

FIRST QUARTERLY REPORT 2018



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

**For identification purpose only*

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This document, for which the directors of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.) (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.*

HIGHLIGHTS

For the three months ended 31 March 2018,

- Revenue of the Group dropped from approximately RMB28.09 million to approximately RMB27.17 million, representing a slight decrease of approximately 3.3% when compared to the corresponding period in 2017;
- Net loss was approximately RMB2.07 million; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2018,

The board of directors (the “Board” or the “Directors”) of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.*) (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiary (collectively the “Group”) for the three months ended 31 March 2018 together with the comparative results for the corresponding period in 2017 as follows:

	Notes	Three months ended	
		2018	2017
		RMB'000	RMB'000
Revenue	3	27,166	28,094
Cost of sales		<u>(24,488)</u>	<u>(26,086)</u>
Gross profit		2,678	2,008
Other income and gains	3	248	123
Selling and distribution costs		(404)	(403)
Administration expenses		(2,745)	(1,446)
Financial costs	4	<u>(1,603)</u>	<u>(316)</u>
Loss before taxation		(1,826)	(34)
Income tax expenses	5	<u>(243)</u>	<u>—</u>
Loss for the period	6	(2,069)	(34)
Other comprehensive expenses for the period, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Adjustment on gain on revaluation of properties		<u>(80)</u>	<u>—</u>
Total comprehensive expenses for the period		<u>(2,149)</u>	<u>(34)</u>
		RMB	RMB
Loss per share — basic and diluted	8	<u>(0.19) cents</u>	<u>(0.003) cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note(a))	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (b))	Accumulated losses RMB'000 (Note (c))	Total RMB'000
At 1 January 2017	106,350	69,637	343,903	34,550	12,496	(257,932)	309,004
Total comprehensive expenses for the period	—	—	—	—	—	(34)	(34)
Balance at 31 March 2017	<u>106,350</u>	<u>69,637</u>	<u>343,903</u>	<u>34,550</u>	<u>12,496</u>	<u>(257,966)</u>	<u>308,970</u>
At 1 January 2018	106,350	69,637	331,664	36,865	12,496	(260,141)	296,871
Loss for the period	—	—	—	—	—	(2,069)	(2,069)
Adjustment for gain on revaluation of properties, net of tax	—	—	—	(80)	—	—	(80)
Other comprehensive expenses for the period	—	—	—	(80)	—	—	(80)
Total comprehensive expenses for the period	—	—	—	(80)	—	(2,069)	(2,149)
Balance at 31 March 2018	<u>106,350</u>	<u>69,637</u>	<u>331,664</u>	<u>36,785</u>	<u>12,496</u>	<u>(262,210)</u>	<u>294,722</u>

Notes:

- (a) *Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company and immediate holding company of the Company. If an entity revises its estimates of payments, the entity shall adjust the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate.*
- (b) *As stipulated by the regulations in the People's Republic of China (the "PRC"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior years losses) to general reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.*
- (c) *Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 March 2018 and 2017, no reserves were available for distribution due to accumulated losses being noted.*

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange.

The principal activities of the Group are (i) the manufacture, and sale of woven fabrics; (ii) the provision of subcontracting services; and (iii) the management of private equity assets.

In the opinion of the Directors, the immediate parent of the Company is 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) (“Guizhou Yongan”), an enterprise established in the PRC, and the ultimate holding parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd*) (“Zhejiang Yongli”), which is established in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Group.

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2017. The unaudited consolidated results of the Group are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the GEM Listing Rules.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with new and revised HKFRSs (“new and revised HKFRSs”) issued by the HKICPA.

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective.

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments ¹

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective date not yet been determined.

The directors of the Company anticipate that except as described in note 2 to the financial statement of the Group for the year ended 31 December 2017 in respect of application of *HKFRS 16 Leases* which will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied *HKFRS 15 Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16, application of the other new and revised HKFRSs will have no materials impact on the results and the financial position of the Group.

The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's consolidated results but certain portion of these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

3. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to external customers, net of discounts and sales related taxes. An analysis of the Group's revenue and other income and gains for the period are as follows:

	Three months ended	
	31 March	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sales of woven fabrics	25,408	27,011
Subcontracting fee income	1,743	1,083
Private equity asset management fee	15	—
	<u>27,166</u>	<u>28,094</u>
Other income and gains		
Interest income	54	61
Investment income	30	—
Sundry income	1	62
Gain on disposal of property, plant and equipment	13	—
Government subsidies (<i>note</i>)	33	—
Sales of scrap materials	117	—
	<u>248</u>	<u>123</u>

Note: Government subsidies of RMB33,000 (2017: Nil) was awarded to the Group during the period ended 31 March 2018 for encouraging the usage of the higher productivity machinery and the participation in exhibitions. There is no unfulfilled condition or contingencies relating to these subsidies.

4. FINANCE COSTS

	Three months ended	
	31 March	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Imputed interest on interest-free loan due to immediate holding company	<u>1,603</u>	<u>316</u>

5. INCOME TAX EXPENSES

	Three months ended	
	31 March	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Prior year under-provided - PRC Enterprise Income Tax	<u>243</u>	<u>-</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company is 25% for both periods.

No provision for PRC Enterprise Income Tax was made for both periods ended 31 March 2018 and 2017.

6. LOSS FOR THE PERIOD

	Three months ended	
	31 March	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period has been arrived at after charging: Depreciation and amortisation	<u>1,664</u>	<u>1,842</u>

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2018.

8. LOSS PER SHARE

Basic loss per share for the three months ended 31 March 2018 is calculated on the loss for the period of approximately RMB2,069,000 (2017: loss of approximately RMB34,000) and the weighted average of 1,063,500,000 ordinary shares in issue during the period ended 31 March 2018.

For the periods ended 31 March 2018 and 2017, the diluted loss per share is the same as the basic loss per share.

No diluted loss per share have been presented for the two periods ended 31 March 2018 and 2017, as there were no diluting events existed during these periods.

9. RELATED PARTY TRANSACTIONS

During the period for the three months ended 31 March 2018, the Group has the following related party transactions and continuing connected party transactions.

- (a) During the period for the three months ended 31 March 2018, the Group had paid approximately RMB3,976,000 (2017: Nil) to Zhejiang Yongli for electricity charges paid by Zhejiang Yongli on behalf of the Group.

The aforesaid payments were made on behalf of the Group based on the actual costs incurred and were in the ordinary course of business of the Group.

- (b) During the period for the three months ended 31 March 2018, the Group had paid approximately RMB5,000 (2017: RMB4,000) to 浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Printing & Dyeing Company Limited*), a fellow subsidiary of the Company, for providing dyeing services to the Group.

The aforesaid transactions were in the ordinary course of business of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2018, the Group recorded a revenue of approximately RMB27.17 million, represents a slight decrease of approximately 3.3% when compared with the same period in 2017. It was mainly due to dropping of revenue from export sales of woven fabrics. Gross profit increased by approximately RMB670,000 mainly resulted from rising of average selling price during the three month ended 31 March 2018 when compared with the same period in 2017. The selling and distributed costs for three months ended 31 March 2018 was stable and did not have significant fluctuation. Administrative expenses increased significantly by approximately RMB1.3 million or 89.83% during the three month ended 31 March 2018. It mainly due to consolidation of administrative expenses of subsidiary of approximately RMB300,000 for the three months ended 31 March 2018. The subsidiary was acquired by the Company in April 2017, details of which were disclosed in the announcement of the Company dated 11 April 2017. In additions, the increased of exchange loss by approximately RMB300,000 for conversion of foreign bank deposits as at 31 March 2018, staff retirement benefit fund and staff welfare increased by approximately RMB350,000 during the three months ended 31 March 2018, legal and professional fees increased by approximately RMB200,000 also led to the rising of administrative expenses during the three months ended 31 March 2018. Other revenue increased by approximately RMB125,000 or 101.63% mainly due to revenue from sales of scrap material during the three month ended 31 March 2018. Finance cost of approximately RMB1.6 million for the three months ended 31 March 2018 represents imputed interest in interest-free loan due to immediate holding company. The respective loss per share for the three months ended 31 March 2018 and 2017 were approximately RMB0.19 cents and RMB0.003 cents respectively.

Business and operation review

During the three months ended 31 March 2018, export sales to overseas market dropped by approximately RMB1.18 million or 39.53%. However, on the other hand, local consumption increased led to domestic sales of woven fabrics increased slightly by 0.91% and subcontracting fee income increased by approximately RMB660,000 or 60.94%. Although export sales dropped significantly during the three months ended 31 March 2018, the Group will continue the existing policies in developing both domestic and overseas market.

The recent amendment in the regulations on the operation and management of private fund management businesses in China was expected to enhance investor confidence and on the other hand ensure the profit target of private equity firms. Tighter regulation will push the private equity industry to a positive reshuffle. Outstanding private equity institutions will benefit greatly from the increasingly sophisticated mechanism.

貴州安恒永晟投資管理有限公司 (“Guizhou Anheng Yongcheng Investment Management Co., Ltd.*) (“Guizhou Anheng”), a wholly owned subsidiary of the Company is principally engaged in private equity assets management. During the three months ended 31 March 2018, approximately RMB15,000 of assets management fee income and approximately RMB30,000 of investment income were contributed by Guizhou Anheng. During the three months ended 31 March 2018, Guizhou Anheng was actively in exploring potential investment opportunities and finding potential projects for asset management so as to enhance the return of the shareholder of the Company and diversify the investment risk of the Group.

On 1 September 2017, the Company entered into the limited partnership agreement dated 1 September 2017 with various parties for establishment of 深圳南山金融科技雙創股權投資基金合夥企業(有限合夥) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) (“Nanshan Fintech”). Nanshan Fintech is expected to invest in financial technology sector, including block chain, big data, artificial intelligence, and cloud computing. During the three months ended 31 March 2018, Nanshan Fintech was actively in exploring potential investment opportunities and finding potential projects for asset management.

Before a potential project has been successfully obtained, the experience team has to spend a long time in visit, research, analysis and due diligence review etc. Currently, both Guizhou Anheng and Nanshan Fintech have certain potential projects on hand which are still under review and analysis stage. The Group will continue to find and search for potential projects in order to diversify the investment risk and enhance the rate of return of the Group’s investment through access to a wider variety of investment channels.

Product research and development

During the three months ended 31 March 2018, the Group continued to innovate and develop new product so as to meet the customers’ need and enhance sales orders from customers.

Sales and marketing

During the three months ended 31 March 2018, the Group actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Group’s new products.

OUTLOOK

In view of the increasing trade tension between China and the U.S., the Directors expect that it is not likely to become a trade war at the current moment because there is broad economic implication between China and the U.S. Global trade is the key economic driver to the U.S. economic growth, the tariff may affect the global trade and overall economy. The Smoot-Hawley Tariff Act passed in 1930 is the best example. The Smoot-Hawley Tariff Act exacerbated the great depression, during 1929-1933, the U.S. Gross National Product fell 36% and unemployment rate jumped to 25% from 3%. At this moment, it is not clear the tariff would be applied after public hearing on 15 May 2018. From political perspective, probably the President Trump is using tariff issue to gain citizens' support for the Congress election in this November 2018.

Currently, the Group's textile product are mainly exported Europe and Asia., and America other than the U.S. The Directors expect that the trade tension between China and U.S. may not be affected the export business of the Group at this moment. The Directors is reviewing the impact of possible trade war on the textile industry and the export of the Group. Currently, the Group will continue its existing policies in developing local and overseas markets and focus on its major businesses (i) manufacture and sale of woven fabrics; and (ii) provision of subcontracting services.

The Directors are also actively exploring investment opportunities to enhance the Group's long-term growth. In the meantime, Guizhou Anheng will be served as a platform of the Group for developing of asset management business and the Group will make full use of various new policies from the relevant government authorities in order to seize the opportunities and gradually expand Guizhou Anheng's business including the equity funds, securities investment funds and industrial funds. Under the leadership of the management team, the Board believes that the Group is able to meet the upcoming challenges in 2018 and therefore generate returns for its shareholders.

DIRECTORS' CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2018, 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. He Weifeng is also the deputy chairman of Zhejiang Yongli. Mr. Jiang Ning is vice general manager of Guizhou Yongan, the Company's immediate holding company, and a director of four other subsidiaries of Guizhou Yongan. Ms. Wang Ai Yu, a supervisor of the Company ("Supervisor"), is a manager of the finance department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongan are associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) by virtue of being a holding company of the Company.

Save as disclosed above, as at 31 March 2018, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2018, so far as it is known to the Directors or chief executive or Supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in the shares of the Company

Domestic shares of the Company (“Domestic shares”)

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares	Approximate percentage of interests in total registered capital
Guizhou Yongan	Beneficial owner	588,000,000	100.00%	55.29%
Zhejiang Yongli	Interest in controlled corporation (<i>Note</i>)	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation (<i>Note</i>)	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse (<i>Note</i>)	588,000,000	100.00%	55.29%

Notes:

Mr. Zhou Yongli and his spouse Ms. Xia Wanmei, own approximately 94.25% and approximately 3.49% in Zhejiang Yongli respectively. Zhejiang Yongli owns 65% in Guizhou Yongan. Mr. Zhou Yongli and Ms. Xia Wanmei are therefore deemed to be interested in the 588,000,000 domestic shares of the Company held by Guizhou Yongan, representing 55.29% of the total issued share capital of the Company.

H shares of RMB0.1 each of the Company (“H shares”)

Name of shareholder	Capacity	Number of H shares held	Approximate percentage of interests in H Shares	Approximate percentage of interests in total registered capital
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Saved as disclosed above, as at 31 March 2018, so far as was known to the Directors, chief executives and Supervisors of the Company, no other person (other than the Directors, chief executives or Supervisors of the Company) has an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

As at 31 March 2018, none of the Directors, Supervisors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rule 5.28 and 5.29 of the GEM Listing Rules and code provision C3.3 of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three Independent Non-Executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong. Mr. Wang Hui is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited first quarterly results of the Group for the three months ended 31 March 2018 and is of the opinion that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and supervisors, all Directors and supervisors confirmed that they have complied with the required standard and the code of conduct regarding securities transactions by Directors and supervisors adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiary purchase, sell or redeem any of the Company's listed securities during the three months ended 31 March 2018.

By Order of the Board
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Jiang Ning
Chairman

Zhejiang, the PRC, 15 May, 2018

As at the date of this document, the executive directors of the Company are Mr. Jiang Ning (Chairman), Mr. He Weifeng (Deputy Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; the independent non-executive directors of the Company are Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong.

This document will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company's website at www.zj-yongan.com.

** For identification purpose only*