relevant resolution approving the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has any material interest in the Equity Transfer Agreement and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it/he/she has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his/her Shares to a third party, either generally or on a case-by-case basis.

A reply slip and a proxy form for the EGM are enclosed with this circular. Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same, for holders of H Shares, to the Company's share registrar, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, and for holders of Domestic Shares, to the Company's legal address at Xiwu Industrial Park, Hutang Street, Keqiao District, Shaoxing City, Zhejiang Province, the PRC as soon as possible and in any event not later than 24 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Listed Company Information" page of the website of the Stock Exchange at www.hkexnews.hk for at least 7 days from the date of its posting and on the website of the Company at http://www.zj-yongan.com.

RECOMMENDATION

The Board (including the independent non-executive Directors whose views have been set out in this circular after taking into the advice of the Independent Financial Adviser) considers that the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and the Disposal, even though may not be in the ordinary and usual course of business of the Company is on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution for approving the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the additional information as set out in the appendices to this circular.

Yours faithfully,
By order of the Board of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Lou Lijiang
Chairman