



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: 08211)**

*Executive Directors:*

Mr. Jin Lei (*Chairman*)  
Ms. Zhou Youqin (*Chief Executive Officer*)  
Mr. Zhan Fahui (*duties suspended*)

*Non-executive Director:*

Mr. Xia Zhenbo (*Deputy Chairman*)

*Independent non-executive Directors:*

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:*

Suites 2701-08, 27<sup>th</sup> Floor  
Shui On Centre,  
6-8 Harbour Road,  
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Hong Kong

31 July 2025

*To the Shareholders*

Dear Sir or Madam,

**(I) MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO PROVISION OF FINANCIAL ASSISTANCE;  
(II) PROPOSED CHANGE OF DIRECTORS;  
(III) PROPOSED CHANGE OF DEPUTY CHAIRMAN;  
(IV) PROPOSED RE-ELECTION OF SUPERVISOR;  
AND  
(V) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the Announcements in relation to, among other things, the Loan Agreement, the partial repayments of the Non-compliance Advance Payments and the repayment of interest, the proposed change of Directors, the change of chairman, the proposed

\* For identification purpose only

change of deputy chairman and the change of member of nomination committee. The Loan Agreement constitutes a major and connected transaction of the Company under the GEM Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) further information on the Loan Agreement and the transactions contemplated thereunder; (ii) the proposed change of Directors; (iii) the proposed change of deputy chairman; (iv) the proposed re-election of supervisor; (v) the recommendations from the Independent Board Committee on the Loan Agreement and the transactions contemplated thereunder; (vi) the advice from the Independent Financial Adviser on the Loan Agreement and the transactions contemplated thereunder; (vii) the financial information of the Group; and (viii) a notice of EGM.

## **2. MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROVISION OF FINANCIAL ASSISTANCE**

As disclosed in the announcement of the Company dated 19 February 2025, the Non-compliance Advance Payments were identified during the audit of the Group's financial results for the year ended 31 December 2024. The company secretary of the Company discovered certain transactions between the Company (as lender) and Zhejiang Yongli and Guizhou Yongli (on behalf of Zhejiang Yongli). Based on the internal review by the supervisory committee of the Company, it was found that on 31 December 2024, three payments totaling RMB111,726,664 were advanced from the Company to Guizhou Yongli, and on 2 January 2025, one payment of RMB56,000,000 was advanced from the Company to Zhejiang Yongli for working capital purposes. These transactions were executed via online banking under the authorisation of Mr. Zhan Fahui who was then the Company's legal representative, chairman and executive Director, but without compliance with the disclosure and approval procedures required under Chapters 19 and 20 of the GEM Listing Rules. Since then, the Company has been maintaining close dialogue with Zhejiang Yongli to negotiate formal terms and rectify the situation through a proper loan agreement. On 30 April 2025, the Company, as lender, entered into the Loan Agreement with Zhejiang Yongli as borrower and Zhejiang Yongli Warp as guarantor to formalise and govern the repayment terms of the Non-compliance Advance Payments.

As at the Latest Practicable Date, Zhejiang Yongli had made partial repayments of loan principal in respect of the Non-compliance Advance Payments amounting to RMB35,766,157.15 in aggregate and repayment of interest accrued up to 30 June 2025 amounting to RMB2,377,498.41.

**(I) The Loan Agreement**

On 30 April 2025, the Company entered into the Loan Agreement with Zhejiang Yongli and Zhejiang Yongli Warp, the principal terms of which are as follows:

- Date** : 30 April 2025
- Parties** : (i) The Company (as lender)  
(ii) Zhejiang Yongli (as borrower)  
(iii) Zhejiang Yongli Warp (as guarantor)
- Total principal amount** : The aggregate principal amount of the loan is RMB167,726,664, including:
- on 31 December 2024, the Company advanced three tranches of funds in the aggregate amount of RMB111,726,664 to Guizhou Yongli, a subsidiary of Zhejiang Yongli, for and on behalf of Zhejiang Yongli; and
  - on 2 January 2025, the Company further advanced RMB56,000,000 directly to Zhejiang Yongli.

As at the date of the Loan Agreement, Zhejiang Yongli had repaid RMB10,000,000 and RMB10,726,664 to the Company on 24 March 2025 and 31 March 2025 respectively. On 30 May 2025, Zhejiang Yongli further repaid RMB15,000,000 to the Company. On 30 June 2025, Zhejiang Yongli repaid RMB2,416,991.56, including interest and partial principal repayment. Accordingly, the total principal repaid under the Loan Agreement is RMB35,766,157.15 and the outstanding balance for the principal amount of the Non-compliance Advance Payments amounted to RMB131,960,506.85 as at the Latest Practicable Date.

- Loan term** : The loan term shall commence from the respective dates of the advances and will be mature on 30 December 2025 (i.e. the Maturity Date). In the event that Zhejiang Yongli requests an extension of the loan upon maturity, the Company may only grant such extension subject to compliance with the applicable requirements under the GEM Listing Rules, including, where necessary, disclosure by way of announcement and circular, and approval by the independent shareholders of the Company at general meeting.

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## LETTER FROM THE BOARD

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**Interest and  
Repayment  
Terms**

: Zhejiang Yongli shall pay interest to the Company at an annual rate of 3.1%, which is determined with reference to the Loan Prime Rate published by the People's Bank of China. Interest shall be calculated on a 365-day year basis based on the actual number of days elapsed.

Interest shall be payable in two installments, with the first payment due on 30 June 2025 and the remaining interest together with the outstanding principal shall be repaid in full on or before the Maturity Date. Interest accrues up to and including the day of repayment.

As at the date of the Loan Agreement, the total interest payable was estimated to be approximately RMB4.7 million. This was based on the total outstanding loan principal of approximately RMB147.0 million, the interest rate of 3.1% per annum, and assuming full repayment would be made on the Maturity Date with no early repayment.

Subsequently, Zhejiang Yongli made partial repayments of the principal in the amounts of RMB15 million and RMB39,493.15 on 30 May 2025 and 30 June 2025 respectively. On 30 June 2025, an interest payment of approximately RMB2.38 million was also made. After accounting for these early repayments, the outstanding loan principal as at 1 July 2025 was RMB131,960,057. Assuming this amount remains outstanding until the Maturity Date and using the same interest rate of 3.1% per annum, the estimated remaining interest payable is approximately RMB2.1 million.

**Early repayment**

: Zhejiang Yongli shall have the right to repay the principal and any accrued interest in whole or in part at any time prior to the Maturity Date. For early repayment, the interest payable by Zhejiang Yongli shall be calculated using the following formula:

Interest payable = Outstanding principal amount × 3.1% × Actual number of days elapsed / 365

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## LETTER FROM THE BOARD

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**Default interest** : If Zhejiang Yongli fails to repay any principal or interest when due, the Company shall be entitled to charge default interest on the overdue amount at an additional rate of 3.1% per annum (on top of the standard interest rate of 3.1%), calculated on a simple interest basis and on a daily basis from the due date to the actual date of repayment based on the actual number of days elapsed.

The Company shall also be entitled to demand Zhejiang Yongli Warp to fulfil its joint liability guarantee for the repayment of the outstanding principal, interest accrued therein and penalty interest. For the avoidance of doubt, such penalty interest is compensatory in nature and shall not exempt Zhejiang Yongli from their obligation to pay regular interest.

**Guarantee** : Zhejiang Yongli Warp has agreed to provide a joint liability guarantee in favour of the Company for the repayment obligations of Zhejiang Yongli under the Loan Agreement, including all outstanding principal, interest and any applicable penalty interest. The guarantee shall remain effective until all such amounts have been fully repaid.

**Pledged security** : The entire 62.88% of equity interest of Zhejiang Yongli Warp legally and beneficially owned by Zhejiang Yongli, the value of which is more than sufficient to cover the outstanding principal amount of the loan and interest amount to be incurred.

According to the audited financial statements of Zhejiang Yongli Warp for the year ended 31 December 2024, Zhejiang Yongli Warp had net assets of approximately RMB1,200.58 million, including land and buildings with a site area of approximately 96,392 square metres and gross floor area of approximately 61,591.82 square metres. Based on a valuation report prepared by an independent PRC valuer, adopting the market approach for the land use rights and the replacement cost approach for the buildings, the market value of such land and buildings was assessed to be approximately RMB340.98 million as at 8 April 2025. For details of assets and liabilities of Zhejiang Yongli Warp, please refer to section headed “Information on the Parties — Zhejiang Yongli Warp” below.

According to the announcement of the Company dated 3 January 2024, the Company has leased 8,672.57 square metres of such property held by Zhejiang Yongli Warp for a lease term of 10 years.

Apart from the land and buildings, other assets of Zhejiang Yongli Warp include approximately RMB170 million in bank wealth management products and approximately RMB86.74 million in long-term equity investments.

During the term of the loan, Zhejiang Yongli is obliged not to sell, transfer, pledge or otherwise dispose of the pledged 62.88% equity interest in Zhejiang Yongli Warp. In addition, both the Zhejiang Yongli and Zhejiang Yongli Warp have undertaken not to dispose of or transfer the above-mentioned assets of the Zhejiang Yongli Warp, or cause any material impairment in their value.

**Representation  
and undertaking**

: If Zhejiang Yongli fails to pay the interest due on 30 June 2025, or fails to repay the outstanding principal and accrued interest on or before the Maturity Date, the Company or its nominee shall have the right, at its discretion, to take one or more of the following enforcement actions:

- (i) demand immediate repayment of all outstanding amounts, interest and penalty interest from the Zhejiang Yongli;
- (ii) require the Zhejiang Yongli Warp to perform its joint liability guarantee;
- (iii) enforce the pledged 62.88% equity interest in the Zhejiang Yongli Warp; and/or
- (iv) apply for execution against the Zhejiang Yongli Warp's assets through legal proceedings due to its joint liability guarantee.

Any proceeds recovered from enforcement actions shall be applied towards repayment of all outstanding principal, interest and penalty interest. The Company reserves the right to pursue further recovery if the proceeds are insufficient to cover the total outstanding liabilities.



Zhejiang Yongli Warp has represented that, as at the date of the Loan Agreement, it has no undisclosed liabilities or contingent obligations (save as below) that may have a material adverse impact on its ability to perform its joint liability guarantee obligations. Further, Zhejiang Yongli Warp confirmed that the equity interest pledged in favour of the Company under the Loan Agreement was free from any prior encumbrance.

Zhejiang Yongli Warp has also represented that, as at 31 December 2024, it had no overdue bank borrowings or trade liabilities. In addition, the Company was informed that Zhejiang Yongli Warp and Zhejiang Yongli jointly provided guarantees between 2017 and 2019 for debts of a third-party company, which was later taken over by a state-owned distress asset management company in the PRC. Based on a court judgment, the total guaranteed amount and all other fees payable is approximately RMB85.2 million. As at the Latest Practicable Date, the judgment sum remains unpaid pending the outcome of appeal proceedings and ongoing negotiations with the creditor. Based on the available information, the Company is of the view that this contingent liability does not have a material adverse impact on Zhejiang Yongli Warp's ability to perform its joint guarantee obligations under the Loan Agreement.

Zhejiang Yongli Warp has also undertaken that, during the term of the loan, it shall promptly notify the Company if it incurs or proposes to incur any additional liabilities or contingent obligations that may affect its ability to fulfil the joint liability guarantee, and shall, upon the Company's reasonable request, provide supplemental information or additional security arrangements.

**Others** : The Loan Agreement is subject to the approval by the Independent Shareholders at the EGM. If such approval is not obtained, Zhejiang Yongli shall immediately repay all outstanding amount of the Non-compliance Advance Payments.

**(II) Information on The Parties**

***The Company***

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

***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 approximately 85.89% of the shares, while Ms. Xia Wanmei, his spouse, owns approximately 3.89%. 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). As advised by Zhejiang Yongli, as at 31 December 2024, it had total assets of approximately RMB14.5 billion and net assets amounted to approximately RMB7.6 billion. Key asset components included equity investments of approximately RMB6.2 billion, other receivables of RMB6.1 billion, and available-for-sale financial instruments of RMB416.2 million. Its total liabilities amounted to approximately RMB6.9 billion, which included, among others, short-term bank borrowings of RMB340 million and long-term bank borrowings of RMB4,751 million. Based on total bank borrowings of approximately RMB5.1 billion and net assets of RMB7.6 billion, its gearing ratio was approximately 67%.

***Zhejiang Yongli Warp***

Zhejiang Yongli Warp Knitting Co, Ltd. was established in 1986 and has a registered share capital of RMB80 million. The company is a subsidiary of Zhejiang Yongli and principally engaged in the research, development production, sales and service of lace garment fabric, wall cloth, curtain fabrics and ready-made curtains. It has more than 20-year experience in foreign trade business. As extracted from the audited financial statements of Zhejiang Yongli Warp for the year ended 31 December 2024, set out below is a breakdown of all of its assets and liabilities:

*RMB*

**Non-current assets**

— Long-term equity investment	86,749,222
— Property, plant and equipment	38,437,715
— Construction in progress	12,388,814
— Intangible assets	26,654,925
— Long-term prepayment	971,873



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## LETTER FROM THE BOARD

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RMB

**Current assets**

— Cash and cash equivalents	169,277,923
— Available-for-sale financial instruments	170,000,000
— Bills receivables	244,500,000
— Accounts receivables	325,809,727
— Short-term prepayments	36,270,000
— Other receivables	517,324,323
— Inventory	283,443,938

**Current liabilities**

— Short-term borrowings	171,880,000
— Accounts payables	4,605,388
— Receipt-in advance	63,371,442
— Tax payables	132,272
— Other payables	226,710,819

**Non-current liabilities**

— Long-term loans	244,540,000
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<b>Net assets</b>	1,200,588,539
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As at 31 December 2024, the major assets of Zhejiang Yongli Warp comprised a combination of operational and strategic assets which are not readily disposable within a short period of time.

- **Long-term equity investments** represent equity interests in unlisted subsidiaries and affiliated entities.
- **Property, plant and equipment** mainly consist of production plants, buildings and related equipment located in Zhejiang Province. Certain properties have been pledged to secure bank borrowings and are integral to Zhejiang Yongli Warp's manufacturing operations.
- **Construction in progress** represents committed capital expenditures for expansion and upgrade of production facilities.
- **Intangible assets** represent land use rights granted by local government authorities in the PRC for industrial land use. These rights are subject to regulatory and usage restrictions and are not transferable in open markets.
- **Long-term prepayments** consist of deposits and advance payments relating to long-term equipment procurement or lease arrangements. These are committed funds tied to future business activities.

- **Cash and cash equivalents** represent deposits with licensed PRC financial institutions. Part of the balance is subject to minimum reserve requirements or pledged as collateral under bank loan facilities.
- **Available-for-sale financial instruments** include:
  - (i) wealth management products issued by a licensed bank in the PRC, which are required by the bank to be maintained as security for the bank loan facilities; and
  - (ii) an equity investment in a fund established by a company listed in National Equities Exchange and Quotations (NEEQ), with a focus on private equity investment and fund management.
- **Bills and accounts receivables** arise from trading activities with customers and counterparties. Some balances have been pledged as security for banking facilities and are subject to typical commercial settlement cycles.
- **Short-term prepayments** are deposits paid to suppliers for the purchase of raw materials and production equipment under normal commercial terms.
- **Other receivables** primarily comprise balances due from parties related to the Controlling Shareholders.
- **Inventory** includes raw materials, work-in-progress and finished goods held for use in the manufacturing operations.

### **(III) Reasons for and Benefits of the Loan Agreement**

The Loan Agreement was entered into for the purpose of documenting and regulating the advance payments previously made to the controlling shareholders of the Company, which were not in compliance with the disclosure and approval requirements under the GEM Listing Rules. It also represents part of the Company's remedial actions to regularise the arrangement and to ensure that the terms governing the financial assistance are properly formalised.

Given the current liquidity position of Zhejiang Yongli, they are unable to repay the entire outstanding sum of the Non-compliance Advance Payments immediately. The Company considers it more prudent to provide Zhejiang Yongli with a one-year repayment period to recover the outstanding loan amount under a formalised agreement, rather than forcing immediate repayment which may otherwise result in default and legal proceedings. The Company considers that it would be costly and time consuming to initiate legal proceedings against Zhejiang Yongli and such costs would be substantial and would have immediate adverse effect on the cashflow position of the Group. In addition, it would not be reasonable or commercially justifiable for the Company to initiate legal proceedings at present given that the Company has secured a formalised loan arrangement under which:

- (i) Zhejiang Yongli agreed to provide a pledge of 62.88% equity interest in Zhejiang Yongli Warp as security;
- (ii) Zhejiang Yongli Warp has provided a joint liability guarantee in favour of the Company for the repayment obligations of Zhejiang Yongli; and
- (iii) the Loan Agreement would formalise other principal terms of the loan including a defined repayment schedule and an interest of 3.1% per annum, which provides interest income to the Group during the loan period.

According to the audited financial statements of Zhejiang Yongli Warp for the year ended 31 December 2024, Zhejiang Yongli Warp had net assets of approximately RMB1,200.58 million, including land and buildings with a site area of approximately 96,392 square metres and gross floor area of approximately 61,591.82 square metres. Based on a valuation report prepared by an independent PRC valuer, adopting the market approach for the land use rights and the replacement cost approach for the buildings, the market value of such land and buildings was assessed to be approximately RMB340.98 million as at 8 April 2025. Part of these buildings are currently leased by the Group for operational use. The Directors consider that the net asset value of Zhejiang Yongli Warp is more than sufficient to cover the outstanding loan amount and the interest payable under the Loan Agreement (including the interest income to be generated for the Group), and that the provision of such security, together with the commercial terms of the Loan Agreement, is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Further, although Zhejiang Yongli and its subsidiaries (including Zhejiang Yongli Warp) held substantial assets as at 31 December 2024, Zhejiang Yongli was unable to arrange immediate repayment of an unrenewed loan due at the time due to the illiquid nature of its key assets, such as equity investments and other receivables, as well as existing operational funding requirements and ongoing debt obligations across the group.

Although the Non-compliance Advance Payments were made without proper disclosure and approval under the GEM Listing Rules, the Company has since demonstrated its intention to rectify the non-compliance by entering into a formal agreement and subjecting it to independent shareholders' scrutiny. The Loan Agreement formalises key terms (such as interest rate, maturity, and security) and provides a contractual framework to govern repayment.

The Loan Agreement will be put forward to the Independent Shareholders for approval at the EGM. If they vote against it, the Company will take immediate steps to demand full repayment.

Mr. Zhan Fahui, the chairman and executive director of the Company, was not entitled to vote on the relevant Board resolutions as his duties have been suspended due to his involvement in the approval and execution of the Non-compliance Advance Payments. Ms. Zhou Youqin, an executive Director, is the legal representative, shareholder and director of Zhejiang Yongli Warp and the sister of Mr. Zhou Yongli, the controlling shareholder of Zhejiang Yongli and director of Zhejiang Yongli. Accordingly, Ms. Zhou is considered to have a material interest in the Loan Agreement and has abstained from voting on the resolutions in relation to the Loan Agreement proposed to the Board.

The Board meeting at which the above resolutions were considered was held on 30 April 2025. Save as disclosed above, none of the Directors attended the Board meeting have a material interest in the Loan Agreement. All the remaining Directors, namely Mr. Jin Lei, Mr. Xia Zhenbo, Mr. Yu Weidong (resigned on 29 July 2025), Mr. Zhang Jianyong and Mr. Yuan Lingfeng, voted in favour of the relevant Board resolutions.

**(IV) Board's Assessment on Recoverability of the Non-compliance Advance Payments**

The Board has taken into account the following factual information to assess the recoverability of the Non-compliance Advance Payments:

*(i) Repayment Record and Willingness:*

As at the Latest Practicable Date, Zhejiang Yongli had voluntarily repaid a total of RMB35.73 million before the Maturity Date. Such amount represents approximately 21.3% of the total amount of RMB167.7 million due under the Loan Agreement. In addition, Zhejiang Yongli has duly settled the first instalment of interest under the Loan Agreement on 30 June 2025. These early repayments and payment of interest indicate Zhejiang Yongli's willingness and commitment to honour its repayment obligations.

*(ii) Concrete Repayment Plan in Progress:*

In March 2025, a wholly-owned subsidiary of Zhejiang Yongli entered into an agreement to dispose of a minority equity interest in a semiconductor-related business to an A-share listed company. The total consideration for the disposal is RMB289.4 million, of which RMB144.7 million will be settled in cash and RMB144.7 million will be settled by issuance of shares of the A-share listed company. The transaction is currently pending approval by the China Securities Regulatory Commission ("CSRC") and is expected to complete by August 2025. Zhejiang Yongli has confirmed its intention to apply the cash proceeds from this transaction to fully settle the outstanding balance of the Non-compliance Advance Payments.

In the event that the aforementioned disposal transaction does not complete as expected (e.g. due to non-approval by the CSRC), Zhejiang Yongli has confirmed that it has formulated alternative repayment plans to ensure that the outstanding balance of the Non-compliance Advance Payments will be fully settled. Such plans include coordinating with its subsidiaries (including Zhejiang Yongli Warp) to accelerate the collection of outstanding accounts receivables, which are expected to be in surplus of corresponding accounts payables, and considering the discounting of bills receivables to generate short-term liquidity. These receivables and bill instruments are primarily trade-related and due within the coming 12 months, representing realisable current assets that can be made available for the repayment obligation.



The Company is of the view that, even in the absence of completion of the equity disposal, Zhejiang Yongli will still be able to honour the repayment commitment through its alternative funding measures.

*(iii) Financial Strength and Asset Base:*

As at 31 December 2024, Zhejiang Yongli reported total assets of approximately RMB14.5 billion and net assets of approximately RMB7.6 billion. While a large portion of its assets comprise equity investments and receivables which are not immediately liquid, the Board considers Zhejiang Yongli to be financially sound with sufficient asset backing to support its repayment plan.

*(iv) Guarantee and Security in Place:*

The outstanding amount of the Non-compliance Advance Payments is secured by:

- a pledge over 62.88% equity interest in Zhejiang Yongli Warp, whose audited net asset value as at 31 December 2024 was approximately RMB1.2 billion; and
- a corporate guarantee provided by Zhejiang Yongli Warp on a joint and several liability basis.

Having considered Zhejiang Yongli's financial position, the security package in place, the repayment track record to date, and the concrete repayment arrangement, the Board is of the view that Zhejiang Yongli has both the intention and the financial ability to fully settle the outstanding amount under the Loan Agreement on or before the Maturity Date.

**(V) Previous Non-compliance with GEM Listing Rules**

As disclosed in the Company's announcement dated 31 March 2022 and circular dated 26 May 2022, the Company identified during its 2021 year-end audit review that it had advanced a revolving loan in the principal amount of RMB35 million to Zhejiang Yongli or its designated parties since January 2021 without compliance of the GEM Listing Rules. The revolving loan had expired and was fully repaid by 31 March 2022. The Company announced that such advance constituted a major transaction and continuing connected transaction under the GEM Listing Rules, but the relevant reporting, announcement and independent shareholders' approval requirements were not complied with at the time. To regularise the arrangement, a formal revolving loan agreement was executed and subsequently approved by the Independent Shareholders at the extraordinary general meeting held on 22 July 2022.

In response to the non-compliance, the Company took a number of remedial actions to prevent the occurrence of granting unauthorised loan to third parties. These remedial actions included engaging an internal control consultant to enhance the internal control of the Company and requiring relevant personnel of the Group to attend training in relation to the GEM Listing Rules. Notwithstanding the remedial actions taken, the enhanced internal control measures failed to prevent the Non-compliance Advance Payments from occurring. In this regard and as required under the resumption guidance received by the Company from the Stock Exchange on 17 March 2025 and as set out in the Company's announcement dated 19 March 2025, the Company was, as at the Latest Practicable Date, in the process of conducting an independent forensic investigation to, among other things, identify the facts and circumstances underlying the Non-compliance Advance Payments. Based on the preliminary understanding by the Company, the Non-compliance Advance Payments involved management's overriding of internal control which caused the failure of the Company's internal control measures. The Company would make further announcements in relation to the key findings of the forensic investigation as soon as practicable.

As part of the remedial actions to the Non-compliance Advance Payments, the Company has, among others, (i) suspended all executive duties of Mr. Zhan; (ii) entered into the Loan Agreement to regularise the Non-compliance Advance Payments for the Independent Shareholders' approval under this Circular; (iii) established a compliance committee to oversee the Company's compliance with the GEM Listing Rules and advise the Board on regulatory and compliance matters; (iv) engaged a forensic investigator to conduct an independent forensic investigation on the matter; and (v) shortlisted potential candidates for appointment as the independent internal control consultant to conduct an independent internal control review on the Company. The relevant remedial actions would be finalized based on the results and findings of the forensic investigation and the internal control review, among others. The Company currently expects that the relevant remedial actions would be implemented and completed during the fourth quarter of 2025.

#### **(VI) Financial Effects of The Loan Agreement**

The entering into of the Loan Agreement does not result in any immediate gain or loss being recognised in the consolidated income statement of the Group. However, interest income is expected to be recognised by the Group over the loan period. Based on the agreed annual interest rate of 3.1% and the outstanding principal amount of RMB131,960,506.85 and the assumption that no further repayment will be made by Zhejiang Yongli before maturity, the total interest income expected to be generated under the Loan Agreement is approximately RMB4.4 million, which is anticipated to contribute positively to the earnings of the Group during the term of the loan.

As at the Latest Practicable Date, RMB131,960,506.85 remains outstanding under the Loan Agreement and is recorded as a loan receivable in the Group's financial statements. The Directors consider that, with the provision of a pledge of 62.88% equity interest in Zhejiang Yongli Warp and a joint liability guarantee provided by Zhejiang Yongli Warp, the financial exposure of the Group is sufficiently secured. As such, no material adverse impact is expected on the Group's assets and liabilities.



**(VII) GEM Listing Rules Implications**

The Non-compliance Advance Payments constituted provision of financial assistance by the Company to Zhejiang Yongli. As one or more of the applicable percentage ratios calculated pursuant to Rule 19.07 of the GEM Listing Rules in respect of the Non-compliance Advance Payments exceeds 25%, the Non-compliance Advance Payments constituted a major transaction of the Company under Rule 19.06 of the GEM Listing Rules. The Loan Agreement was entered into as a remedial measure to formalise and govern the Non-compliance Advance Payments. As such, the entering into of the Loan Agreement is regarded as a major transaction of the Company under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, Zhejiang Yongli holds 65% equity interest in Guizhou Yongli, which in turn owns approximately 55.29% of the total issued share capital of the Company. As a result, both Zhejiang Yongli and Guizhou Yongli are connected persons of the Company under the GEM Listing Rules. Accordingly, the Loan Agreement also constitutes connected transactions on the part of the Company under Chapter 20 of the GEM Listing Rules.

Since one or more of the applicable percentage ratios (other than the profits ratio) calculated pursuant to Rule 19.07 in respect of the Loan Agreement exceed 5%, the Loan Agreement is a non-exempt connected transaction and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

**(VIII) Warnings**

**Trading in the Company's shares on the Stock Exchange has been suspended since 21 February 2025. Under GEM Rule 9.14A, the Company must ensure trading in its shares to resume by the 12-month prescribed remedial period ending on 20 February 2026. Otherwise, the Stock Exchange will be entitled to delist the Company.**

**To resume trading, the Company must demonstrate to the Stock Exchange's satisfaction that it has met all the resumption guidance, addressed all the issues arising from time to time warranting a trading suspension and re-complied with the GEM Listing Rules by the resumption deadline.**

**Publication of this circular does not indicate any decision or conclusion from the Stock Exchange not to delist the Company, fulfillment of any resumption guidance, nor warrant any approval from the Stock Exchange on the resumption of trading in the existing shares on the Stock Exchange.**

**The Company will disclose updates on the satisfaction of resumption guidance by way of announcement, as and when appropriate.**

Shareholders and potential investors of the Company should exercise caution when dealing in the Company's shares, and if they are in any doubt about their positions, they should consult their professional advisers.

**(IX) 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 Loan Agreement and the transactions contemplated thereunder. Alpha Financial Group Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder.

**3. PROPOSED CHANGE OF DIRECTORS**

**(I) Resignation of Director**

As disclosed in the announcement of the Company dated 2 July 2025, Mr. Zhan Fahui (“**Mr. Zhan**”) has tendered his resignation from the positions of (a) Chairman of the Board and a member of the Nomination Committee, with effective from 2 July 2025; and (b) executive Director, with effective from the date of the EGM so as to devote more time for his own personal affairs.

Mr. Zhan has confirmed that he does not have any disagreement with the Board and that there is no matter relating to his resignation which needs to be brought to the attention of the Stock Exchange and the Shareholders. Despite his resignation, Mr. Zhan agrees to continue to cooperate with the Company to conduct and complete the forensic investigation. With the proposed appointment of new executive Director and change of Chairman of Board as set out below, the Company considers that the resignation of Mr. Zhan will not have any material adverse effect on the business operations of the Company.

**(II) Proposed Appointment of Director**

As disclosed in the announcement of the Company dated 2 July 2025, Mr. Cao Zheng (曹征先生) (“**Mr. Cao**”) is proposed to be appointed as an executive Director. Pursuant to the Articles, the proposed appointment will be subject to and only become effective after obtaining the approval of the Shareholders at the EGM.

Biographical details of Mr. Cao are as follows:

Mr. Cao, aged 43, holds a master's degree in business administration from Webster University and a Doctor of Philosophy in Economics from Southwestern University of Finance and Economics (西南財經大學). He has over ten years of experience in investment and financing management within large corporate groups, and has frequently assisted these companies with asset restructuring, business analysis, fund financing, and project investment for both domestic and overseas listings. From December 2014 to April 2021, he held the position of director and deputy general manager at Hongyi Industrial

Group Co., Ltd.\* (宏義實業集團有限公司). From May 2021 to April 2022, he was the chief executive officer of Huayun Holdings Group Co., Ltd.\* (華耘控股集團有限公司). Since May 2022, he has been a partner at Nuoan Capital Management Co., Ltd.\* (諾安資本管理有限公司). Mr. Cao obtained a practice certificate from the Asset Management Association of China in April 2016.

Subject to the approval by the Shareholders at the EGM, the Company will enter into a service contract with Mr. Cao. The initial length of services will be 3 years commencing from the date of the EGM.

An ordinary resolution will be proposed at the EGM to appoint Mr. Cao as an executive Director effective from the date of the EGM, and to authorise the Board to enter into a service contract with Mr. Cao with an annual emolument of RMB50,000 plus a year-end discretionary bonus, which was determined with reference to the existing service contracts entered into between the Company and the existing executive Directors.

As at the Latest Practicable Date, save as disclosed above, to the best knowledge, information and belief of the Board having made reasonable enquiry, Mr. Cao (i) has not been a director of any other listed company in Hong Kong or overseas in the last 3 years; (ii) does not have any relationship with any members of the Board, senior management, substantial shareholders or controlling shareholders of the Company (as respectively defined in the GEM Listing Rules); (iii) does not have any interests in the Shares (within the meaning of Part XV of the SFO); (iv) does not hold any other position in the Company or any other members of the Group; and (v) does not have any other major appointments and professional qualifications.

In relation to the appointment of Mr. Cao as an executive Director, he has confirmed that there is no other information required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules, and there is no other matter which needs to be brought to the attention of the Shareholders.

#### **4. PROPOSED CHANGE OF DEPUTY CHAIRMAN**

Mr. Xia Zhenbo (“**Mr. Xia**”), a non-executive Director will resign as Deputy Chairman of the Board, with effective from the date of EGM. Subject to the appointments of Mr. Cao as an executive Director, the Board proposes to elect Mr. Cao as the Deputy Chairman to take up the position of Mr. Xia. Such appointment will only become effective after obtaining the approval of the Shareholders for his appointment as executive Director at the EGM.

#### **5. PROPOSED RE-ELECTION OF SUPERVISOR**

Ms. Wang Ai Yu (王愛玉女士) (“**Ms. Wang**”)’s term of office as a shareholder representative Supervisor of the Company has expired on 17 June 2025 (i.e. three years from the date of her last re-election at the annual general meeting of the Company held on 17 June 2022). Ms. Wang will offer herself for re-election as a shareholder representative Supervisor at the EGM. Pursuant to the Articles, such appointment will only become effective after obtaining approval from the Shareholders at the EGM.

Biographical details of Ms. Wang are as follows:

Ms. Wang, aged 61, has been a Supervisor since 11 March 2011. She is currently an audit manager of the internal audit department of Zhejiang Yongli. Ms. Wang was a teacher of Yangxunqiao Zhongxing Primary School\* (楊汛橋中心小學) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of Shaoxing County Mijian Factory\* (紹興市蜜餞廠) from February 1980 to February 1987. She has acted as an internal audit manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies.

She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance and accounting. She graduated from Chong Qing University.

The Company will enter into a service contract with Ms. Wang. The term of office of Ms. Wang shall be 3 years commencing upon the approval by the Shareholder of her appointment at the EGM.

An ordinary resolution will be proposed at the EGM to re-elect Ms. Wang as a Supervisor for a period of 3 years effective from the date of the EGM, and the Board will be authorised to enter into a service contract with Ms. Wang for a term of 3 years commencing from the date of the EGM at an annual emolument of RMB36,000, which was determined with reference to the existing services contracts entered into between the Company and the existing Supervisors and will be paid by Zhejiang Yongli.

As at the Latest Practicable Date, save as disclosed above, to the best of knowledge, information and belief of the Board having made reasonable enquiry, (i) Ms. Wang has not been a director of any other listed company in Hong Kong or overseas in the past 3 years, and had no prior relationship, business or otherwise, with the Company and its subsidiary; (ii) she has no relationship with any members of the Board, senior management, substantial Shareholders or controlling Shareholders of the Company (as respectively defined in the GEM Listing Rules); (iii) she does not have or are not deemed to have interests in any shares or underlying shares of the Company (within the meaning of Part XV of the SFO); (iv) she does not hold any other position in the Company or any other members of the Group; and (v) she does not have any other major appointments and professional qualifications.

In relation to the re-election Ms. Wang as a shareholder representative Supervisor, Ms. Wang has confirmed that there is no other information required to be disclosed pursuant to the requirements of the provisions under paragraphs 17.50(2) of the GEM Listing Rules, and there is no other matter which needs to be brought to the attention of the Shareholders.



## 6. EGM

A notice convening the EGM will be held by the Company at the conference room of the office building of the Company at 10:00 a.m. on Tuesday, 16 September 2025. A notice convening the EGM is set out on page 60 to 62 of this circular.

As at the Latest Practicable Date, the borrower of the Loan Agreement is Zhejiang Yongli, the ultimate controlling shareholder of the Company. Accordingly, the borrower of the Loan Agreement is a connected person of the Company. Guizhou Yongli, 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 Loan Agreement and the transactions contemplated thereunder at the EGM. Mr. Xia Zhenbo, a non-executive Director of the Company, is also a director, legal representative of Guizhou Yongli and is beneficially interested in 640,000 H Shares of the Company is also required to abstain from voting on the relevant resolution approving the entering into of the Loan 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 Loan Agreement and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the entering into of the Loan 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 <http://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>.

## 7. 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 Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and the entering into the Loan Agreement, 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 resolutions for approving the entering into of the Loan Agreement and the transactions contemplated thereunder to be proposed at the EGM.

The Directors consider that (i) the proposed change of Director; and (ii) the proposed re-election of Supervisor are in the best interests of the Company and its Shareholders as a whole and recommend its Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

## 8. 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.\*



**Jin Lei**  
Chairman