THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this circular and the accompanying proxy form and reply slip, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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)

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF 41.67% EQUITY INTEREST
IN THE TARGET COMPANY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

脈搏資本
Pulsar Capital

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

Innovax Capital

A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Innovax Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 20 to 34 of this circular.

A notice convening the EGM of the Company to be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC at 10:00 a.m. on Monday, 10 June 2019 is set out on pages N-1 to N-3 of this circular. A reply slip and a form of proxy for use at 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 Yangxun Qiao Town, Keqiao Qu, Shaoxing, 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 Company Announcements" page of the website of the GEM at http://www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at http://www.zj-yongan.com.

* *For identification purpose only*

24 April 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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In this circular, the following terms and expressions shall have the following respective meanings unless the context otherwise requires:

"Acquisition"	the acquisition of the Sale Shares in the Target Company by the Purchaser from the Vendor pursuant to the terms and conditions of the Formal Agreement
"Board"	the board of Directors
"Business Day"	a day other than a Saturday, Sunday and public holiday in the PRC
"Company"	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 PRC, the issued H Shares of which are listed and traded on GEM of the Stock Exchange (Stock code: 8211)
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Formal Agreement
"Completion Date"	the date of completion of the Acquisition
"Consideration"	the total sum of RMB90 million payable by the Purchaser to the Vendor for the purchase of the Sale Shares
"Deposit"	the total sum of RMB27 million paid by the Purchaser to the Vendor, being the deposit for the purchase of the Sale Shares
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	domestic share(s) of nominal value of RMB0.1 each in the share capital of the Company, which are subscribed for or credit as fully paid in RMB
"EGM"	the extraordinary general meeting (or any adjournment thereof) of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the Formal Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"Formal Agreement"	the formal share transfer agreement dated 18 March 2019 entered into between the Purchaser and the Vendor in respect of the Acquisition
"GEM"	the GEM of the Stock Exchange

"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM in effect from time ot time
"Group"	the Company and its subsidiaries
"Guizhou Yongan"	貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Limited*), a company established in the PRC, which holds approximately 55.29% of the total issued share capital of the Company as at the Latest Practicable Date, and is the Company's controlling shareholder
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"H Shares"	overseas listed foreign share(s) of nominal value of RMB0.1 each in the capital of the Company which are listed on GEM and subscribed for in Hong Kong dollars
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Formal Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Innovax Capital"	Innovax Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Formal Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) other than Guizhou Yongan and its associates who are not required to abstain from voting at the EGM to approve the Formal Agreement and the transactions contemplated thereunder
"Independent Valuer", "Valuer" or "AVISTA Valuation Advisory Limited"	AVISTA Valuation Advisory Limited, a qualified independent third-party valuer in Hong Kong
"Latest Practicable Date"	17 April 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular

"Long Stop Date"	30 September 2019, or such other date as may be agreed between the Purchaser and the Vendor in writing
"MOU"	the non-legally binding memorandum of understanding dated 9 November 2018 entered into between the Purchaser and the Vendor in relation to the acquisition of the Sale Shares
"NEEQ"	National Equities Exchange and Quotations in the PRC
"PRC"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan)
"Purchaser"	Shenzhen Yongan Huiju Water Technology Co., Ltd.,*(深圳永安慧聚水務科技有限公司), a wholly-owned subsidiary of the Company in the PRC
"Sale Shares"	60,000,000 ordinary shares of RMB0.10 each in the Target Company, representing 41.67% of the total issued share capital of the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	shares of the Company
"Shareholder(s)"	shareholer(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司), a company incorporated in the PRC and is listed on the NEEQ (Stock Code: 838941) and based in Beijing, the PRC
"Target Group"	the Target Company and its subsidiaries
"Vendor" or "Qinghai Haiqing"	Qinghai Haiqing New Energy Technology Co., Ltd.* (青海海清新能源科技有限公司), an enterprise established in the PRC which is the legal and beneficial owner of the Sale Shares as at the Latest Practicable Date. It is a non-wholly owned subsidiary of Guizhou Yongan, and accordingly a connected person of the Company
"Zhejiang Yongli"	Zhejiang Yongli Industry Group Co., Ltd* (浙江永利實業集團有限公司), an enterprise established in the PRC which is the ultimate holding parent and ultimate controlling party of the Company

"HKD" of "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

In this circular, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "percentage ratio", "subsidiary" and "Substantial Shareholder" shall have the meanings given to such terms in the GEM Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this circular, amounts in RMB are translated to HK$ on the basis of RMB1 = HK$1.17. The conversion is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK$ at that rate or at other rates or at all.

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. Jiang Ning *(Chairman)*
Mr. He Weifeng *(Deputy Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

Independent non-executive Directors:
Mr. Song Ke
Mr. Wang Hui
Mr. Wang Zhong

Legal address:
Yangxun Qiao Town
Keqiao Qu, Shaoxing
Zhejiang Province
The PRC

Principal place of business in Hong Kong:
Suites 06-12, 33rd Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

24 April 2019

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF 41.67% EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the announcements of the Company dated 9 November 2018, 14 March 2019 and 18 March 2019 in relation to the Acquisition. The Acquisition constitutes a major and connected transaction of the Company under the GEM Listing Rules.

On 18 March 2019, the Purchaser, a wholly-owned subsidiary of the Company entered into the Formal Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, representing 41.67% of the issued share capital of the Target Company at a consideration of RMB90 million.

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

THE FORMAL AGREEMENT

The principal terms of the Formal Agreement are set out below:

Date

18 March 2019

Parties

The Purchaser:	Shenzhen Yongan Huiju Water Technology Co., Ltd.*(深圳永安慧聚水務科技有限公司) a wholly-owned subsidiary of the Company in the PRC
The Vendor:	Qinghai Haiqing New Energy Technology Co., Ltd.* (青海海清新能源科技有限公司), an enterprise established in the PRC, which is the legal and beneficial owner of Sale Shares, representing 41.67% of the entire issued shares in the Target Company as at the Latest Practicable Date. It is a subsidiary of Guizhou Yongan, the controlling shareholder of the Company
The Target Company:	Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司), a company established in the PRC and is listed on the NEEQ (Stock Code: 838941)

Assets to be acquired

Pursuant to the Formal Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell free from all encumbrances, the Sale Shares, representing 41.67% of the total issued share capital of the Target Company.

Consideration and payment terms

Subject to the terms of the Formal Agreement, the Consideration shall be RMB90 million, of which, (a) 30% of the Consideration (i.e. RMB27 million) shall be settled by way of payment of the Deposit by the Purchaser to the Vendor within 3 days from the date of the Formal Agreement; and (b) 70% of the Consideration (i.e. RMB63 million) shall be payable by the Purchaser within 3 days after the corresponding share transfer registration formalities in respect of the transfer of the Sale Shares have been completed. The Consideration will be financed as to 60% by bank loan(s) and as to 40% by internal resources of the Company.

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, among others:

(i) the preliminary valuation of the fair market value of the 41.67% interest of the Target Company at approximately RMB93.82 million as at 28 February 2019 by the Independent Valuer, adopting the market approach;

(ii) the historical performance of the Target Group;

(iii) the future business prospect of the Target Group; and

(iv) the potential growth of the Target Group's sector.

The Consideration represents a discount of approximately 4.1% to the valuation of the 41.67% of the entire issued share capital of the Target Company of approximately RMB93.82 million based on the valuation report undertaken by the Independent Valuer. The valuation report is set out in Appendix V to this circular.

Conditions precedent

Completion of the Formal Agreement is conditional upon the satisfaction (or waiver, if applicable) of the following conditions precedent:

(a) the Purchaser being satisfied with the results of due diligence review conducted in respects of the Target Group's assets, liabilities, business and affairs at the Purchaser's sole and absolute discretion and independent judgment;

(b) the Vendor, the Target Company and the Purchaser having obtained all the necessary waivers, approvals, grants, licenses, authorisations, consents and orders (if required) in relation to the Formal Agreement and the transactions contemplated thereunder from the relevant governmental or regulatory authorities or other third parties and such waivers, approvals, grants, licenses, authorisations, consents and orders not being revoked;

(c) the Independent Shareholders having approved the Formal Agreement and the transactions contemplated thereunder at the EGM and such approval not being revoked;

(d) no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restricts, prohibits or makes unlawful any transaction contemplated by the Formal Agreement or which is reasonably likely to materially and adversely affect the rights of the Purchaser to own the legal and beneficial title to the Sale Shares, free from encumbrances, following Completion Date;

(e) the obtaining of a valuation report (in form and substance satisfactory to the Purchaser) issued by the Independent Valuer on the Target Company and the value of the entire issued share capital of the Target Company shall be no less than RMB225,159,000;

(f) the representations, warranties and undertakings given by the Vendor in the Formal Agreement having remained true, accurate and not misleading in all respects;

(g) no other events leading to a material adverse change in the operations and value of the Target Company having occurred to the Target Group prior to Completion or being likely to occur whether on or before Completion; and

(h) the Target Group having been operated in the usual course of its business since the date of the Formal Agreement.

If any of the aforesaid conditions precedent has not been fulfilled (or waived, as the case may be) (except that conditions precedent (b), (c) and (d) cannot be waived) on or before 5:00pm on the Long Stop Date, the Vendor shall forthwith return the Deposit to the Purchaser without interest and the Formal Agreement shall cease to be of any effect save and except in respect of any claims arising out of any antecedent breach of the Formal Agreement.

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

Adjustment of Consideration

The Vendor undertakes that the Consideration shall be reduced by any undisclosed liability of the Target Company (which shall be determined based on the Purchaser-appointed accountant's valuation) incurred before Completion. If the Consideration has already been settled before the undisclosed liability is identified, then the Vendor should pay the Purchaser back the undisclosed liability amount as valuated by such accountant in full within 5 Business Days after receiving the written notice from the Purchaser.

The Vendor further guarantees that for any loss incurred by the Target Group resulting from the Target Company's acts before Completion leading to potential litigation, arbitration, guarantee, administrative penalty and/or other violation of relevant laws or legislations or other undisclosed causes that may lead to the reduction of the Consideration and lead to a loss to the Target Company, once confirmed, will be compensated by the Vendor to the Purchaser in cash in full amount, in proportion to its sharesholding in the Target Company, within 30 Business Days to the bank account specified by the Purchaser after receiving a written notice from the Purchaser.

Completion

Completion shall take place on the third Business Day after the Vendor receiving written notice from the Purchaser that all conditions precedent to the Formal Agreement have been satisfied (or waived, as the case may be).

As at the Latest Practicable Date, 41.67% of the total issued share capital of the Target Company is directly held by the Vendor. Immediately upon Completion, the Purchaser will be interested in 41.67% of the total issued share capital of the Target Company.

Other undertakings

The Vendor will procure and ensure all undistributed profit of the Target Company that the Vendor receives after the benchmark date (i.e. 28 February 2019) will be transferred to the Purchaser.

The Vendor will procure and ensure that any profit or increase of the net assets due to any other reasons of the Target Company which arises during the period from the day after the benchmark date (i.e. 28 February 2019) (exclusive day) to the Completion Date (inclusive day) will be distributed to the shareholders in proportion to their respective shareholdings after the Completion Date.

During the period from the date of the Formal Agreement to the Completion Date, the Vendor (and the Vendor shall procure and ensure that the Target Company) shall not create encumbrances over the Sale Shares or the assets of the Target Company, dispose major assets, make external guarantees or dividend distribution, increase its debt or waive its rights to debt, issue new shares, engage in capital lending or grant share options without the written consent of the Purchaser.

INFORMATION ON PARTIES

The Company

The Company is a joint stock limited company established in the PRC and the H Shares of which are listed on GEM of the Stock Exchange. The Group is principally engaged in (i) the manufacture and sale of woven fabrics; (ii) the provision of subcontracting services; (iii) the asset management services and; (iv) investment advisory services.

The Purchaser

The Purchaser is a wholly-owned subsidiary of the Company in the PRC, principally engaged in investment holding.

The Vendor

The Vendor is a shareholder interested in 41.67% of the entire issued shares of the Target Company, and is principally engaged in investment holding.

The Vendor became a shareholder of the Target Company in August 2017 when the Target Company issued 60,000,000 shares to the Vendor by way of private placement at a price of RMB1.45 per share at a total cost of RMB87 million.

The Target Company

The Target Company is Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司), a company incorporated in the PRC 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. The Target Company is listed on the NEEQ (Stock Code: 838941) and based in Beijing, the PRC.

As at the Latest Practicable Date, the Target Company has three subsidiaries, namely:

1. Guizhou Intelligent Water Technology Company Limited*（貴州智慧水雲科技有限責任公司）, a non-wholly owned subsidiary, which specializes in providing information technology consulting services in the area of water supplies;

2. Intelligent Water (Wuhan) Technology Company Limited* (智慧水雲(武漢)科技有限公司), a wholly owned subsidiary, which specializes in systems integration, information technology consulting services, data process services, software development, construction project management, environmental monitoring technology services; and

3. Guangdong Intelligent Water Technology Company Limited* (廣東智慧水雲科技有限責任公司), a non-wholly owned subsidiary, which specializes in software development, software test services, information technology development, systems integration services and network system engineering services.

The valuation of the fair market value of the 41.67% of the entire issued share capital of the Target Company prepared by the Independent Valuer as at 28 February 2019 was approximately RMB93.82 million. The audited net asset value of the Target Group as at 31 December 2018 was approximately RMB151 million. A valuation report prepared by the Independent Valuer and the accountants' report of the Target Group are respectively set out in Appendix V and II to this circular.

The audited revenue and net profits (before and after taxation) of the Target Group under Hong Kong Financial Reporting Standards for the two years ended 31 December 2017 and 2018 are as below:

	For the year ended 31 December 2017	**For the year ended 31 December 2018**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Revenue	10,066	73,106
(Loss)/profit before taxation	(15,515)	23,836
(Loss)/profit attributable to the shareholders of the Target Company	(13,495)	20,951

REASONS FOR AND BENEFITS OF THE ACQUISITION

According to the Asia Development Bank[1], the rapid economic development of the PRC accompanied an unprecedented pace of industrialization and urbanization as well as extensive agricultural development. This resulted in substantial pressure on the country's scarce water resources-with about 20% of the global population, the PRC is only endowed with 7% of the world's water resources. For the PRC's continuing development, the country must protect and develop its freshwater resources.

The PRC government recognized the importance of improving water resources management. The annual contract value of water environmental management market experienced a significant growth from RMB12.0 billion in 2013 to RMB118.6 billion in 2017, representing a compound annual growth rate of 58.1%. More recently, in addition to the notice[2], the 19th National Congress of China promoted, among others, the construction of fundamental hydraulic facilities, water conservation, prevention of water resources pollution and integrated management of aquatic environment. In 2018, the market demand for water environment governance was rapidly driven by government policies,

1. "Addressing Water Security in the People's Republic of China", Asia Development Bank, 2016.

2. "The Notice in relation to the Guideline Opinions an Facilitating the modernization of Hydraulic Engineering in the New Era", Ministry of Resources, PRC, February 2018.

including the rural water environment management and comprehensive river basin improvement. The PRC government has encouraged professional social capital to conduct water environment management projects to better manage water resources. These projects generally aim for the water resources development, monitoring and management of an entire river basin or watershed by ecological remediation, river dredging, riverside landscape construction and wastewater treatment, etc..

Further, pursuant to the PRC's 13th Five-Year Plan, the PRC government promoted to make use of modern information technology, the modernization of collection, transportation, storage and processing of water resources information, and comprehensive improvement of the efficiency of water resources business activities. It also promoted the construction of water resources monitoring and management system and establishment of water metering facilities and real-time online monitoring systems.

Having considered the favourable government policy and development plan and the increasing investment amount in the environmental management projects, the Directors expect that the growth in the water environmental management market will continuously drive up the demand of the Target Company's water resources management information systems which are capable to be applied in various environmental management projects.

In respect of flood prevention, according to the published information from the Asian Development Bank, floods are the costliest natural hazard-induced disaster in the PRC. Annual economic loss due to floods in the PRC is estimated at about US$20 billion, and the loss trend has been escalating by 7% since 1990. While the PRC is pioneering flood preventive measures, the forecasting and early warning system in the PRC in general, is still at its primary stage of development. The PRC's 13th Five-Year-Plan stated the acceleration of the construction of national flood control and drought control command system, mountain flood disaster monitoring and early warning system, etc. In December 2017, the Ministry of Water Resources of the PRC issued the "National Flash Flood Disaster Prevention Project Implementation Plan (2017 2020)《全國山洪災害防治項目2017-2020年實施方案》", which prioritizes flash flood monitoring and warning provisions nationwide. As such, the Directors are of the view that there will be increasing market demand of the Target Group's information systems in flood monitoring and prevention, including the newly developed "Reservoir Manager (水庫管家)".

In order to diversify the Group's business and broaden the source of income of the Group, the Group has been proactively seeking potential investment opportunities. In view of current lack of complete planning, design and maintenance in the areas of urban waterworks planning and management, water resources conservation and utilization, flood prevention and drought control, disasters prevention and related loss reduction, water environment management and aquatic ecological restoration, the Directors expect that there will be business opportunities to solve these problems through using the water management software, system integration, operation and maintenance services developed by the Target Group which are able to instantly sense the operation status of the urban water supply and drainage system, and visually integrate the water management department and the water supply and drainage facilities.

The Target Group has thirty-one contracts on hand with an expected transaction amount for the year ended 31 December 2019 to be approximately RMB16.46 million. These contracts are mainly for provision of system integration, information planning and design, software development and reservoir management system and most of them will be completed in 2019.

In addition, as many of the water management services projects in China are opened for bidding by the relevant government authorities around the second half of the year, the Target Group is planning to bid for more projects for provision of system integration, software development and reservoir management system at such time.

The Directors had 20 years of professional experience in corporate management, investment and development. Through the Acquisition, the Directors will bring in their corporate management skills, business operation experience and sales and marketing strategy advice to the Target Company. On the other hand, the Company also intends to keep the current management of the Target Company in place as they have extensive expertise in water-management areas. The current management of the Target Company includes:

Name	Education	Responsibilities	Years of experience in water management area
Dr. Liu Bingyi (劉炳義), director of the Target Company	PhD, Engineering, Kyoto University, Japan	Technical and marketing support	27 years in water resource management systems
Dr. Tang Zongren (唐宗仁), director of the Target Company	PhD, China Institute of Water Resources and Hydropower Research	Daily operation management, technical and marketing support	20 years in water resource management systems

The Directors believe that the growth of water management, planning, operation and maintenance-related business is promising. As such, the Company is exploring business opportunities in development of technology applications around water management, planning, operation and maintenance-related business, including by way of acquisitions. In light of the business prospects and the experienced management team of the Target Group, the Company is confident that the Acquisition will allow the Group to capture the opportunities arising from the potential growth in water management, planning, operation and maintenance-related business.

The Company considers that the Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into the water management-related business in the PRC with growth potential and to generate diversified income and additional cash flow through the Acquisition.

The Directors (including all the independent non-executive Directors) considered that the terms of the transactions contemplated under the Formal Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Company is principally engaged in (i) the manufacture and sale of woven fabrics, (ii) provision of subcontracting services; (iii) assets management services; and (iv) investment advisory services. While the Group will continue to develop its existing business, the Directors are proactively exploring investment opportunities to enhance the long-term growth of the Company.

The Directors are of the view that the Acquisition serves as an excellent platform for the Company to expand its business portfolio into the sectors of water resources management market, having considered the following: (i) the Company's strategy to enhance its long-term business growth through diversifying risks and increasing return to shareholders of the Company; (ii) the capabilities and experience in investment possessed by certain members of the Board; (iii) the experience and extensive knowledge of the senior management of the Target Company; and (iv) the future prospect of the Target Group.

In order to further diversify risk, increase return and efficiency in the utilisation of the capital, the Directors intend to save extra fund for future investment in other potential areas when such opportunities arise. Therefore, the Company currently does not intend to acquire the remaining interests of the Target Company. The Company currently has no intention or plan, and has not entered into any agreement or negotiation to dispose of, scale-down or terminate its existing business and/or major operating assets.

As far as the Directors are aware, the Target Group will be accounted for as interest in an associate under non-current assets in the Group's consolidated financial statements on an equity basis.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, members of the Target Group are expected to be accounted for as associated companies of the Group and their results will be equity accounted for in the consolidated financial statements of the Group. The equity investment in the Target Group is expected to be accounted for as an interest in an associate of the Group. The unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group has been set out in Appendix III to this circular, assuming Completion had taken place on 31 December 2018.

Assets and liabilities

Based on the unaudited pro forma financial information set out in Appendix III to this circular, assuming Completion had taken place on 31 December 2018, the total assets of the Enlarged Group as at 31 December 2018 would increase from approximately RMB367.69 million to approximately RMB420.62 million; and the total liabilities of the Enlarged Group would have increased from approximately RMB73.46 million to approximately RMB127.46 million. Accordingly, the unaudited pro forma net assets of the Enlarged Group would decrease approximately RMB1.07 million. Such decrease would be mainly due to the cost of RMB1.07 million incurred in the Acquisition.

Earnings

Based on the audited financial information of the Target Group as set out in Appendix II to this circular, the Target Group recorded loss after tax of approximately RMB13.5 million for the year ended 31 December 2017 and profit after tax of approximately RMB20.3 million for the year ended 31 December 2018. In light of the potential future benefits and prospects of the Acquisition as stated in the section headed "Reasons for and benefits of the Acquisition" above, the Directors are of the view that, the Acquisition would boarden the Group's income stream and enhance its profitability. Taking into account the professional fees to be incurred for the Acquisition including but not limited to the audit fee and legal fee, the Acquisition will likely contribute positively to the Group. However, the actual effect on earnings will depend on future financial performance of the Target Group.

GEM LISTING RULES IMPLICATIONS

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 Acquisition exceed(s) 25% but is/are less than 100%, the entering into of the Formal Agreement and the transactions contemplated thereunder together constitutes a major transaction of the Company.

As at the date of this circular, the Vendor is a non-wholly owned subsidiary of Guizhou Yongan, the controlling shareholder of the Company. Accordingly, the Vendor is a connected person of the Company and the entering into of the Formal Agreement and the transactions contemplated thereunder also constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. The Acquisition is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 19 and Chapter 20 of the GEM Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Formal Agreement and the transaction contemplated thereunder.

Innovax Capital Limited has also been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Formal 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 Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC at 10:00 a.m. on Monday, 10 June 2019 to consider and, if thought fit, approve the entering into of the Formal Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages N-1 to N-3 of this circular.

As at the date of this circular, the Vendor is a non-wholly owned subsidiary of Guizhou Yongan, the controlling shareholder of the Company. Accordingly, the Vendor is a connected person of the Company. Guizhou Yongan is required to abstain from voting on the relevant resolution approving the entering into of the Formal 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 Formal Agreement and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the entering into of the Formal 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 Yangxun Qiao Town, Keqiao Qu, Shaoxing, 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 Company Announcements" page of the website of the GEM at http://www.hkgem.com 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 Formal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and the Acquisition, 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 Formal Agreement and the transactions contemplated thereunder to be proposed at the EGM. Ms. He Lianfeng and her spouse totally had 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. As such, Ms. He Lianfeng, Mr. He Weifeng and Mr. Jiang Ning are deemed to have material interest in the Formal Agreement and the transactions contemplated thereunder, and have abstained from voting on Board resolutions in relation to approving the Formal Agreement and the transactions contemplated thereunder.

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.*

Jiang Ning
Chairman

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)

24 April 2019

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF 41.67% EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 24 April 2019 (the "**Circular**") issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise the Independent Shareholders on the terms of the Formal Agreement and the transactions contemplated thereunder as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the entering into of the Formal Agreement and the transactions contemplated thereunder as set out in the Circular. Innovax Capital Limited has been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out on pages 20 to 34 of the Circular.

We wish to draw your attention to the Letter from the Board and the Letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Formal Agreement and the transactions contemplated thereunder. Your attention is also drawn to the additional information set out in the appendices to the Circular.

Having considered the terms of the Formal Agreement and the transactions contemplated thereunder, the advice of the Independent Financial Adviser and the relevant information contained in the Letter from the Board, we consider that (i) the Acquisition, even though may not be in the ordinary and usual course of business of the Company is on normal commercial terms; and (ii) the terms of the Formal Agreement are also fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution for approving the entering into of the Formal Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*

Mr. Song Ke	**Mr. Wang Hui**	**Mr. Wang Zhong**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Innovax Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Formal Agreement.

Innovax Capital

24 April 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF 41.67% EQUITY INTEREST IN THE TARGET COMPANY

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in this circular (the "**Circular**") dated 24 April 2019 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 9 November 2018, 14 March 2019 and 18 March 2019 in relation to the Acquisition that the Purchaser, a wholly-owned subsidiary of the Company entered into the Formal Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, representing 41.67% of the issued share capital of the Target Company at a Consideration of RMB90 million. According to the Letter from the Board, the Target Company is a Beijing-based company established in the PRC and listed on the NEEQ (Stock Code: 838941).

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 Acquisition exceed(s) 25% but is/are less than 100%, the entering into of the Formal Agreement and the transactions contemplated thereunder together constitute a major transaction of the Company. As at the Latest Practicable date, the Vendor is a non-wholly-owned subsidiary of Guizhou Yongan, the controlling shareholder of the Company, who holds approximately 55.29% equity interests in the Company. Accordingly, the Vendor is a connected person of the Company and the entering into of the Formal Agreement and the transaction contemplated thereunder also constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

The Acquisition is subject to the Independent Shareholders' approval by way of poll at the EGM. Guizhou Yongan is required to abstain from voting on the relevant resolution approving the entering into of the Formal 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 enquires, no other Shareholder has any material interest in the Formal Agreement and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the entering into of the Formal 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 Shareholders as at the Latest Practicable Date, where by it/he has or may have temporary or permanently passed control over the exercise of the voting right in respect of its/his Shares to a third party, either generally or on a case-by-case basis.

The Independent Board Committee comprising all of the independent non-executive Directors, namely, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, has been established to advise the Independent Shareholders on the terms of the Formal Agreement and the transactions contemplated thereunder as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the entering into of the Formal Agreement and the transactions contemplated thereunder.

In our capacity as the Independent Financial Adviser, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent advice and recommendation in connection with the abovementioned.

We have not provided any other services to the Company in the last two years prior to the date of the Circular. As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial Shareholders of the Company or the Vendor or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or the Directors, chief executive and substantial Shareholders of the Company or the Vendor or any of their respective subsidiaries or associates or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 17.96 of the GEM Listing Rules.

II. BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time when they were made and continue to be true, accurate and complete in all material respects at the date of this Circular. We have also relied on our discussion with the management of the Company (the "**Management**") and its representatives regarding the Group and the Acquisition, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management and its representatives respectively in the Circular were reasonably made after due enquiry.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and its representatives. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Vendor or their respective associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition and carried out any independent verification of the information supplied.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendations on the Acquisition, we have taken the following principal factors and reasons into consideration:

A. Background and reasons for the Acquisition

1. Background information of the Group

The Group is a PRC-based company principally engaged in (i) the manufacturing and sale of woven fabrics; (ii) provision of subcontracting services; (iii) assets management; and (iv) investment advisory services.

According to the interim report of the Company for the six months ended 30 June 2018, the Group has been proactively seeking potential investment opportunities in order to diversify the Group's business and broaden the source of income of the Group. On 9 November 2018, the Company announced that the Purchaser was established for possible purchase of the Target Company to tap into the water management-related business in the PRC.

Set out below are the audited consolidated financial information of the Group for the three years ended 31 December 2018 as extracted from the Company's annual results announcement for the year ended 31 December 2018 (the "**FY2018 Annual Results**") and the Company's annual report for the year ended 31 December 2017 (the "**FY2017 Annual Report**"):

	For the year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	165,785	159,442	151,288
- Woven fabrics	159,389	154,032	142,937
- Subcontracting services	6,396	5,375	7,320
- Assets management	—	35	57
- Investment advisory services	—	—	974
Loss for the year	(7,213)	(2,209)	(3,571)

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	391,306	386,511	367,690
Total liabilities	82,302	89,640	73,461
Net assets	309,004	296,871	294,229

As set out in the FY2017 Annual Report, the Group's recorded revenue of RMB159.4 million for the year ended 31 December 2017, representing a decrease of 3.8% as compared to that for the year ended 31 December 2016. Such decrease was mainly due to the decline of revenue from the manufacture and sales of woven fabrics by approximately 3.4%. While the domestic sales of woven fabric contributed to over 80% of revenue of this business segment for both of the years ended 31 December 2016 and 2017, it recorded a decline of approximately 5.1% since most of the local customers were undergoing structure reorganization and industry consolidation. The Group's loss for the year, however, decreased from RMB7.2 million for the year ended 31 December 2016 to RMB2.2 million for the year ended 31 December 2017, representing a decrease of approximately 69.4%. Such decrease was mainly due to the decrease in finance cost by approximately 73.0% regarding the imputed interest on the interest-free loan due to the immediate holding company of the Group. The Group's net assets were approximately RMB296.9 million as at 31 December 2017, which were slightly lower than the Group's net assets of approximately RMB309.0 million as at 31 December 2016. Such decrease was mainly attributable to the combined effect of (i) decrease in total assets mainly due to decrease in bank balances and cash and inventories; and (ii) increase in total liabilities mainly due to the increase in amount due to immediate holding company.

As set out in the FY2018 Annual Results, the Group's recorded revenue of RMB151.3 million for the year ended 31 December 2018, representing a decrease of 5.1% as compared to that for the year ended 31 December 2017. Such decrease was mainly due to the decline of revenue from the manufacture and sales of woven fabrics by approximately 7.2%, offset by the increase in revenue from the provision of subcontracting services and the private equity assets management. The decline in revenue for manufacture and sales of woven fabric was attributable to the declines in both the Group's domestic and exported sales, mainly due to the volatility of RMB exchange rate and the increasing trade tension between the PRC and the U.S., which affected the acceptance of medium to long-term orders. The Group's loss for the year increased from RMB2.2 million for the year ended 31 December 2017 to RMB3.6 million for the year ended 31 December 2018, representing an increase of approximately 61.7%. Such increase was mainly due to (i) the increase in finance cost by approximately 59.1% regarding the imputed interest on the interest-free loan due to the immediate holding company of the Group and (ii) the increase in administrative expenses by approximately 27.0%, mainly caused by increased staff costs and the subsidiaries newly acquired and established by the Company, partially offset by (iii) the increase in gross profit by approximately 11.9% mainly as a result of increase in selling price of the Group's products and (iv) the increase in other income and gains by approximately 102.2%, mainly from reversal of impairment loss of trade receivables, refund of land use tax, gain from changes in fair value of financial assets designated in FVTPL and etc.. The Group's net assets remained relatively stable at RMB294.2 million as at 31 December 2018 and RMB296.9 million as at 31 December 2017, mainly as a result of (i) decrease in total assets mainly due to decrease in available-for-sale investments; and (ii) decrease in total liabilities mainly due to the decrease in trade and other payables.

2. *Background information of the Vendor*

The Vendor, namely Qinghai Haiqing New Energy Technology Co., Ltd.* (青海海清新能源科技有限公司), is an investment holding company established in the PRC which holds 41.67% of the issued share capital of Target Company. The Vendor is a subsidiary of Guizhou Yongan, the controlling shareholder of the Company and is principally engaged in investment holding.

The Vendor became a shareholder of the Target Company in August 2017 when the Target Company issued 60,000,000 shares to it by way of private placement at a price of RMB1.45 per share and a total cost of RMB87 million.

3. *Background information of the Target Group*

The Target Company is listed on the NEEQ (Stock Code: 838941) and is based in Beijing, the PRC. It is principally engaged in providing system integration, information planning and design and software development for the application of waterworks planning and management, water resources conservation and utilisation, flood prevention and drought control, water environment management and aquatic ecological restoration.

Currently, the Target Company has eight branch offices in Changchun, Guizhou, Hubei, Yunnan, Xining, Fujian, Zunyi and Bijie to capture business opportunities and maintain close relationship with the local governments. Furthermore, the Target Company has one wholly-owned subsidiary, namely Intelligent Water (Wuhan) Technology Company Limited* (智慧水雲(武漢)科技有限公司) and two non-wholly owned subsidiaries, namely Guizhou Intelligent Water Technology Company Limited* (貴州智慧水雲科技有限公司) and Guangdong Intelligent Water Technology Company Limited* (廣東智慧水雲科技有限公司) for carrying out similar business activities as the Target Company in Wuhan, Guizhou and Guangdong, respectively. As at the Latest Practicable Date, these three subsidiaries were still in startup phase and had not yet generated revenue.

The Target Company was accredited as a High and New Technology Enterprise and obtained the High and New Technology Enterprise Certified (高新技術企業証書) in December 2016 and enjoyed with a preferential income tax rate of 15% for a period of three years. Further, the Target Company has obtained certain industry recognized certifications, including software enterprise certificate* (軟件企業証書) and various software product certificates* (軟件產品証書) which strengthen their ability in projects tendering. We have requested the Company and were provided with copies of all the aforesaid title documents. Moreover, we were also advised by the PRC legal adviser to the Company that the Target Company has obtained all permits and licenses that are required for conducting its business operations in the PRC.

We also understand from the Company that the Target Company is led by an experienced management team with extensive knowledge and experience in the water resources management industry. The management level operations staff have over seven years of working experience in the project management, system design and engineering, etc. in the field of water resources management in the PRC. The Directors have 20 years of professional experience in corporate management, investment and development. Through the Acquisition, the Directors will bring in their corporate management skills, business operation experience and sales and marketing strategy advice to the Target Company. On the other hand, the Company also intends to keep the current management of the Target Company in place as they have extensive expertise in the water-management areas.

The below table sets forth the summary of audited financial information of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the three years ended 31 December 2018 (the "**Relevant Periods**") as extracted from Appendix II to this circular:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	51,007	10,066	73,106
- System integration	40,285	6,224	30,602
- Information planning and design	947	536	6,653
- Software development	9,775	3,306	35,851
Gross profit/(loss)	19,465	(1,760)	36,515
Profit/(loss) before taxation	(8,979)	(15,515)	23,836
Profit/(loss) for the year	(7,883)	(13,495)	20,342

Based on the discussion with the Management and its representatives and the management of the Target Company, the Target Group's services are provided on a project-by-project and non-recurring basis, and the number of customers may vary from year to year. The customers of the Target Group mainly comprise municipal, district or county-level governments and subsidiaries of large-scaled or state-owned enterprises in the PRC. For the two years ended 31 December 2017, the revenue of the Target Group was mainly derived from system integration. According to the information provided by the Target Company, those services were relating to sales and installation of traditional system for the purpose of flood prevention, drought control and water environment management. Despite the Target Group recorded a relatively low revenue for the year ended 31 December 2017, mainly due to its plan on introducing new investors into the Target Group, we were given to understand that the new controlling shareholder introduced in 2017, i.e. the Vendor, had decided to concentrate the Target Group's resources to implement the below business strategies, which led to a substantial increase in revenue of the Target Group's for the year ended 31 December 2018 and to achieve future growth:

(I) *Increase product offerings to ride on the potential industry growth brought by favorable government policy:*

In February 2018, the Ministry of Resources of the PRC announced the "the Notice in relation to the Guidline Opinions on Facilitating the Modernization of Hydraulic Engineering in the New Era《加快推進新時代水利現代化的指導意見的通知》" (the "**Notice**"). Pursuant to the Notice, the PRC government, among other things, encouraged the construction and modernization of hydraulic facilities, the enhancement of water resources management and the advancement of hydraulic engineering technology. In particular, we observed that the Notice has mentioned certain aspects which the Target Group is positioned to capture opportunities, including the construction and utilization of modernized hydraulic facilities for the purposes of (i) water resources conservation, allocation and utilization; (ii) flooding and drought monitoring, control and prevention; and (iii) district-level water supply monitoring and management. We discussed with the management of the Target Company and were provided with the sample contracts signed during the Relevant Periods and noticed that majority of the Target Group's revenue for the year ended 31 December 2018 was derived from the system integration and software development segments, which were mainly related to the provision of a consolidated system or software platform for the client with a wide range of applications, including aquatic ecological restoration, water resources conservation and utilization, etc. Further, we understand that the Target Company has developed an on-line platform called "Reservoir Manager" in the second half of 2018 which is capable to, among others, (i) forecast and monitor the rainfall data in the region and water level in reservoirs; (ii) give an early warning of flooding and (iii) keep track on the daily maintenance record, aimed at addressing the pain point of lack of maintenance and monitoring of various medium to small reservoirs in the PRC.

(II) *Expand customer base to more affluent cities in the East China:*

According to the management of the Target Company, they were progressively capturing more business opportunities from affluent cities in East China and large-scale enterprises in the PRC. For the year ended 31 December 2018, the revenue of the Target Group was mainly derived from Beijing, Shanghai and Guangxi as compared to Jilin, Beijing and Guizhou for the year ended 31 December 2016. We also noted from the customer list provided by the Target Company, and as advised by the management of the Target Company that majority of revenue derived from Shanghai and Guangxi for the year ended 31 December 2018 were from customers who were subsidiaries of large-scaled or state-owned enterprises which are mainly engaged in several comprehensive projects related to urban planning and constructions, and one of the aforesaid enterprises in Shanghai commenced to contribute revenue to the Target Group in the fourth quarter of 2017.

4. Market overview of water resources management in the PRC

According to the published information, China is one of the most water-deficient countries in the world. In 2017, China's total water resources was 2,867.5 billion tonnes, but the per capital water resources of China was merely 2,059.2 tonnes, approximately one-third of the global average.

The PRC government recognized the importance of improving water resources management. The annual contract value of water environmental management market experienced a significant growth from RMB12.0 billion in 2013 to RMB118.6 billion in 2017, representing a compound annual growth rate of 58.1%. More recently, in addition to the aforementioned Notice, the 19th National Congress of China promoted, among others, the construction of fundamental hydraulic facilities, water conservation, prevention of water resources pollution and integrated management of aquatic environment. In 2018, the market demand for water environment governance was rapidly driven by government policies, including the rural water environment management and comprehensive river basin improvement. The PRC government has encouraged professional social capital to conduct water environment management projects to better manage water resources. These projects generally aim for the water resources development, monitoring and management of an entire river basin or watershed by ecological remediation, river dredging, riverside landscape construction and wastewater treatment, etc..

Further, pursuant to the PRC's 13th Five-Year Plan, the PRC government promoted to make use of modern information technology, the modernization of collection, transportation, storage and processing of water resources information, and comprehensive improvement of the efficiency of water resources business activities. It also promoted the construction of water resources monitoring and management system and establishment of water metering facilities and online real-time monitoring systems.

Having considered the favourable government policy and development plan and the increasing investment amount in the environmental management projects, the Directors expect that the growth in the water environmental management market will continuously drive up the demand of the Target Company's water resources management information systems which are capable to be applied in various environmental management projects.

In respect of flood prevention, according to the published information from the Asian Development Bank, floods are the costliest natural hazard-induced disaster in the PRC. Annual economic loss due to floods in the PRC is estimated at about US$20 billion, and the loss trend has been escalating by 7% since 1990. While the PRC is pioneering flood preventive measures, the forecasting and early warning system in the PRC in general, is still at its primary stage of development. The PRC's 13th Five-Year-Plan stated the acceleration of the construction of national flood control and drought control command system, mountain flood disaster monitoring and early warning system, etc. In

December 2017, the Ministry of Water Resources of the PRC issued the "National Flash Flood Disaster Prevention Project Implementation Plan (2017-2020)《全國山洪災害防治項目2017-2020年實施方案》", which prioritizes flash flood monitoring and warning provisions nationwide. As such, the Directors are of the view that there will be increasing market demand of the Target Company's information systems in flood monitoring and prevention, including the newly developed "Reservoir Manager (水庫管家)".

5. Reasons for the Acquisition

As stated in the Letter from the Board and confirmed by the Directors, it is the intention of the Company to diversify its business and broaden the source of income. During the year ended 31 December 2017, the Company acquired a company principally engaged in the management of private equity assets, of which the revenue from the Group's private equity asset management segment recorded a significant growth of 2,845.7% for the year ended 31 December 2018 as compared to that for the year ended 31 December 2017. In addition, based on the FY2017 Annual Report and FY2018 Annual Results, the revenue derived from the Group's core business, the manufacturing and sales of woven fabrics, recorded a year-to-year decrease of 3.4% and 7.2% for the years ended 31 December 2017 and 2018, respectively. As a result, the Group recorded three-year consecutive losses from 2016 to 2018 and the Directors are of the view that, given the Company's diversification strategy could reduce the business risk of the Group so that it would be less sensitive to market situations that would only affect one of the business segments of the Group, the entering into of the Formal Agreement is in line with the Group's diversification strategy and could provide additional source of income.

Pursuant to the accountants' report of the Target Group in the Appendix II of this circular, the Target Group has recorded profit of RMB20.3 million for the year ended 31 December 2018. In addition, the Directors are optimistic about the future prospect of the Target Company based on their understanding on the Target Company's business strategies and the water resources management market. Since the Target Company will be owned as to approximately 41.67% indirectly by the Company upon completion of the Acquisition in which case the Company will be able to consolidate approximately 41.67% of the financial results of the Target Group into the Company's consolidated financial statements, the Directors expected that the Acquisition will improve the future business performance of the Group. As stated in the Letter from the Board, in order to further diversity risk, increase return and efficiency in the utilisation of the capital, the Directors intend to save extra fund for future investment in other potential areas when such opportunities arise. Therefore, the Company currently does not intend to acquire the remaining interests of the Target Company. The Company currently has no intention nor plan, and has not entered into any agreement nor negotiation to dispose of, scale-down or terminate its existing business and/or major operating assets.

Given that (i) the Acquisition aligns with the Group's strategy to diversify its business portfolio into the water resources management market; (ii) the Target Company demonstrates good financial performance in its latest financial year and the potential to achieve further business development by leveraging on the positive outlook of the policy support from the PRC government; and (iii) the Acquisition would likely enhance the financial results and the future business performance of the Group, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole even though the water resources management market is new to the Group and the Acquisition may not be in the ordinary and usual course of business of the Company.

B. Principal Terms of the Formal Agreement

On 18 March 2019, the Purchaser, a wholly-owned subsidiary of the Company entered into the Formal Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sales Shares, representing 41.67% of the issued share capital of the Target Company for a Consideration of RMB90 million.

Pursuant to the Formal Agreement, in respect of the Consideration of RMB90 million payable by the Purchaser to the Vendor, 30% of the Consideration (i.e. RMB27 million) shall be settled by way of payment of the Deposit within 3 days from the date of the Formal Agreement which has already been paid. The remaining 70% of the Consideration (i.e. RMB63 million) are payable by the Purchaser within 3 days after Completion has taken place and the corresponding share transfer registration formalities have been completed. The Directors confirmed that the Consideration will be financed as to 60% by bank loan(s) and as to 40% by internal resources of the Company.

1. Basis of the Consideration

As stated in the Letter from the Board, the Consideration was determined on the basis of normal commercial terms and after arm's length negotiation between the Vendor and the Purchaser after taking into account, among others,

(i) the preliminary valuation of the fair market value of the 41.67% interest of the Target Company at approximately RMB93.82 million as at 28 February 2019 by the Independent Valuer, adopting the market approach;

(ii) the historical performance of the Target Group;

(iii) the future business prospect of the Target Group; and

(iv) the potential growth of the Target Group's sector.

We note that the Consideration represents a discount of 4.1% to the appraised market value (the "**Appraised Value**") of the 41.67% of the issued share capital of the Target Company as at 28 February 2019 based on the valuation report as set out in Appendix IV to this circular. The Directors considered that the Consideration is fair and reasonable so far as the Shareholders are concerned.

2. Valuation of the Sale Shares

The Company has appointed the Valuer, an independent professional valuer, to appraise the market value of the 41.67% issued share capital of the Target Company as at 28 February 2019 (i.e. the Sale Shares) and to prepare the valuation report (the "**Valuation Report**") as contained in Appendix IV to this circular. From the Valuation Report, we note that the Valuer estimated the market value of the Sale Shares as at 28 February 2019 to be RMB93.82 million.

In order to ascertain the fairness and reasonableness of the Consideration which is by reference to the market value of the Sale Shares from the Valuation Report, we have performed the following works done:

(I) *Experience of the Valuer and their engagement*

In compliance with the requirements of Rule 17.92 of the GEM Listing Rules, we have reviewed and enquired the qualification and experience of the Valuer with the Valuer in charge of the valuation. As per our discussion with the Valuer, we noticed that Mr. Vincent C B Pang, the leading person in charge of the valuation of the Target Company, is a member of CFA Institute, Hong Kong Institute of Certified Public Accountants and CPA Australia who has over 15 years of experiences in financial valuation and business consulting in Hong Kong and China. As such, we are of the view that the Valuer possesses sufficient experience in performing the valuation. We have also obtained engagement letter of the Valuer and noted that their scope of work is to prepare a Valuation Report and provide the Company with the opinion of fair value on 41.67% issued share capital of the Target Company (i.e. the Sale Shares) the Target Company. Based on the aforesaid engagement letter and our discussion with the Valuer in relation to their terms of engagement, in particular, their scope of work, we noted that there is no limitation on the scope of work which might have adverse impact on the degree of assurance given by them in their report. Based on our discussions with the Valuer and the Management, we understand that, to the best of their knowledge, apart from independent valuation engagements, they have no other current or prior relationships with the Company, the parties to the Acquisition, and core connected persons of either the Company or the Vendor and is independent to the Group, the Target Group and the Vendor.

(II) *Valuation approaches*

As set out in the Valuation Report and also based on our discussions with the Valuer, in arriving at the Appraised Value, we understand that the Valuer has considered three generally accepted valuation approaches, namely the (i) income approach; (ii) cost approach; and (iii) market approach. The Valuer considered the cost approach is not appropriate in the current appraisal as it fails to consider the economic benefits of ownership of the business. The Valuer considered the consolidated net book value of the Target Company as of the valuation date may not truly reflect the value of its equity interests, as part of value will be attributed to future benefit of the Target Company, deriving from providing relevant water resources management information systems to the customers. The Valuer considered that income approach is also inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target Company, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target Company. Given that improper assumptions will impose significant impact on the fair value, income approach has not been adopted in the valuation. On the other hand, the Valuer considered that fair value arrived from market approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in a similar nature and business to that of the Target Company, their market values are good indicators of the industry. Therefore, market approach has been adopted in this valuation. Having considered the characteristics and business nature of the Target Company, we concur with the Valuer's view that the market approach is the most appropriate valuation approach for the Valuation.

(III) *Valuation method*

According to the Valuation Report, the Valuer considered that enterprise value ("**EV**") to earnings before interest, tax, depreciation, and amortization ("**EBITDA**") multiple ("**EV/EBITDA**") is the most appropriate indicator of the fair values of the companies which are in the similar industry as the Target Company (the "**Comparable Companies**"), as this multiple eliminates the difference in capital structure, taxation and depreciation methods. Hence, it is adopted in the valuation of the Sale Shares. Enterprise Value is generally derived based on the market capitalisation of a company, plus net debt (total debt minus cash and short-term investment), minority interest and preferred shares. Upon our discussions with the Valuer, we are given to understand that in selecting the appropriate multiples to be adopted in the valuation analysis, the Valuer has considered price-to-book multiple, price-to-earnings multiple and enterprise value/earnings before interests, taxes, depreciation and amortization multiple, which are commonly used benchmarks for valuation of companies. The price-to-book multiple is not appropriate for this valuation because book value captures only the tangible assets of a company whereas, if a company creates any market value added (as reflected by a price-to-book multiple of larger than 1), it should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the price-to-book ratio and so in general, the equity's book value has little bearing with its fair value. The price-to-earnings multiple is also not appropriate since this valuation does not capture differences in financial leverage and related risk features across the companies. The Target Company and the Comparable Companies also comprise non-cash items in earnings, such as depreciation and amortisation of fixed assets. The Valuer considered that the enterprise value/earnings before interests, taxes, depreciation and amortization multiple is considered to be the most appropriate indicator of the fair values of the Comparable Companies, as this multiple eliminates the difference in capital structure, taxation and depreciation method. Having considered the characteristics and business nature of the Target Company and the Comparable Companies, we concur with the Valuer's view that the enterprise value/earnings before interests, taxes, depreciation and amortization multiple is the most appropriate multiple for the Valuation.

For the purpose of valuing the Target Company under the market approach, the Valuer has identified 12 Comparable Companies. We have discussed with the Valuer concerning its selection criteria of the Comparable Companies as disclosed in the Valuation Report and assessed the appropriateness of the Comparable Companies selected. According to the Valuation Report, we note that the Valuer has conducted its search of comparable companies through S&P Capital IQ database, which are considered to be a reliable source for market information of the Hong Kong and international markets. We have reviewed each of the Comparable Companies and noted that the Comparable Companies are listed on the Stock Exchange with financial information available to the public, and are principally engaged in software service with over 50% of the total revenue generated from system integration or computer service-related business.

Further, since the Target Company is listed on the NEEQ and operating in the PRC, we enquired into the Valuer of the reason for not selecting the comparable companies in the PRC. We are advised by the Valuer that the PRC stock market is subject to various rules and restrictions be imposed by the government, such as capital restriction, daily price limit and restrictions on types of investors. Since the trading of A Shares can only be conducted by Chinese residents or via the Stock Connect Programs (for certain eligible equities only), or else it must comply with Qualified Foreign Institutional Investors Scheme and the RMB Qualified Foreign Institutional Investor Scheme, the stock market is filled with retail trading individuals, causing the price movement to be volatile and unstable and thus, the market multiples of companies listed in the PRC capital market may not be appropriate to serve as reference to companies having similar characteristics.

Based on the foregoing, we consider that the selection criteria of the Comparable Companies can effectively reflect the industry of the water resources management as at the date of the valuation. As such, we are of the view that the selection criteria of the Comparable Companies are fair and reasonable and the Comparable Companies identified by the Valuer are fair and representative for comparison.

(IV) *Marketability discount*

As advised by the Valuer, adjustments were made on the conclusion on the EV/EBITDA multiple, among which, the lack of marketability discount (the "**LOMD**") applies in arriving at the Appraised Value. The LOMD is a downward adjustment to the value of an investment to reflect its reduced level of marketability. Based on our discussion with the Valuer, we understand that, considering the fact that there is no ready market for shares in a closely held company, ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies and therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. As the Target Company is listed on the NEEQ, given the shares of the Target Company are thinly traded while the EV/EBITDA multiple adopted in the valuation was calculated from public listed companies, which are marketable ownership interest traded in the market, it is considered to be appropriate to adopt LOMD to adjust such marketable interest fair value to non-marketable interest fair value of the Target Company. Thus, LOMD was adopted to adjust such marketable interest fair value to nonmarketable interest fair value. The adjustments for LOMD made by the Valuer for the purpose of the Consideration is, in our view, fair and reasonable, given that (i) the shares of the Target Company are thinly traded, a discount should be imposed to address the lack of marketability or lack of liquidity of the Target Company; (ii) our belief that the marketability discount is commonly used in the valuation of companies; and (iii) the Valuer has confirmed that the valuation methodology is consistent with the international valuation guidelines and such adjustments were made based on its professional experience and judgment.

As set out above, we are satisfied that (i) the Valuer is independent from the Company and has sufficient experience and competency to perform the Valuation; (ii) scope of work of the Valuer is appropriate for the relevant engagement; and (iii) the valuation methodologies, methods and assumptions used by the Valuer are fair and reasonable in relation to the valuation of the Sale Shares. Based on the above, we are of the view that the valuation of the Sale Shares performed by the Independent Valuer is fair and reasonable. Taking into account the factors discussed above, we consider that the valuation of the Sale Shares is an appropriate reference to assess the fairness and reasonableness of the Consideration and are of the view that the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

C. Financial Effects of the Acquisition

1. Effect on earnings

As stated in the Letter from the Board, in light of the potential future benefits and prospects of the Acquisition as stated in the section headed "Reasons for and benefits of the Acquisition" above, the Directors are of the view that, the Acquisition would enhance the Group's income stream and profit based upon the completion of the Acquisition as the Target Company. Taking into account the professional fees to be incurred for the Acquisition including but not limited to the audit fee and legal fee, the Acquisition will likely contribute positively to the Group. However, the actual effect on earnings will depend on future financial performance of the Target Company.

2. Effect on working capital

As aforementioned, the Directors confirmed that Company intends to settle the Consideration as to 60% by bank loans and 40% by internal resources. The Acquisition would therefore lead to a reduction in the Group's working capital by an aggregate of RMB32 million upon the completion of the Acquisition, excluding the import of legal and profession fees and other expenses directly attributable to the Acquisition.

3. Effect on assets and liabilities

As stated in the Letter from the Board, based on the unaudited pro forma financial information set out in Appendix III to this circular, assuming the Acquisition had been undertaken and completed on 31 December 2018, the total assets of the Enlarged Group as at 31 December 2018 would have increased from approximately RMB367.7 million to approximately RMB420.6 million; and the total liabilities of the Enlarged Group as at 31 December 2018 would have increased from approximately RMB73.5 million to approximately RMB127.5 million. Accordingly, the unaudited pro forma net assets of the Enlarged Group would have decreased from approximately RMB294.2 million to approximately RMB293.2 million. Such decrease would be mainly due to the cost of RMB1.1 million incurred in the Acquisition.

4. Effect on gearing

According to the FY2018 Annual Results, no interest-bearing borrowings were outstanding as at 31 December 2018. Given that the Group intends to settle the Acquisition as to 60% by bank borrowings, the gearing ratio would increase to approximately 15.2% upon the completion of the Acquisition.

IV. RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Formal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition even though may not be in the ordinary and usual course of business of the Company is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Formal Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Innovax Capital Limited

Richard Chu	**Peter Ng**
Managing Director	*Associate Director*

Note: *Mr. Richard Chu and Mr. Peter Ng are licensed persons under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and regarded as responsible officers of Innovax Capital Limited. Mr. Richard Chu and Mr. Peter Ng have over 15 years and 10 years of experience in corporate finance industry, respectively.*

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial results of the Group for each of the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018 are available on the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.zj-yongan.com) in the following documents:

(i) for the year ended 31 December 2016, on pages 34 to 79 of the annual report of the Company for the year ended 31 December 2016 released on 30 March 2017 at http://www3.hkexnews.hk/listedco/listconews/GEM/2017/0330/GLN20170330271.PDF;

(ii) for the year ended 31 December 2017, on pages 38 to 95 of the annual report of the Company for the year ended 31 December 2017 released on 28 March 2018 at http://www3.hkexnews.hk/listedco/listconews/GEM/2018/0328/GLN20180328469.PDF;

(iii) for the year ended 31 December 2018, on pages 44 to 115 of the annual report of the Company for the year ended 31 December 2018 released on 28 March 2019 at http://www3.hkexnews.hk/listedco/listconews/GEM/2019/0328/GLN20190328581.pdf;

There was no qualified opinion issued for the audited financial results of the Group for the last three financial years.

2. INDEBTEDNESS STATEMENT

As at the close of business on 28 February 2019, being the latest practicable date for the purpose of preparing this indebtedness statement prior to printing of this circular, the indebtedness of the Enlarged Group was as follows:

Borrowings

As at the close of business on 28 February 2019, the Enlarged Group had an interest-free loan due to immediate holding company in which its original principal amount and carrying amount after taking the effect of imputed interest is approximately RMB229,475,000 and RMB33,531,000 respectively.

Contingent liabilities

As at 28 February 2019, the Enlarged Group had no contingent liabilities.

Save as aforesaid, as at the close of business on 28 February 2019, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, bank loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debt securities (whether issued and outstanding or authorised or otherwise created but unissued), guarantees or other material contingent liabilities.

The Directors confirmed that, save as disclosed above, there had not been any material change to the indebtedness and contingent liabilities of the Enlarged Group since 28 February 2019 and up to the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As described in the section headed "Consideration and payment terms" in the Letter from the Board, the Company intends to finance the Acquisition by internal working capital of RMB36 million and RMB54 million from bank borrowings which represent 40% and 60% on the Consideration respectively.

After due and careful enquiry, the Directors are of the opinion that, after taking into account the present available financial resources, the Enlarged Group has sufficient working capital for its requirements for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the Directors are not aware of any material adverse change to the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited financial statements of the Group were published.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is a PRC-based company principally engaged in the manufacture and sales of woven fabrics. The Group operates through three segments, i.e. i) woven fabrics segment is engaged in the manufacture and sales of woven fabrics. Its products include cotton products, polyester products, spandex products and fashion fabrics, among others. ii) subcontracting services segment is engaged in the provision of subcontracting services. The Group operates its businesses in the PRC, Europe, the Middle East and other overseas regions. iii) assets management segment is engaged in the provision of assets management of private equities and investment advisory services in the PRC.

The Target Company is a company incorporated in the PRC 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. It is listed on the NEEQ (Stock Code: 838941) and based in Beijing, the PRC.

As disclosed in the paragraph headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" of this circular, whilst the Group remains focus on developing its existing businesses, it has been the business strategy of the Group to proactively seek potential investment opportunities to improve the business operation and financial position of the Group. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio into new line of business with growth potential and to broaden its source of income in order to enhance value of the shareholders.

The Directors considers the Acquisition are in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into the water management-related business in the PRC with growth potential and to generate diversified income and additional cash flow through the Target Group. The Directors expect that the Target Group would have a positive future outlook and will deliver encouraging results to shareholders.

With the support from Guizhou Yongan, the Directors expect that the Group has sufficient resources to meet its present and future requirements and is able to face the challenge in 2019 and the near future. The Company will continue to actively explore business opportunities in and outside the PRC.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION ON BEIJING TEPIA TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARY TO THE DIRECTORS OF ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

INTRODUCTION

We report on the historical financial information of 北京太比雅科技股份有限公司 (Beijing Tepia Technology Company Limited*) (the "Target Company") and its subsidiary (hereinafter collectively referred to as the "Target Group") set out on pages II-3 to II-50, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-50 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhejiang Yongan Rongtong Holdings Co., Ltd* (the "Company") dated 24 April 2019 (the "Circular") in connection with, the acquisition of 41.67% equity interest in the Target Company by a subsidiary of the Company (the "Acquisition").

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error. The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

* *English translation for identification only*

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of this report, a true and fair view of the financial position of the Target Group as at 31 December 2016, 2017 and 2018 and of its consolidated financial performance and its consolidated cash flows for the years ended 31 December 2016, 2017 and 2018 in accordance with the basis of preparation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Historical Financial Statements as defined on page II-3 have been made.

DIVIDENDS

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
24 April 2019

A. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	7	51,007	10,066	73,106
Cost of services		(31,542)	(11,826)	(36,591)
Gross profit (loss)		19,465	(1,760)	36,515
Other income	8	957	1,235	6,272
Other (losses) gain, net	9	(8,438)	2,529	397
Selling and distribution expenses		(5,495)	(4,758)	(4,998)
Administrative expenses		(12,390)	(10,196)	(14,149)
Other expenses		(2,610)	(2,400)	(201)
Share of loss of an associate	16	(447)	(165)	—
Finance costs	10	(21)	—	—
(Loss) profit before taxation	11	(8,979)	(15,515)	23,836
Income tax credit (expense)	12	1,096	2,020	(3,494)
(Loss) profit for the year		(7,883)	(13,495)	20,342
(Loss) profit and total comprehensive (expense) income for the year attributable to:				
— Owners of the Target Company		(7,883)	(13,495)	20,951
— Non-controlling interests		—	—	(609)
		(7,883)	(13,495)	20,342

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2016	2017	2018
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Plant and equipment	14	1,020	629	928
Intangible assets	15	—	1,452	2,417
Interest in an associate	16	5,953	—	—
Deferred tax assets	17	2,328	4,348	2,018
Deposit paid for acquisition of intangible asset		—	1,300	—
		9,301	7,729	5,363
CURRENT ASSETS				
Contract assets	18	24,322	20,560	57,939
Contract costs	18	1,188	12,291	1,450
Trade and other receivables	19	11,179	10,294	20,950
Income tax recoverable		1,250	2,400	1,241
Financial assets at fair value through profit or loss	20	—	—	65,241
Pledged bank deposits	21	208	34	768
Bank balances and cash	21	32,301	94,114	8,237
		70,448	139,693	155,826
CURRENT LIABILITIES				
Contract liabilities	18	1,073	6,700	4,174
Trade and other payables	22	22,289	10,980	5,951
Amount due to a director	23	150	—	—
		23,512	17,680	10,125
NET CURRENT ASSETS		46,936	122,013	145,701
Total assets less current liabilities		56,237	129,742	151,064
NET ASSETS		56,237	129,742	151,064
REGISTERED CAPITAL AND RESERVES				
Share capital	24	35,000	144,000	144,000
Reserves		21,237	(14,258)	6,693
Equity attributable to owners of the Target Company		56,237	129,742	150,693
Non-controlling interests		—	—	371
		56,237	129,742	151,064

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company						
	Share capital	Share premium	Accumulated losses	Statutory reserve	Total	Non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2015	17,000	8,762	(15,980)	338	10,120	—	10,120
Loss for the year and other comprehensive expense for the year	—	—	(7,883)	—	(7,883)	—	(7,883)
Appropriation to statutory reserve	—	—	(362)	362	—	—	—
Issue of shares	18,000	36,000	—	—	54,000	—	54,000
At 31 December 2016	35,000	44,762	(24,225)	700	56,237	—	56,237
Loss for the year and other comprehensive expense for the year	—	—	(13,495)	—	(13,495)	—	(13,495)
Transfer from share premium (note 24)	44,100	(44,100)	—	—	—	—	—
Bonus shares (note 24)	4,900	—	(4,900)	—	—	—	—
Issue of shares	60,000	27,000	—	—	87,000	—	87,000
At 31 December 2017	144,000	27,662	(42,620)	700	129,742	—	129,742
Profit for the year and other comprehensive income (expenses) for the year	—	—	20,951	—	20,951	(609)	20,342
Establishment of a subsidiary	—	—	—	—	—	980	980
At 31 December 2018	144,000	27,662	(21,669)	700	150,693	371	151,064

Note: Statutory reserve comprises statutory surplus reserves fund of the Target Company and form part of shareholders' fund. According to the articles of association of the Target Company, it is required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(8,979)	(15,515)	23,836
Adjustments for:			
Depreciation of plant and equipment	356	463	414
Amortisation of intangible assets	—	45	261
Impairment loss of (reversal of impairment loss of) trade receivables	5,134	(1,099)	(642)
Impairment loss of (reversal of impairment loss of) contract assets	3,304	(818)	496
Bank interest income	(110)	(618)	(1,085)
Interest income from financial assets at fair value through profit or loss	(458)	—	(872)
Gain on fair value changes of financial assets at fair value through profit or loss	—	—	(251)
Gain on disposal of an associate	—	(612)	—
Government grants	—	(617)	(421)
Share of loss of an associate	447	165	—
Finance cost	21	—	—
Operating cash flows before movements in working capital	(285)	(18,606)	21,736
(Increase) decrease in trade and other receivables	(5,222)	1,984	(10,014)
(Increase) decrease in contract assets	(7,692)	4,580	(37,875)
(Increase) decrease in contract costs	(1,039)	(11,103)	10,841
(Decrease) increase in contract liabilities	(1,775)	5,627	(2,526)
Decrease in trade and other payables	(511)	(11,309)	(4,955)
Cash used in operation	(16,524)	(28,827)	(22,793)
Income tax paid	(2,750)	(1,150)	(5)
NET CASH USED IN OPERATING ACTIVITIES	(19,274)	(29,977)	(22,798)
INVESTING ACTIVITIES			
Interest received	110	618	1,085
Purchases of plant and equipment	(972)	(72)	(713)
Deposit paid for acquisition of intangible asset	—	(1,300)	—
Purchases of intangible assets	—	(1,497)	—
Purchases of financial assets at fair value through profit or loss	(175,500)	—	(321,921)
Proceeds on disposal of financial assets at fair value through profit or loss	175,500	—	256,931
Interest received from financial assets at fair value through profit or loss	458	—	872
Withdrawal of pledged bank deposits	—	174	—
Placement of pledged bank deposits	(157)	—	(734)
Investment in an associate	(6,400)	—	—
Net cash inflow on disposal of an associate	—	6,400	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(6,961)	4,323	(64,480)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
FINANCING ACTIVITIES			
Interest paid	(21)	—	—
Issue of shares	54,000	87,000	—
Capital contribution from non-controlling interest	—	—	980
Government grants received	—	617	421
Repayment of bank borrowings	(1,500)	—	—
Repayment to related parties	(1,152)	—	—
Repayment to a shareholder	(200)	—	—
Repayment to directors	(2,866)	(150)	—
NET CASH FROM FINANCING ACTIVITIES	48,261	87,467	1,401
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,026	61,813	(85,877)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	10,275	32,301	94,114
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32,301	94,114	8,237

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. GENERAL AND BASIS OF PREPARATION

The Target Company was established in the People's Republic of China (the "PRC") with limited liability on 27 November 2000 and its shares were listed on National Equities Exchange and Quotations in the PRC (Stock Code: 838941) since 16 August 2016.

During the year ended 31 December 2016, its substantial shareholders are changed from Mr. Liu Bingyi, 上海太比雅科技有限公司 (Shanghai Tepia Technology Co., Ltd.*) ("Shanghai Tepia") and 北京仁義智水投資管理中心 (有限合夥) to Mr. Liu Bingyi, Mr. Liu Jiang, Shanghai Tepia and Mr. Tang Zongren. During the year ended 31 December 2017, its substantial shareholders are further changed to 青海海清新能源科技有限公司 (Qinghai Haiqing New Energy Technology Co., Ltd.*), Mr. Liu Bingyi, 貴陽永安互聯網金融投資服務有限公司 (Guiyang Yongan Internet Financial Investments Services Limited*) and Shanghai Tepia.

The Target Group is mainly engaged in providing information planning and design, software development, system integration and project-based systems operation and maintenance services for water management systems. The address of its registered office and principal place of business of the Target Company are Room 229, Building D, China Institute of Water Resources and Hydropower Research, 1 Yuyantan South Road, Haidian District, Beijing, PRC.

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Target Group.

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA.

The Historical Financial Information of the Target Group has been prepared for inclusion in the Circular of the Company in connection with the Acquisition.

* *English translation for identification only*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

For the purpose of preparing and presenting the Historical Financial Information during the Relevant Periods, the Target Group has consistently applied all of the new and revised HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("ints") (hereinafter collectively referred to as "new and revised HKFRSs"), issued by the HKICPA which are effective for the financial year beginning on 1 January 2018 throughout the Relevant Periods.

New and revised HKFRSs issued but not yet effective

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

HKFRS 16	Lease[1]
HKFRS 17	Insurance Contracts[3]
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[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
Amendments to HKFRS 3	Definition of a Business[5]
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 2020.

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

4 Effective date not yet been determined.

5 Effective for business combinations and assets acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The directors of the Target Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact of the results and the financial position of the Target Group.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 "Property, Plant and Equipment", while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HFKRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

As at 31 December 2018, the Target Group has non-cancellable operating lease commitments of approximately RMB4,468,000 as disclosed in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon application of HKFRS 16, the Target Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The directors of the Target Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Target Company expect that the adoption of HKFRS 16 will not have material impact on the Target Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA.

The Historical Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company and its subsidiary. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the Historical Financial Information for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the Historical Financial Information to ensure conformity with the Target Group's accounting policies.

Control is achieved where the Target Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Target Group's returns. When the Target Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Target Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Target Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Target Group obtains control of the subsidiary and ceases when the Target Group loses control of the subsidiary.

Income and expenses of a subsidiary are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiary are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Target Group are eliminated in full on consolidation.

Investment in an associate

An associate is an entity over which the Target Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Target Group's investment in an associate is accounted for in the Historical Financial Information using the equity method. Under the equity method, investment in an associate is initially recognised at cost. The Target Group's share of the profit or loss and changes in the other comprehensive income of the associate are recognised in profit or loss and other comprehensive income respectively after the date of acquisition.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

When the investment ceases to be an associate upon the Target Group losing significant influence over the associate, the Target Group discontinues to apply equity method. Any difference between the proceeds from disposing of the interest in the associate and the carrying amount of the associate at the date the equity method was discontinued is recognised in profit or loss.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services. Specifically, the Target Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Target Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is district or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- The Target Group's performance creates and enhances an asset that the customer controls as the asset is created or enhanced; or
- The Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes sales related taxes.

Contract assets and contract liabilities

A contract asset represents the Target Group's right to consideration in exchange for goods or services that the Target Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration from the customer. A contract liability would also be recognised if the Target Group has an unconditional right to receive consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Target Group recognised revenue from the following major sources:

- system integration
- information planning and design
- software development

System integration service

The Target Group delivers multiple units of highly complex and specialised devices and is responsible for overall management of the contract, which required the performance and integration of activities including procurement of materials, assembly and testing the specialised devices. The sales of specialised devices and services provided are not distinct and separately identifiable and therefore regard as a single performance obligation. Revenue from these contracts is recognised over time as the Target Group's performance creates and enhances an asset that the customer controls as the asset is created or enhanced. The recognition is based on input method as detailed below.

Information planning and design service

Taking into account the contract terms and the Target Group's business practice, revenue from information planning and design service contracts is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from information planning and design service is generally recognised when the service is rendered to the customer.

Software development service

The Target Group designs and develops system according to customers' specification, and is responsible for installation, testing of the system as well as training to personnel. Taking into account the contract terms and the Target Group's business practice, revenue from software development service contracts is recognised over time as the Target Group's performance creates and enhances an asset that the customer controls as the asset is created or enhanced. The recognition is based on input method as detailed below.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Input method)

Revenue from system integration and software development service are recognised over time.

The progress towards complete satisfaction of a performance obligation is measured base on input method. Input method recognise revenue on the basis of the Target Group's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred) relative to the total expected inputs to the satisfaction of that performance obligation.

Existence of significant financing component

In determining the transaction price, the Target Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Target Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exists regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payments and transfer of the associated goods or services is less than one year, the Target Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Target Group transferred the associated goods or services before payments from customers in which the Target Group adjusts for the promised amount of consideration for significant financing components, the Target Group applies a discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception. The Target Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services, and adjusting related receivables.

Contract costs

The Target Group incurs costs (including labour costs, utility expenses, materials and consumables and others) to fulfil a contract in its services contracts. The Target Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognised an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Target Group can specifically identify;
- the costs generate or enhance resources of the Target Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Target Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Leasing

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits scheme contributions

Payment to the defined contribution plans in the PRC is recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the respective reporting periods.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the respective reporting periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the respective reporting periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment for administrative purpose is stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting periods, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand.

Investment in a subsidiary

Investment in a subsidiary is stated on the statements of financial position of the Target Company at cost less accumulated impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when the Target Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss (“FVTPL”) are recognised in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (“FVTOCI”), and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Target Group’s business model for managing them.

Financial assets at amortised cost (debt instruments)

The Target Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "other income" line item (note 8).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other (losses) gain, net" line item. Fair value is determined in the manner described in note 6(c).

Impairment of financial assets

The Target Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the

Target Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Target Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

The Target Group considers that default has occurred when a financial asset is more than 180 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 3 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the original effective interest rate.

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Target Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3 above, the directors of the Target Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the respective reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition

The recognition of each of the Target Group's revenue stream requires judgment by the directors of the Target Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Target Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Target Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the Target Group's business, the directors of the Target Company has assessed that for the revenue from system integration and software development contracts. The Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs. Therefore, the directors of the Target Company have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

The Target Group recognises revenue from system integration and software development contracts over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Target Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each project in the contract. The Target Group calculated the cost allocation based on type of projects. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted contract costs by comparing the budgeted amounts to the actual costs incurred. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the contracts as the contracts progress, the actual outcome of the contracts in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue, cost and profit recognised.

Impairment loss of contract assets and trade receivables

The impairment provisions for contract assets and trade receivables are based on assumptions about ECL. The directors of the Target Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that the project is completed or an individual receivable is outstanding, types of customers, as well as the Target Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of profit or loss and other comprehensive income. At 31 December 2016, 2017 and 2018, the accumulated impairment losses of contract assets and trade receivables are approximately RMB8,060,000 and RMB7,460,000, RMB7,242,000 and RMB6,361,000, RMB7,738,000 and RMB5,719,000 respectively.

5. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of cash and cash equivalents and equity attributable to owners of the Target Company, comprising registered capital and retained earnings.

The directors of the Target Company review the capital structure regularly. As part of this review, the directors of the Target Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Target Company, the Target Group will balance its overall capital structure through the payment of dividends, new capital injection and issue of new debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortised cost	43,034	103,442	29,891
Financial assets at FVTPL	—	—	65,241
Financial liabilities			
Financial liabilities at amortised cost	22,369	10,577	5,111

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, financial assets at FVTPL, pledged bank deposits, bank balances and cash, financial assets at FVTPL, trade and other payables and amount due to a director. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Target Group is exposed to cash flow interest rate risk primarily in relation to variable-rate pledged bank deposits, bank balances and financial assets at FVTPL. To mitigate the impact of interest rate fluctuations, the Target Group assesses and monitors the exposure to interest rate risk.

In the opinion of the directors of the Target Company, a reasonably possible change in interest rate on interest-bearing financial assets is not expected to have a material impact to the Target Group's profit or loss for the Relevant Periods, hence no sensitivity analysis is presented.

Credit risk

As at the end of the respective reporting periods, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

The credit risk of the Target Group mainly arises from contract assets and trade receivables. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Target Group is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For contract assets and trade receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Target Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry which the debtors operate. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

For other non-traded related receivables, the Target Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Target Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Target Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Target Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations
- actual or expected significant changes in the operating results of the debtors
- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors in the Target Group and changes in the operating results of the debtors.

The expected credit loss model for trade receivable as at 31 December 2016, 2017 and 2018 are as follows:

31 December 2016

Governmental bodies

	Weighted average expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	19	2,921	(562)
Within 90 days past due	19	909	(175)
Over 90 days past due	66	9,090	(6,041)
		12,920	(6,778)

Private entities

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	20	1,077	(213)
Within 90 days past due	—	—	—
Over 90 days past due	72	653	(469)
		1,730	(682)

31 December 2017

Governmental bodies

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	26	525	(136)
Within 90 days past due	26	472	(123)
Over 90 days past due	67	7,263	(4,871)
		8,260	(5,130)

Private entities

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	33	625	(208)
Within 90 days past due	—	—	—
Over 90 days past due	39	2,613	(1,023)
		3,238	(1,231)

31 December 2018

Governmental bodies

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	3	3,076	(99)
Within 90 days past due	3	106	(3)
Over 90 days past due	72	4,535	(3,243)
		7,717	(3,345)

Private entities

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	10	3,375	(325)
Within 90 days past due	—	—	—
Over 90 days past due	68	3,031	(2,049)
		6,406	(2,374)

The expected credit loss model for contract assets as at 31 December 2016, 2017 and 2018 are as follows:

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
31 December 2016			
Governmental bodies	26	17,386	(4,560)
Private customers	23	14,996	(3,500)
		32,382	(8,060)

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
31 December 2017			
Governmental bodies	23	16,399	(3,803)
Private customers	30	11,403	(3,439)
		27,802	(7,242)

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
31 December 2018			
Governmental bodies	5	36,255	(1,765)
Private customers	20	29,422	(5,973)
		65,677	(7,738)

The summary of movement in the allowance for impairment of trade receivables and contract assets is set out below:

	Trade receivables As at 31 December			Contract assets As at 31 December		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year	2,326	7,460	6,361	4,756	8,060	7,242
Impairment losses recognised in profit or loss, net	5,134	—	—	3,304	—	496
Impairment losses reversed, net	—	(1,099)	(642)	—	(818)	—
At end of the year	7,460	6,361	5,719	8,060	7,242	7,738

The decrease in the loss allowance of trade receivables during the Relevant Periods was attributable to the debt collection of trade receivables from governmental bodies past due over 90 days.

The decrease in the loss allowance of contract assets during the year ended 31 December 2017 was attributable to the billings made for certain projects close to the end of the reporting period, while the increase during the year ended 31 December 2018 was attributable to the increase in unbilled revenue.

The Target Group's concentration of credit risk by geographical locations is mainly in the PRC.

The following table demonstrates the concentrations of credit risk of the total contract assets and trade receivables which were due from the Target Group's largest external customer and the Target Group's five largest external customers, respectively.

	As at 31 December		
	2016	**2017**	**2018**
Percentage of total contract assets and trade receivables due from			
Target Group's largest external customer	—	—	22%
Target Group's five largest external customers	13%	7%	39%

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows.

At 31 December 2016, 2017 and 2018, the Target Group's remaining maturity for its financial liabilities is mainly within one year from the end of each reporting period or on demand. In the opinion of the directors of the Target Company, the carrying amounts of the financial liabilities are the same as the undiscounted cash flows based on the earliest date on which the Target Group can be required to pay and therefore, no further analysis is presented in the Historical Financial Information.

(c) Fair value of financial assets that are measured at fair value on a recurring basis

The valuation technique and input used in the fair value measurements of financial assets at FVTPL on a recurring basis are set out below:

Financial instrument	Fair value hierarchy	Fair value as at 31 December 2016	2017	2018	Valuation technique and key inputs
		RMB'000	*RMB'000*	*RMB'000*	
Structured deposits	Level 1	N/A	N/A	65,241	Quoted prices from financial institutions

Except for the above, the directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values due to their immediate or short-term maturities.

7. REVENUE

The following is an analysis of the Target Group's revenue for the Relevant Periods.

	Year ended 31 December 2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major service lines			
- System integration	40,285	6,224	30,602
- Information planning and design	947	536	6,653
- Software development	9,775	3,306	35,851
	51,007	10,066	73,106

Disaggregation of revenue by types of customers

	Year ended 31 December 2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Governmental bodies	32,568	8,399	43,385
Private customers	18,439	1,667	29,721
	51,007	10,066	73,106

Disaggregation of revenue by timing of recognition

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Timing of revenue recognition			
A point in time	947	536	6,653
Over time	50,060	9,530	66,453
	51,007	10,066	73,106

8. OTHER INCOME

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	110	618	1,085
Sales of equipment	—	—	3,873
Government grant (note)	—	617	421
Interest income from financial assets at FVTPL	458	—	872
Others	389	—	21
	957	1,235	6,272

Note: Amounts mainly represented subsidies granted by local government for encouraging enterprise development. The government grants were granted at the discretion of the government and immediately recognised as other income as the Target Group has fulfilled the relevant granting criteria.

9. OTHER (LOSSES) GAIN, NET

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Gain on disposal of an associate (note 16)	—	612	—
Fair value gain on financial assets at FVTPL	—	—	251
(Impairment loss) reversal of impairment loss of contract assets	(3,304)	818	(496)
(Impairment loss) reversal of impairment loss of trade receivables	(5,134)	1,099	642
	(8,438)	2,529	397

10. FINANCE COSTS

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowing	21	—	—

11. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
(Loss) profit before taxation has been arrived after charging:			
Salaries and other benefits (including emoluments of directors of the Target Group)	9,916	8,226	12,194
Contributions to retirement benefits scheme	1,791	2,367	5,354
	11,707	10,593	17,548
Amortisation of intangible assets	—	45	261
Depreciation of plant and equipment	356	463	414
Auditors' remuneration	347	235	261
Minimum lease payments under operating leases in respect of office premises	1,212	1,251	1,605
Research and development costs recognised as expenses (note)	5,435	4,222	3,906

Note: Research and development costs include staff costs of approximately RMB3,035,000, RMB1,131,000 and RMB1,634,000 for the year ended 31 December 2016, 2017 and 2018 respectively, which have been included in the staff costs as disclosed above.

12. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Current year taxation			
- PRC Enterprise Income Tax (the "EIT")	(170)	—	(1,164)
Deferred taxation (note 17)	1,266	2,020	(2,330)
	1,096	2,020	(3,494)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. The Target Company was recognised as an approved high technology enterprise and therefore is entitled to a tax concession period of reduction in EIT rate of 15% throughout the Relevant Periods. According to the EIT Law, qualified research and development expenses can be deducted at 150% of such expenses for income tax deduction purpose upon approval from the relevant tax authority for the years ended 31 December 2016 and 2017, and the deduction rate has been increased to 175% from 1 January 2018 to 31 December 2020.

The income tax (credit) expense for the Relevant Periods can be reconciled to the (loss) profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
(Loss) profit before taxation	(8,979)	(15,515)	23,836
Tax at the domestic income tax rate	(1,347)	(2,327)	3,451
Tax effect on non-deductible expenses	540	624	432
Tax effect of super deduction for certain research and development expenses in the PRC	(289)	(317)	(389)
Income tax (credit) expense	(1,096)	(2,020)	3,494

13. DIVIDENDS

Pursuant to the resolution of the shareholders meeting on 22 December 2016, the Target Company proposed to issue 4,900,000 bonus shares with a par value of RMB1 per share on the basis of 1.4 shares for every 10 existing shares. The bonus issue was completed in January 2017.

Except for the above, no dividends were paid, declared or proposed during the Relevant Periods, nor has any dividend been proposed since the end of the Relevant Periods.

14. PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
At 1 January 2016	160	329	419	908
Additions	484	280	208	972
At 31 December 2016	644	609	627	1,880
Additions	—	29	43	72
At 31 December 2017	644	638	670	1,952
Additions	235	478	—	713
At 31 December 2018	879	1,116	670	2,665
ACCUMULATED DEPRECIATION				
At 1 January 2016	53	206	245	504
Charge for the year	174	79	103	356
At 31 December 2016	227	285	348	860
Charge for the year	215	129	119	463
At 31 December 2017	442	414	467	1,323
Charge for the year	165	202	47	414
At 31 December 2018	607	616	514	1,737
CARRYING VALUES				
At 31 December 2016	417	324	279	1,020
At 31 December 2017	202	224	203	629
At 31 December 2018	272	500	156	928

The above items of plant and equipment are depreciated on a straight-line basis, after taking into account of their estimated residual values, over their estimated useful lives as follows:

Motor vehicles	5 years
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	Over the shorter term of the lease, or 3 years

15. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Additions	1,497
At 31 December 2017	1,497
Additions	1,226
At 31 December 2018	2,723
ACCUMULATED AMORTISATION	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Charge for the year	45
At 31 December 2017	45
Charge for the year	261
At 31 December 2018	306
CARRYING VALUES	
At 31 December 2016	—
At 31 December 2017	1,452
At 31 December 2018	2,417

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over 10 years.

16. INTEREST IN AN ASSOCIATE

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cost of investment in an associate	6,400	—	—
Share of post-acquisition losses and other comprehensive expense	(447)	—	—
	5,953	—	—

As at 31 December 2016, 2017 and 2018, the Target Group had interest in the following associate:

Name of company	Form of entity	Place of incorporation/ operation	Registered share capital	Proportion of ownership interests held by the Target Company			Proportion of voting power held by the Target Company			Principal activity
				2016	2017	2018	2016	2017	2018	
Guizhou Intelligent Hydraulic Technology Company Limited* (貴州(智慧水利科技股份有限公司) ("Guizhou Intelligent"))	Incorporated	The PRC	RMB20,000,000	32%	N/A	N/A	32%	N/A	N/A	Inactive

During the year ended 31 December 2017, Guizhou Intelligent was disposed to two independent third parties for total consideration of RMB6,400,000 and a respective gain on disposal of approximately RMB612,000 was recognised.

The financial information and carrying amount of the Target Group's interest in an associate that is not individually material and is accounted for using the equity method are set out below:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
The Target Group's share of loss and other comprehensive expense	447	165	—
Carrying amount of the Target Group's interest in the associate	5,953	—	—

17. DEFERRED TAX ASSETS

Deferred tax assets recognised in the consolidated statements of financial position and their movements during the Relevant Periods are as follows:

	Tax losses	Impairment of contract assets and trade receivables	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	—	1,062	1,062
Credit to profit or loss	—	1,266	1,266
At 31 December 2016	—	2,328	2,328
Credit (charge) to profit or loss	2,308	(288)	2,020
At 31 December 2017	2,308	2,040	4,348
Charge to profit or loss	(2,308)	(22)	(2,330)
At 31 December 2018	—	2,018	2,018

As at 31 December 2016, 2017 and 2018 the Target Group has recognised deferred tax assets in respect of the unused tax losses arising in PRC of nil, approximately RMB15,387,000 and nil respectively available for offset against future profits. A deferred tax asset of nil, approximately RMB2,308,000 and nil of such losses has been recognised as at 31 December 2016, 2017 and 2018 respectively.

18. CONTRACT COSTS, CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract costs

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Cost to fulfill contract	1,188	12,291	1,450

As at 31 December 2016, 2017 and 2018, contract costs capitalised represents the cost of machinery to fulfill service contracts with customers at the beginning of service contracts. Contract costs are recognised in the profit or loss in the period in which revenue from the related system integration project is recognised.

Contract costs as at 31 December 2016 and 2017 are recognised in profit or loss in the following year and there was no impairment loss made in relation to the contract costs during the Relevant Periods.

(b) Contract assets

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
System integration and software development service contracts	32,382	27,802	65,677
Less: allowance for impairment	(8,060)	(7,242)	(7,738)
	24,322	20,560	57,939

Certain system integration and software development service contracts include payment schedules which require stage payments over the service period once milestones are reached. The Target Group requires certain customers to provide upfront deposits range from 5% to 30% of total contract sum as part of its credit risk management policies and this has resulted in a contract liability at early stages. However, the Target Group also typically agrees to one year retention period for 5% or 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Target Group's entitlement to this final payment is conditional on the Target Group's work satisfactorily passing inspection.

The significant increase in contract assets in 2018 is the result of the increase in ongoing software development projects at the end of the year. The details of impairment assessment are set out in note 6.

(c) Contract liabilities

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
System integration and software development services contracts	1,073	6,700	4,174

The significant changes in contract liabilities throughout the Relevant Periods were mainly due to the changes in the Target Group's revenue base during the Relevant Periods.

Revenue recognised during the years ended 31 December 2016, 2017 and 2018 that was included in the contract liabilities from the opening balance as at 1 January 2016, 2017 and 2018 was approximately RMB2,756,000, RMB43,000 and RMB4,378,000 respectively. There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	14,650	11,498	14,123
Less: allowance for impairment	(7,460)	(6,361)	(5,719)
	7,190	5,137	8,404
Prepayments	654	1,000	64
Loan receivable (note a)	–	–	8,000
Retention receivables (note b)	2,116	2,236	2,003
Deposits and other receivables	1,219	1,921	2,479
	11,179	10,294	20,950

Note a: An unsecured loan receivable of RMB8,000,000 carried interest at 10% per annum was lent to an independent third party. The amount was fully settled in January 2019.

Note b: Included in the retention receivables amounts of approximately RMB2,022,000, RMB1,413,000 and RMB777,000 will be recovered over 1 year for the year ended 31 December 2016, 2017 and 2018 respectively.

The Target Group allows an average credit period of 90 days to its customers. The following is an aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on invoice dates at the end of the reporting period:

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	3,222	804	6,027
91-180 days	735	349	102
over 180 days	3,233	3,984	2,275
	7,190	5,137	8,404

The details of impairment assessment of trade receivable are set out in note 6.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into structured deposit placements with banks in the PRC. Major terms of the structured deposits at the end of the reporting period are as follows:

At 31 December 2018

Principal amount	*Notes*	**Maturity**	**Annual coupon rate**
RMB19,000,000	(a)	23 October 2018 to 21 January 2019	From 2.19% to 4.01%
RMB10,000,000	(a)	6 November 2018 to 11 February 2019	From 2.19% to 4.01%
RMB10,000,000	(a)	20 November 2018 to 18 February 2019	From 2.06% to 3.88%
RMB7,000,000	(a)	21 December 2018 to 4 January 2019	From 0.81% to 2.63%
RMB18,990,000	(b)	N/A	From 2.60% to 3.60%

Notes:

(a) The bank guaranteed 100% of the invested principal amount and returns of which are determined by reference to the change in gold benchmark price quoted in the Shanghai Gold Exchange as specified in the relevant deposit placements.

(b) The principal amount and returns are determined by reference to the performance of financial indicator as specified in the relevant deposit placements. The annual interest rate is dependent on the duration of placement.

21. PLEDGED BANK DEPOSITS/ BANK BALANCES AND CASH

As at 31 December 2016, 2017 and 2018, pledged bank deposits have been pledged to banks to secure certain projects and will be released upon completion of services pursuant to the agreements. The pledged bank deposits are classified as current asset as these projects will be completed within one year pursuant to the agreement. The pledged bank deposits carried interest at fixed rates ranged from 0.3% to 1.5%, 0.3% to 1.6% and 0.3% to 1.6% per annum as at 31 December 2016, 2017 and 2018 respectively.

At 31 December 2016, 2017 and 2018, bank balances carried at prevailing market rates of 0.03%, 0.43%, 0.41% per annum respectively.

22. TRADE AND OTHER PAYABLES

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	20,667	9,137	2,451
Accrued expenses	957	638	1,592
Other tax payables	70	403	840
Other payables	595	802	1,068
	22,289	10,980	5,951

The following is an ageing analysis of trade payables presented based on the invoice dates at the end of each reporting period.

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Less than 60 days	20,368	8,115	1,732
61-120 days	54	160	36
121-180 days	—	—	250
Over 180 days	245	862	453
	20,667	9,137	2,451

The Target Group has financial risk management policies in place to ensure that all payables are settled properly.

23. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, non-interest bearing and repayable on demand.

24. SHARE CAPITAL

	Number of shares ‘000	Share capital RMB’000
Registered, issued and fully paid ordinary shares of RMB1 each:		
At 1 January 2016	17,000	17,000
Issue of shares during the year (note (a))	18,000	18,000
At 31 December 2016 and 1 January 2017	35,000	35,000
Transfer from share premium (note (b))	44,100	44,100
Bonus shares (note (b))	4,900	4,900
Issue of shares during the year (note (c))	60,000	60,000
At 31 December 2017, 1 January 2018 and 31 December 2018	144,000	144,000

Notes:

(a) In March 2016, the Target Company issued 18,000,000 shares with a par value of RMB1 at RMB3 per share. The premium arising from the issue of new shares amounting to RMB36,000,000 was recorded in share premium.

(b) In January 2017, the Target Company issued (i) 44,100,000 shares with a par value of RMB1 per share by way of capitalisation of share premium on the basis of 12.6 shares for every 10 existing shares and (ii) 4,900,000 bonus shares with a par value of RMB1 per share on the basis of 1.4 shares for every 10 existing shares.

(c) In August 2017, the Target Company issued 60,000,000 shares with a par value of RMB1 at RMB1.45 per share. The premium arising from the issue of new shares amounting to RMB27,000,000 was recorded in share premium.

All Shares issued rank pari passu in all respects with all shares in issue.

25. RETIREMENT BENEFITS SCHEME

Pursuant to the regulation of the relevant authorities in the PRC, the Target Group participates in respective government retirement benefit schemes (the “Schemes”) whereby the subsidiary is required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contribution made to the Schemes is calculated based on the certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The only obligation of the Target Group with respect to the Schemes is to pay the ongoing required contribution under the Schemes. The total expense recognised in profit or loss amounted to approximately RMB1,791,000, RMB2,367,000 and RMB5,354,000 for the year ended 31 December 2016, 2017 and 2018 respectively.

26. OPERATING LEASE ARRANGEMENTS

At the end of the reporting periods, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,247	567	1,908
In the second to fifth year inclusive	595	—	2,560
Total	1,842	567	4,468

Operating lease payments represent rentals payable by the Target Group for certain of its office premises and warehouses. Leases are negotiated for terms ranging from one to three years and rentals are fixed over the term of lease. No provision for contingent rent and terms of renewal was established in the leases.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statements of cash flows as cash flows from financing activities.

	Bank borrowing	**Amounts due to related parties**	**Amount due to a shareholder**	**Amount due to a director**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	1,500	1,152	200	3,016
Financing cash flows	(1,500)	(1,152)	(200)	(2,866)
At 31 December 2016 and 1 January 2017	—	—	—	150
Financing cash flows	—	—	—	(150)
At 31 December 2017 and 2018	—	—	—	—

28. STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Investment in a subsidiary	—	—	756
Plant and equipment	1,020	629	609
Intangible assets	—	1,452	2,417
Interest in an associate	5,953	—	—
Deferred tax asset	2,328	4,348	2,018
Deposit paid for acquisition of plant and equipment	—	1,300	—
	9,301	7,729	5,800
CURRENT ASSETS			
Contract assets	24,322	20,560	57,939
Contract costs	1,188	12,291	1,450
Trade and other receivables	11,179	10,294	20,907
Income tax recoverable	1,250	2,400	1,241
Financial assets at fair value through profit or loss	—	—	65,241
Pledged bank deposits	208	34	768
Bank balances and cash	32,301	94,114	7,718
	70,448	139,693	155,264
CURRENT LIABILITIES			
Contract liabilities	1,073	6,700	4,174
Trade and other payables	22,289	10,980	5,828
Amount due to a director	150	—	—
	23,512	17,680	10,002
NET CURRENT ASSETS	46,936	122,013	145,262
Total assets less current liabilities	56,237	129,742	151,062
NET ASSETS	56,237	129,742	151,062
REGISTERED CAPITAL AND RESERVES			
Registered capital	35,000	144,000	144,000
Reserves (note)	21,237	(14,258)	7,062
Total equity	56,237	129,742	151,062

Note: Movements in reserves

	Accumulated losses *RMB'000*	Statutory reserve *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2016	(15,980)	338	8,762	(6,880)
Loss and total comprehensive expense for the year	(7,883)	—	—	(7,883)
Appropriation to reserve	(362)	362	—	—
Issue of shares	—	—	36,000	36,000
At 31 December 2016 and 1 January 2017	(24,225)	700	44,762	21,237
Loss and total comprehensive expense for the year	(13,495)	—	—	(13,495)
Transfer from share premium	—	—	(44,100)	(44,100)
Bonus share of 1.4 shares on every 10 shares	(4,900)	—	—	(4,900)
Issue of shares	—	—	27,000	27,000
At 31 December 2017 and 1 January 2018	(42,620)	700	27,662	(14,258)
Profit and total comprehensive income for the year	21,320	—	—	21,320
At 31 December 2018	(21,300)	700	27,662	7,062

29. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties disclosed elsewhere in the Historical Financial Information, during the Relevant Periods, the Target Group had the following significant transactions with its related parties:

Compensation of key management personnel

The remuneration of directors of the Target Company and other members of key management personnel during the Relevant Periods was as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Short-term benefits	774	809	944
Post employment benefits	111	102	217
	885	911	1,161

30. PARTICULAR OF SUBSIDIARIES

At the date of this report, the Target Company has direct equity interest in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Fully paid registered capital	Percentage of equity interest/ voting power attributable to the Target Company as at: 31 December 2016	31 December 2017	31 December 2018	Date of this report	Principal activities
Guizhou Intelligent Water Technology Company Limited* (貴州智慧水雲科技有限責任公司)	The PRC	RMB2,000,000	N/A	N/A	51%	51%	Inactive
Intelligent Water (Wuhan) Technology Company Limited* (智慧水雲(武漢)科技有限公司)	The PRC	RMB10,000,000	N/A	N/A	N/A	100%	Inactive
Guangdong Intelligent Water Technology Company Limited* (廣東智慧水雲科技有限責任公司)	The PRC	RMB10,000,000	N/A	N/A	N/A	51%	Inactive

The subsidiaries had not issued any debt securities at the end of each reporting period.

C. SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements of the Target Group have been prepared in respect of any period subsequent to 31 December 2018.

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, set out in Appendix II to this circular, and is included herein for illustrative purpose only.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The unaudited pro forma consolidated financial information of Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), together with Beijing Tepia Technology Co., Ltd. (the "Target Company") and its subsidiary ((collectively, the "Target Group"), together with the Group hereinafter collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the proposed acquisition of 41.67% equity interest in the Target Company (the "Acquisition") on the assets and liabilities of the Group as if the Acquisition had been undertaken and completed on 31 December 2018 in respect of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information").

The Unaudited Pro Forma Financial Information has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2018 extracted from the annual report of the Company for the year ended 31 December 2018, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition has been completed on 31 December 2018.

The Unaudited Pro Forma Financial Information has been prepared by the Directors (as defined in this circular), in accordance with Rule 7.31 of the GEM Rules, for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group as at 31 December 2018 or at any future date had the Acquisition been completed on 31 December 2018 or for any future period had the Acquisition been completed on 31 December 2018.

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 31 December 2018	Pro forma adjustments		The Enlarged Group as at 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current assets				
Property, plant and equipment	98,675			98,675
Prepaid lease payments	6,080			6,080
Goodwill	1,230			1,230
Interest in an associate	—	90,000		90,000
Financial asset at fair value through other comprehensive income	635			635
Financial asset at fair value through profit or loss	25,129			25,129
Deposits paid for acquisition of property, plant and equipment	19,370			19,370
	151,119			241,119
Current assets				
Inventories	29,246			29,246
Trade and other receivables	33,525			33,525
Prepaid lease payments	188			188
Tax recoverable	187			187
Bank balances and cash	153,425	(36,000)	(1,073)	116,352
	216,571			179,498
Current liabilities				
Trade and other payables	26,194			26,194
Contract liabilities	3,273			3,273
Bank loan	—	10,800		10,800
	29,467			40,267
Net current assets	187,104			139,231
Total assets less current liabilities	338,223			380,350
Non-current liabilities				
Bank loan	—	43,200		43,200
Deferred tax liabilities	11,451			11,451
Amount due to immediate holding company	32,543			32,543
	43,994			87,194
Net assets	294,229			293,156

Notes:

1. The audited consolidated statement of assets and liabilities of the Group as at 31 December 2018 is extracted, without adjustments, from the annual report of the Company for the year ended 31 December 2018.

2. On 18 March 2019, the Group entered into a sales and purchase agreement (the "Agreement") with 青海海清新能源科技有限公司 (Qinghai Haiqing New Energy Technology Co., Ltd.*) in connection with the potential acquisition of 41.67% equity interest of the Target Company at a cash consideration of RMB90,000,000. The consideration will be financed as to 60% by bank loan and as to 40% by internal resources of the Group. The fair value of identifiable assets and liabilities of the Target Group as at 31 December 2018 were based on an independent valuation report conducted by an independent valuer of the Enlarged Group, AVISTA Valuation Advisory Limited.

   Upon completion of the Acquisition, the Group will hold 41.67% equity interest in the Target Company and has significant influence over the Target Company, which will become an associate of the Group. This interest in associate will be accounted for in the consolidated financial statement of the Enlarged Group by using equity method of accounting in accordance with the Hong Kong Accounting Standard 28 "Investments in Associates and Joint Ventures" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

   The pro forma fair values of the identifiable assets and liabilities of the Target Group and goodwill in relation to the Acquisition are subject to change upon the completion of purchase price allocation at the completion date of the Acquisition, which may be substantially different from their estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information. The entire investment cost in the Target Group is subject to impairment assessment in accordance with the Hong Kong Accounting Standard 36 ("HKAS 36") "*Impairment of Assets*" issued by the HKICPA as a single asset, by comparing its recoverable amount with its carrying amount, whenever there is indicator that the investment may be impaired. In the opinion of directors of the Company, there is no impairment on the investment in the Target Company as there is no objective evidence that the equity investment is impaired.

3. The adjustment represents estimated legal and professional fees and other expenses of approximately RMB1,073,000 directly attributable to the Acquisition. It will be recognised in the profit and loss upon the completion of the Acquisition.

4. No other adjustments have been made to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2018.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The Directors
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Suites 3306 -12
33/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhejiang Yongan Rongtong Holdings Co., Ltd.* (the "Company") and its subsidiaries (collectively, the "Group"), together with Beijing Tepia Technology Co., Ltd. (the "Target Company") and its subsidiary ((collectively, the "Target Group"), together with the Group hereinafter collectively referred to as the "Enlarged Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2018, and related notes as set out on pages III-1 to III-3 of the circular in connection with the major acquisition of 41.67% equity interest in Target Company (the "Acquisition"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Notes 1 to 4 to the unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's assets and liabilities as at 31 December 2018 as if the Acquisition had been taken place at 31 December 2018. As part of this process, information about the Group's assets and liabilities has been extracted by the directors of the Company from the Group's consolidated financial statements for the year ended 31 December 2018, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
24 April 2019

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"). All amounts are expressed in RMB and rounded to the nearest thousand except when otherwise indicated.

1. General information

During the Relevant Periods, the Target Group has been principally engaged in providing information planning and design, software development, system integration and project-based systems operation and maintenance services for the 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.

2. Business and financial review

Set out below is the financial performance of the Target Group during the Relevant Periods:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major service lines			
- System integration	40,285	6,224	30,602
- Information planning and design	947	536	6,653
- Software development	9,775	3,306	35,851
	51,007	10,066	73,106

Disaggregation of revenue by type customer

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Governmental bodies	32,568	8,399	43,385
Private customers	18,439	1,667	29,721
	51,007	10,066	73,106

Revenue

During the Relevant Periods, the Target Group derived revenue mainly from providing information planning and design, software development, system integration and project-based systems operation and maintenance services for water management systems. For the year of 2016, 2017 and 2018, the revenue of the Target Group amounted to approximately RMB51,007,000, RMB10,066,000 and RMB73,106,000 respectively.

For the two years ended 31 December 2017, the revenue of the Target Group was mainly derived from system integration which were relating to sales and installation of traditional system for the purpose of flood prevention, drought control and water environment management. The Target Group recorded a relatively low revenue for FY2017, mainly due to its plan to introduce new investor into the Company, namely Qinghai Haiqing, who had decided to concentrate the Target Group's resources to implement the new business strategies to i) increase product offerings that ride on the potential industry growth brought by favourable government policy; and ii) to expand customer base to more affluent cities in East China, which led to a substantial increase in revenue for FY2018 and aimed to achieve future growth.

Results of the Relevant Periods

For the financial years ended 31 December 2016, 2017 and 2018, the (loss)/profits of the Target Group amounted to approximately (RMB7,883,000), (RMB13,495,000) and RMB20,342,000 respectively.

Loss for FY2017 increased by RMB5,612,000 or approximately 71.2% from FY2016, mainly due to the hysteresis effect of the new marketing strategy adopted by the Company in 2017 which lead to significant drop in revenue. Profits for FY2018 increased by RMB33,837,000 or approximately 250.7% from FY2017, mainly due to the significant increase in sales as the success of the new marketing strategy began to show.

Assets and liabilities

Set out below is the financial position of the Target Group for the Relevant Periods as extracted from the accountants' report set out in Appendix II part 1 of the circular:

	31 December 2016 *(audited)*	**31 December 2017** *(audited)*	**31 December 2018** *(audited)*
(RMB '000)			
Non-current assets	9,301	7,729	5,363
Current assets	70,448	139,693	155,826
Total assets	79,749	147,422	161,189
Non-current liabilities	—	—	—
Current liabilities	23,512	17,680	10,125
Total liabilities	23,512	17,680	10,125
Net Assets	56,237	129,742	151,064

Increase in net assets of approximately RMB73,505,000 from FY2016 to FY2017 was mainly attributable to the 60 million shares private placement of the Target Company completed in 2017 which raised approximately RMB87 million.

The increase in net assets from approximately RMB129,742,000 as at 31 December 2017 to approximately RMB151,064,000 as at 31 December 2018 was mainly due to the significant increase of sales and net profit in 2018 as compared to 2017.

At 31 December 2016, the Target Group had amount due to a director totalling RMB150,000. The amount due to a director was unsecured, non-interest bearing and repayable on demand. The amount was subsequently settled in the following financial year.

Current ratio

The current ratios of the Target Group (total current assets divided by total current liabilities) were approximately 790.1% and 1,539.0% as at 31 December 2017 and 31 December 2018, respectively. The increase in the current ratio was mainly due to significant growth in sales in 2018 which leads to increase in contract assets.

Gearing ratio

The gearing ratio of the Target Group (total debts divided by total assets) were both 0% as at 31 December 2017 and 31 December 2018, respectively. The gearing ratio remained very low during the period due to fund raised from the private placement in 2017 which help to provide enough capital resources for the Target Company to grow during the period.

Leverage ratio

The leverage ratios of the Target Group (total liabilities divided by total assets) were approximately 12.0% and 6.3% as at 31 December 2017 and 31 December 2018, respectively. The significant decrease in the leverage ratio was mainly due to strong sales and net profit growth in 2018 which translated to growth in total assets.

Capital structure

The Target Group's policy regularly monitors the Target Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2016, 2017 and 2018, bank balances carried at prevailing market rates of 0.03%, 0.43%, 0.41% per annum respectively. Please refer to note 21 of the Accountants' Report on disclosure of cash and bank balances.

At 31 December 2018, financial assets at fair value through profit or loss of RMB65,241,000 were deposit placements with banks in the PRC because the Target Group improved its risk control and the return of its excessive cash through buying structured financial products to earn higher than floating rate deposits return. The bank guaranteed 100% of the invested principal amount and returns of which are determined by reference to the change in gold benchmark price quoted in the Shanghai Gold Exchange as specified in the relevant deposit placements. The principal amount and returns are determined by reference to the performance of financial indicator as specified in the relevant deposit placements. The annual interest rate is dependent on the duration of placement. Please refer to note 20 of the Accountants' Report on the disclosure of financial assets at fair value through profit or loss.

Pledge of assets

As at 31 December 2016, 2017 and 2018, pledged bank deposits of RMB208,000, RMB34,000 and RMB768,000 respectively have been pledged to banks to secure certain projects and will be released upon completion of services pursuant to the agreements. The pledged bank deposits are classified as current asset as these projects will be completed within one year pursuant to the agreement. The pledged bank deposits carried interest at fixed rates ranged from 0.3% to 1.5%, 0.3% to 1.6% and 0.3% to 1.6% per annum as at 31 December 2016, 2017 and 2018 respectively.

Contingent liabilities

As of 31 December 2016, 31 December 2017 and 31 December 2018, the Target Group had no material contingent liabilities.

Capital commitments

As of 31 December 2016, 31 December 2017 and 31 December 2018, the Target Group had no capital commitments.

Foreign exchange exposure

As of 31 December 2016, 31 December 2017 and 31 December 2018, the Target Group had no foreign exchange exposure.

Material acquisition or disposal

During the year ended 31 December 2017, Guizhou Intelligent was disposed to two independent third parties for total consideration of RMB6,400,000 and a respective gain on disposal of approximately RMB612,000 was recognized. Please refer to note 16 of the Accountants' Report on the disclosure of the disposal.

Employees and remuneration policies

As of 31 December 2016, 31 December 2017 and 31 December 2018, the Target Group had 76, 63, and 88 employees, respectively. During the year ended 31 December 2017 and the year ended 31 December 2018, the salaries and other benefits (including directors' emoluments) of the Target Group were approximately RMB8,226,000 and RMB12,194,000, respectively. The salaries and other benefits of the Target Group include basic salaries, wages, allowances, performance based bonuses and retirement benefit scheme contributions. The remuneration packages of the employees are determined based on their work performance, human resource market conditions and economic environment. The remuneration policies are reviewed on a regular basis. The Target Group offers internal trainings to the employees for their self-elevation and improvement on skills related to their positions.

Future plans for material investments and capital assets

As at the Latest Practicable Date, the Target Group did not have any future plans for material investments and capital assets.

艾華迪集團 AVISTA GROUP

STRICTLY CONFIDENTIAL Ref. No.: J18-0415

The Board of Directors
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Yangxun Qiao Town,
Keqiao Qu, Shaoxing City,
Zhejiang Province, The PRC

24 April 2019

Dear Sirs / Madams,

Re: Valuation of 41.67% equity interest of Beijing Tepia Technology Co., Ltd.

In accordance with your instructions, we have conducted a business valuation in connection with the fair value of 41.67% equity interest (the "**Equity Interest**") of Beijing Tepia Technology Co., Ltd.* (the "**Target**") as of 28 February 2019 (the "**Valuation Date**"). We understand that Zhejiang Yongan Rongtong Holdings Co., Ltd.* (the "**Company**" or "**you**") intends to acquire the Equity Interest of the Target (the "**Proposed Acquisition**").

It is our understanding that this appraisal will be used as reference to your determining the price for the purchase of the Target and, where relevant, for disclosure purpose under the requirement of the listing rules of the Hong Kong Stock Exchange (the "**Listing Rules**"). This report (the ''**Report**'') does not constitute an opinion on the commercial merits and structure of the Proposed Acquisition. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions, explains the analysis methodology adopted in this appraisal process to calculate the value, also the additional supporting documentation has been retained as a part of our work papers.

BASIS OF ANALYSIS

We have appraised the fair value of 41.67% equity interest of the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

COMPANY BACKGROUND

Founded in 1998, the Company together with its subsidiaries manufactures and sells woven fabrics in the People's Republic of China. It offers cotton, polyester, and fashion fabrics. The company also provides subcontracting services and private equity asset management services. It exports its products to the United States, Europe, South Africa, and Arabic countries.

Beijing Tepia Technology Co., Ltd.* is a company incorporated in China. The Target, together with its subsidiaries, are 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, and is listed on the NEEQ (Stock Code: 838941) and based in Beijing, the PRC.

We understand that the Company intends to acquire the Equity Interest of the Target. As such, the Company would like to assess the fair value of the Equity Interest of the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company to understand the history, business model, operations, customer base, business development plan, etc. of the Target for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Target made available to us and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the Target; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and its authorized representatives.

INDUSTRY OVERVIEW

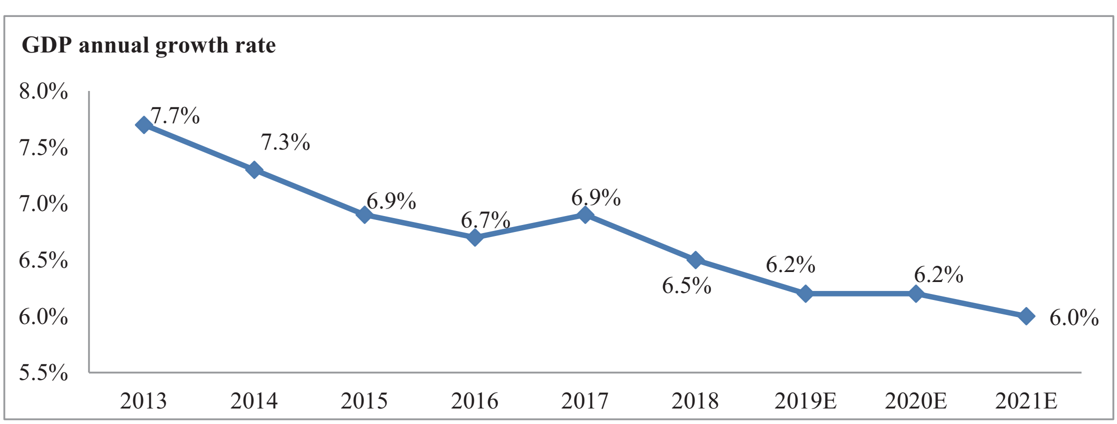
China's Macroeconomic Overview

China's gross domestic product ("**GDP**") growth has been slowing down over the past 5 years. According to the National Bureau of Statistics, China's year-on-year GDP growth decreased to 6.5% in 2018, from 6.9% in 2017. The world's second-largest economy has been slowing down its economic growth and shows a stabilizing trend.

The trade dispute between China and the U.S. has been an uncertainty to China's economy in the future. Meanwhile, the China government is trying to balance a crackdown on high debt levels while also maintaining economic growth by other policies including tax cut and infrastructure spending. While reducing reliance on debt would benefit the economy in the long run, it likely means a slower pace of growth than the country has seen in recent years.

China's GDP reached RMB 90.03 trillion in 2018, with the service sector accounting for more than half of the total. Consumption was the major growth driver, contributing 76.2% to GDP growth in 2018.

Figure 1: China's GDP Annual Growth Rate, 2013-2021E



Source: The World Bank Group

China's Water Resource Management Industry

According to the published information, China is one of the most water-deficient countries in the world. In 2017, China's total water resources was 2,867.5 billion tonnes, while per capital water resources of China was merely 2,059.2 tonnes, approximately one-third of the global average. Water resources are unevenly distributed in China. Generally, water resources are more abundant in South West China and South China where natural water resources are relatively more affluent. Chinese government has encouraged professional social capital to conduct water environment management projects to manage water resources. These projects generally aim for the water environmental treatment of an entire river basin or watershed, including river or water basin treatment by ecological remediation, river dredging, riverside landscape construction, etc. and relevant wastewater treatment. The annual contract value of water environmental management market experienced a significant growth from RMB12.0 billion in 2013 to RMB118.6 billion in 2017, representing a compounded annual growth rate of 58.1%.

In 2018, the market demand for water environment governance was rapidly driven by policies, including the rural water environment management and comprehensive river basin improvement. According to the published information from the Asian Development Bank, floods are the costliest natural hazard-induced disaster in China. Annual economic loss due to floods in China is estimated at about US$20 billion, and the loss trend has been escalating by 7% since 1990. While China is pioneering flood preventive measures, the forecasting and early warning system in China in general, is still at its primary stage of development. In December 2017, the Ministry of Water Resources of China issued the "National Flash Flood Disaster Prevention Project Implementation Plan (2017-2020) <全國山洪災害防治項目2017-2020年實施方案>", which prioritizes flash flood monitoring and warning provisions nationwide.

In addition, pursuant to China's 13th Five-Year Plan, the Chinese government aims to promote the application of modern information technology, the modernization of collection, transportation, storage and processing of water resources information, and comprehensive improvement of the efficiency of water resources business activities. It also promotes the construction of water resources monitoring and management system and establishment of water metering facilities and online real-time monitoring systems.

LIMITATIONS OF THE REPORT

The Report serves as reference to your determining the price for the purchase of the Target and, where relevant, for a basis for disclosure purpose under the requirement of the Listing Rules. We will not be liable for any unauthorized use of the report. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Acquisition. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Acquisition. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Acquisition and such remain the sole responsibility of the Directors and the management of the Company.

We understand that the financial advisor of the Company may require the Report for their internal reference only. They will perform their own separate analysis to satisfy their role and responsibility. Our work and the Report are not meant to substitute their own procedures to substantiate the opinion they are required to render.

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

VALUATION ASSUMPTIONS OF EQUITY VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the business risks of the Target;
- the price multiples of the comparable companies engaging in business operations similar to the Target;
- the experience of the management team of the Target and support from its shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target; and
- There is no material change in the financial positions of the Target and the comparable companies between the respective financial reporting dates and the Valuation Date.

We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity value of the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target:

Income Approach	The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.
Cost Approach	The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.
Market Approach	The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset. Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity value of the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in the current appraisal as it fails to consider the economic benefits of ownership of the business. We considered the consolidated net book value of the Target as of the Valuation Date may not truly reflect the value of its equity interests, as part of value will be attributed to future benefit of the Target, deriving from providing wealth management services to its clients.

- Income Approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in a similar nature and business to that of the Target, their market values are good indicators of the industry. Therefore, Market Approach has been adopted in this valuation.

By adopting market approach, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes. They are selected with mainly with reference to the following selection criteria:

- The primary industry of the companies is under software service;

- The companies are involved in system integration or software development or related businesses;

- Over 50% of the total revenue are generated from system integration or software development or related businesses;

- Over 50% of the total revenue are generated in China;

- The companies are listed on the Stock Exchange of Hong Kong;

- The financial information of the companies is available to the public.

Details of the comparable companies are listed as follows:

Company Name	Stock Code	Listing Location	Business Description
Asiainfo Technologies Limited	SEHK:1675	Hong Kong	Asiainfo Technologies Limited, an investment holding company, provides telecom software products and related services for the cable TV, postal, and financial services industries in the People's Republic of China.
Capinfo Company Limited	SEHK:1075	Hong Kong	Capinfo Company Limited provides online application and system integration services in the People's Republic of China. The company offers various industry solutions, including e-government, health care, community service, urban transportation, housing fund, public security, and cloud service solutions.
Chinasoft International Limited	SEHK:354	Hong Kong	Chinasoft International Limited, together with its subsidiaries, develops and provides information technology (IT) solutions, IT outsourcing and emerging, and training services. It operates through Technical Professional Services Group and Internet IT Services Group segments.
Digital China Holdings Limited	SEHK:861	Hong Kong	Digital China Holdings Limited, an investment holding company, provides information technology (IT) services primarily in Mainland China. It operates in three segments: DCITS, Supply Chain Services, and New Business. The company offers proprietary software, services, cloud computing, and big data analysis with the strategy of integrating Sm@rt city and Sm@rt agriculture.

Company Name	Stock Code	Listing Location	Business Description
IBO Technology Company Limited	SEHK:2708	Hong Kong	IBO Technology Company Limited, an investment holding company, sells radio frequency identification (RFID) equipment and electronic products in the People's Republic of China. It operates through four segments: Intelligent Terminal Products Sales, System Integration, Software Development, and System Maintenance Services.
Inspur International Limited	SEHK:596	Hong Kong	Inspur International Limited, an investment holding company, engages in the software development and provision of outsourcing software services in the People's Republic of China. The company operates through Enterprise Resource Management Business and Software Outsourcing Business segments.
Jiangsu NandaSoft Technology Company Limited	SEHK:8045	Hong Kong	Jiangsu NandaSoft Technology Company Limited, together with its subsidiaries, sells computer hardware and software products primarily in the People's Republic of China. The company operates through three segments: Computer Hardware and Software Products; System Integration Service; and Property Investment.
Sinosoft Technology Group Limited	SEHK:1297	Hong Kong	Sinosoft Technology Group Limited, an investment holding company, provides software development and system integration; and sells related computer products and related services in the People's Republic of China. It operates through Tax Software and Related Services, e-Government Solutions, Carbon Management Solutions, and System Integration Solutions segments.

Source: S&P Capital IQ

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-earnings ("**P/E**"), price-to-book ("**P/B**") and enterprise value/earnings before interests, taxes, depreciation and amortization("**EV/EBITDA**") multiples.

The price-to-book multiple is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any market value added (as reflected by a price-to-book ratio of larger than 1), should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the price-to-book ratio and so in general, the equity's book value has little bearing with its fair value. Thus, the price-to-book is not a good measurement of the fair value of a company.

The P/E multiple is considered not appropriate for this valuation because it does not capture differences in financial leverage and related risk features across the companies. They also comprise non-cash items in earnings, such as depreciation and amortization of fixed assets.

Therefore, EV/EBITDA multiple is considered to be the most appropriate indicator of the fair values of the Comparable Companies, as this multiple eliminates the difference in capital structure, taxation and deprecation methods. Hence, it is adopted in the valuation of the Target. Enterprise Value is generally derived based on the market capitalization of a company, plus net debt (total debt minus cash and short-term investment), minority interest and preferred shares.

The EV/EBITDA multiples of comparable companies are as follows:

No.	**Company Name**	**Exchange: Ticker**	**EV/EBITDA Before LOMD** [(1)]
1	Asiainfo Technologies Limited	SEHK:1675	11.7
2	Capinfo Company Limited	SEHK:1075	3.2
3	Chinasoft International Limited	SEHK:354	11.8
4	Digital China Holdings Limited	SEHK:861	43.9
5	IBO Technology Company Limited	SEHK:2708	8.2
6	Inspur International Limited	SEHK:596	N/A[(2)]
7	Jiangsu NandaSoft Technology Company Limited	SEHK:8045	N/A[(3)]
8	Sinosoft Technology Group Limited	SEHK:1297	9.9
	Maximum		43.9
	Minimum		3.2
	Median		10.8

Notes:

(1) Data sourced from S&P Capital IQ database. The enterprise values of the comparable companies are computed based on the market capitalization of the companies as of 28 February 2019. EBITDA data are based on the trailing 12-month financial data of the comparable companies available as of the Valuation Date.

(2) The EV/EBITDA multiple of the subject company is considered to be an outlier and hence is not adopted.

(3) Since the subject company is loss making, there is no meaningful multiple being determined.

Valuation Parameters

(in RMB'000 unless otherwise specified)

EBITDA of the Target [1]	18,043
Adopted EV/EBITDA multiple	10.8
Estimated 100% Enterprise Value of the Target	194,302
Add: Cash or cash equivalent [1]	8,237
Less: Minority Interest [1]	(371)
Add: Other Financial Asset [2]	65,241
Estimated 100% Equity Value of the Target based on EV/EBITDA (marketable and non-controlling basis)	267,409
Less: Lack of Marketability Discount ("LOMD") [3]	(42,251)
Adjusted 100% Equity Value of the Target based on EV/EBITDA (non-marketable and non-controlling basis)	225,159
Estimated 41.67% Equity Value of the Target (non-marketable and non-controlling basis)	93,824

* *Totals may not foot due to rounding.*

Notes:

(1) EBITDA is based on the latest financial information for the year ended 31 December 2018 provided by the Management, which is calculated by the gross profit deducted by the selling and distribution expenses, administrative expenses and adjusted by the depreciation and amortization expenses, with non-operating income and expenses being excluded.

(2) Other Financial Asset refers to certain debt securities issued by banks, which is considered to be non-operating assets to be included in the determination of the equity value of the Target.

(3) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As of the Valuation Date, the Target is listed on National Equities Exchange and Quotations. Given that the shares of the Target are thinly traded while the EV/EBITDA multiple adopted in the valuation was calculated from public listed companies which are marketable ownership interest traded in the market, it is considered to be appropriate to adopt LOMD to adjust such marketable interest fair value to non-marketable interest fair value of the Target.

In this valuation exercise, we applied the 15.8% LOMD on the Target. The discount rate is with reference to the research result as published in 2018 edition of Stout Restricted Stock Study Companion Guide, a research study to assist the valuation profession in determining DLOM and is based on 744 private placement transactions of unregistered common issued by publicly traded companies from July 1980 through September 2017. We have reviewed an extract of 2018 edition of Stout Restricted Stock Study Companion Guide and noted that the overall median for the 744 abovementioned transactions in the study was 15.8%. Given that the 2018 edition of Stout Restricted Stock Study Companion Guide is an independent research study report which is designed to assist the valuation professional charged with determining DLOM, we concur with the view of the Independent Valuer that the DLOM of 15.8% as set out in 2018 edition of Stout Restricted Stock Study Companion Guide is a valid reference for determining the DLOM for the Target and the DLOM of 15.8% applied to the valuation of the Target is fair and reasonable.

Valuation Result

Estimated 41.67% Equity Value of the Target based on EV/EBITDA (RMB'000)	93,824
RMB/HKD exchange rate as of the Valuation Date ^	1.1727
Estimated 41.67% Equity Value of the Target based on EV/EBITDA (HKD'000)	110,027

* *Totals may not foot due to rounding.*

^ *Based on the exchange rate between RMB and HKD as of 28 February 2019.*

CONCLUSION OF VALUE

Based on our investigation and analysis and on the methodology employed, it is our opinion that the fair value of 41.67% equity interest of the Target as of 28 February 2019 is RMB93,824,000 (or HKD110,027,000).

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company, the Target nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Vincent C B Pang
CFA, FCPA (HK), FCPA (Aus.), MRICS
Managing Director

Note: Mr. Vincent Pang is a member of CFA Institute, a fellow member of Hong Kong Institute of Certified Public Accountants and CPA Australia and a member of Royal Institution of Chartered Surveyors. Vincent has over 15-year experience in financial valuation and business consulting in Hong Kong and China.

GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.

- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the property appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.

- We have not verified particulars of property, including their areas, sizes, dimensions, and descriptions, which we have used or have referred to in connection with the preparation of this Report, unless otherwise stated in this Report. Any information regarding areas, sizes, dimensions, and descriptions of property mentioned in this Report are for identification purposes only, and no one should use such information in any conveyance or other legal document. Any plans or graphical illustrations presented in this Report are intended only for facilitating the visualization of the property and its surroundings and such plans or graphical illustrations should not be regarded as a survey or a scale for size.

- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.

- This Report has been prepared solely for the use or uses stated. Except for extraction of or reference to the Report by the Company, its financial advisor and/or its independent financial advisor for their respective work in relation to the Proposed Acquisition, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.

- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report. Except for disclosure in the Circular in relation to the Proposed Acquisition, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organizations with which they are affiliated or the designations awarded by those organizations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- No environmental impact study has been carried out, unless otherwise stated in this Report. We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organizations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.

- Unless otherwise stated in this Report, the value estimate set out in this Report excludes the impact of presence of any harmful substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials or of structural damage or environmental contamination. For purposes of evaluating potential structural and/or environmental defects, where their existence could have a material impact on value of the property, we would recommend that advices from the relevant experts, such as a qualified structural engineer and/or industrial hygienist, should be sought.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Directors', supervisors' and chief executives' interests in Shares

As at the Latest Practicable Date, Ms. He Lianfeng and her spouse totally had 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, is a manager of the internal audit department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongan are associated corporations (within the meaning of Part XV of the SFO) by virtue of being a holding company of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, (i) 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 under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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' interests in Shares

As at the Latest Practicable Date, so far as it is known to the Directors, 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, chief executive or supervisors of the Company, 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, pursuant to section 336 of Part XV of the SFO were as follows:

Long positions in the Shares

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 *(Note)*	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation *(Note)*	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse *(Note)*	588,000,000	100.00%	55.29%

Note: 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

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Share	Approximate percentage of interests in total registered capital
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.60%

Save as disclosed above, as at the Latest Practicable Date, 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) had 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.

3. COMPETING INTERESTS

As at the Latest Practicable Date, 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.

4. DIRECTORS' AND SUPERVISORS' OTHER INTERESTS

There was no contract or arrangement subsisting as at the Latest Practicable Date in which any Director or supervisor of the Company was materially interested and which was significant in relation to the business of the Group.

As of the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which has been since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group.

5. LITIGATION

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, no member of the Group was engaged in any litigation or claims of material importance, and no such litigation or claim of material importance was known to the Directors to be pending or threatened by or against any members of the Group.

6. DIRECTORS' AND SUPERVISORS' SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

7. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have been named in this circular:

Name	Qualifications
Innovax Capital	A licensed corporation to carry out type 1 (dealing in securities), and type 6 (advising on corporate finance) regulated activities under the SFO
Shinewing (HK) CPA Limited	Certified public accountants
AVISTA Valuation Advisory Limited	Independent valuer

Each of Innovax Capital, Shinewing (HK) CPA Limited and AVISTA Valuation Advisory Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or report(s) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, neither Innovax Capital, Shinewing (HK) CPA Limited nor AVISTA Valuation Advisory Limited had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, neither Innovax Capital, Shinewing (HK) CPA Limited nor AVISTA Valuation Advisory Limited had any interest, direct or indirect, in any assets which since 31 December 2018, the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter and recommendation from the Independent Financial Adviser dated 24 April 2019 were given by Innovax Capital, the accountant's reports of the Target Group dated 24 April 2019 and the unaudited pro forma financial information of the Enlarged Group dated 24 April 2019 were given by Shinewing (HK) CPA Limited, and the valuation report dated 24 April 2019 was given by AVISTA Valuation Advisory Limited, for incorporation herein.

8. GENERAL

a) The English text of this circular shall prevail over the Chinese text.

b) The company secretary of the Company is Ms. Chen Yen Yung.

c) The compliance officer of the Company is Mr. Hu Hua Jun.

d) The head office of the Company and principal place of business in Hong Kong is situated Suites 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

e) The H-share registrar and transfer office of the Company is Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

a) the equity transfer agreement dated 11 April 2017 entered into between the Company and Guizhou Yongan in relation to the Company's acquisition of 100% equity interest in 貴州安恒永晟投資管理有限公司 (Guizhou Anheng Yongcheng Investment Management Company, Ltd.*) at a consideration of RMB10,000,000;

b) the limited partnership agreement (the "Limited Partnership Agreement") entered into among the Company, 深圳市匯通金控基金投資有限公司 (Shenzhen Huitong Jinkong Funds Investment Co., Ltd.*) ("Shenzhen Huitong"), 福建實達集團股份有限公司 (Fujian Start Group Co. Ltd.*) ("Fujian Start") (as Limited Partners) and 深圳南山永晟實達股權投資基金管理有限公司 (ShenZhen NSYSSD Capital Equity Investment Management Ltd.) ("Shenzhen NSYSSD") (as General Partner) on 1 September 2017 in relation to the formation of the 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)*), a limited partnership established under the laws of the PRC;

c) the first supplemental agreement to the Limited Partnership Agreement dated 9 November 2017 entered into among the Company, Shenzhen Huitong, Fujian Start and Shenzhen NSYSSD in relation to the amendments of certain terms of the Limited Partnership Agreement;

d) the purchase contract dated 8 June 2018 entered into among the Company, CNBM General Technology Co., Ltd. and Picanol N.V. in relation to the Company's purchase of 80 sets of rapier weaving machine (for use by the Group in the manufacturing of woven fabrics) for a consideration of ECU4,108,000 (equivalent to approximately RMB31,014,000 and approximately HK$38,017,000) (the "Purchase Contract");

e) the second supplemental agreement to the Limited Partnership Agreement dated 14 September 2018 entered into among the Company, Shenzhen Huitong, Fujian Start and Shenzhen NSYSSD in relation to the further amendments of certain terms of the Limited Partnership Agreement;

f) the supplemental agreement to the Purchase Contract dated 6 December 2018 entered into between the Company, 浙江永譽紡織有限責任公司 (Zhejiang Yongyu Textile Co., Ltd.*) ("Yongyu"), a wholly owned subsidiary of the Company, Picanol N.V. and CNBM General Technology Co., Ltd., to amend certain terms of the Purchase Contract, including, among others, Yongyu shall replace the Company as the purchaser to the Purchase Contract;

g) a sale and purchase agreement dated 26 December 2018 entered into between the Company as the purchaser and 紹興柯橋南馬機械製造有限公司 (Shaoxing Keqiao Nanma Machinery Manufacturing Co., Limited*) ("Keqiao Nanma") as the seller for the sale and purchase of 80 units of high-speed intelligent large package double twisting machine (高速智能大卷裝倍捻機) at a consideration of RMB16,000,000 ("Equipment Purchase Agreement");

h) a termination agreement dated 2 February 2019 entered into between the Company and Keqiao Nanma to terminate the Equipment Purchase Agreement; and

i) the Formal Agreement.

10. AUDIT COMMITTEE

The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors, review quarterly report of the compliance department's findings, meet with external auditor regularly and provide advices and comments to the Directors. As at the Latest Practicable Date, the audit committee of the Company comprised of three independent non-executive Directors, Namely, Mr. Wang Hui, Mr. Song Ke and Mr. Wang Zhong. Mr. Wang Hui is the chairman of the Audit Committee.

Brief biographies of the independent non-executive Directors are set out below:

Mr. Song Ke (宋科先生), aged 36, is currently an independent non-executive Director of the Company. He has served as an assistant to the dean of The School of Finance of Renmin University of China since January 2018, as a deputy professor and an assistant professor in the Faculty of Currency Finance of The School of Finance of Renmin University of China* (中國人民大學財政金融學院貨幣金融系) since September 2015, and as the council director and deputy director of the International Monetary Institute of Renmin University of China* (中國人民大學國際貨幣研究所) since January 2014. Mr. Song served as league secretary general of The School of Finance of Renmin University of China* (中國人民大學財政金融學院) from July 2004 to September 2009 and post-doctorate of School of Statistics of Renmin University of China* (中國人民大學統計學院) from July 2012 to July 2015, and he was assigned as deputy commissioner of the Banking Commission of the Guizhou People's Government Finance Office* (貴州省政府金融辦銀行處) from November 2012 to December 2013. He graduated from The School of

Finance of Renmin University of China (Beijing, China)* in July 2004, majoring in finance and obtained a bachelor's degree in economics. He continued his master and doctoral studies at The School of Finance of Renmin University of China (Beijing, China)* from September 2006 to July 2012, and obtained a doctoral degree in economics. Mr. Song has been appointed as the external supervisor of Bank of Zhengzhou Co., Ltd. (stock code: 6196) since 19 May 2017. He has been appointed as an independent non-executive Director of the Company at an extraordinary general meeting of the Company held on 12 December 2017.

Mr. Wang Zhong (王中先生), aged 51, is currently an independent non-executive Director of the Company. He graduated from the Law School of Renmin University of China* (中國人民大學法學院) with a bachelor's degree in law and graduated from the Business School of China University of Political Science and Law* (中國政法大學商學院) with a master's degree in business administration (MBA). He practiced in Beijing Zhong Lun Law Firm* (北京中倫律師事務所) from September 1993 to June 1994. From July 1994 to June 1998, he practiced in and as a partner of Beijing Li Wen & Partners Law Firm* (北京李文律師事務所). He has been practiced in and as a partner of Beijing Wu Huan Law Firm* (北京市五環律師事務所) since July 1998. He is the licensed lawyer in the PRC and has the PRC securities legal business qualification, the PRC senior management of listed companies (independent director) qualification and the PRC practicing qualification in the fund industry. He has been appointed as an independent non-executive Director of the Company at an extraordinary general meeting of the Company held on 12 December 2017.

Mr. Wang Hui (王暉先生), aged 47, is currently an independent non-executive Director of the Company. He graduated from the auditing profession of Jianghan University* (江漢大學) in 1992. He also obtained a bachelor's degree in monetary banking and a master's degree in business administration (MBA) in 1998 and 2007, respectively from Zhongnan University of Economics and Law* (中南財經政法大學). He worked with Daxin CPA Company Limited* (大信會計師事務有限公司) as a senior audit manager from July 1993 to May 2005. From May 2006 to February 2009, he served as the financial director of Wuhan Hi-tech Venture Development Company Limited* (武漢高技術創業發展股份有限公司). From May 2009 to September 2011, he acted as the chief financial officer of Guangzhou Hi-Target Navigation Tech Co., Ltd.* (廣州中海達衛星導航技術股份有限公司), a PRC company listed on the ChiNext of the Shenzhen Stock Exchange (stock code: 300177). From September 2011 to February 2016, he was a vice president and a chief financial officer of Shenzhen Gongjin Electronics Co., Ltd.* (深圳市共進電子股份有限公司), a PRC company listed on the main board of the Shanghai Stock Exchange (stock code: 603118), and also as a deputy general manager of Shenzhen Gongjin Investment Management Co., Ltd.* (深圳市共進投資管理有限公司), a subsidiary of Shenzhen Gongjin Electronics Co., Ltd.*. From September 2016 to July 2017, he served as the vice president of finance and secretary of the board of Wuhan Qimi Network Technology Co., Ltd.* (武漢奇米網絡科技有限公司). Since July 2017, he has been the chief financial officer of Orsun Group Co., Ltd.* (奧山集團有限公司). He is a PRC certified public accountant and has the PRC securities and futures auditing business qualification. He has been appointed as an independent non-executive Director of the Company at an extraordinary general meeting of the Company held on 12 December 2017.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (other than Saturdays and public holidays) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the head office and principal place of business of the Company in Hong Kong at Suites 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, from the date of this circular up to and including 10 May 2019:

a) the memorandum and articles of association of the Company;

b) the letter from the Board dated 24 April 2019, the text of which is set out on pages 5 to 17 of this circular;

c) the letter from the Independent Board Committee dated 24 April 2019, the text of which is set out on pages 18 to 19 of this circular;

d) the letter from the Independent Financial Adviser dated 24 April 2019, the text of which is set out on pages 20 to 34 of this circular;

e) the accountants' report on the Target Group, the text of which is set out on Appendix II of this circular;

f) the report of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

g) the valuation report from the Independent Valuer dated 24 April 2019, the text of which is set out on Appendix V of this circular;

h) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018;

i) the written consent referred to in the section headed "Experts and consents" in this appendix;

j) the material contracts referred to in the section headed "Material contracts" in this appendix; and

k) a copy of this circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("**EGM**") of Zhejiang Yongan Rongtong Holdings Co., Ltd.* (the "**Company**") will be held at the Conference Room of the Office Building of the Company at Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the People's Republic of China (the "**PRC**") at 10:00 a.m. on Monday, 10 June 2019 for the purpose of transacting the following businesses:

ORDINARY RESOLUTION

To consider and, if thought fit, to pass with or without modification the following ordinary resolution:

1. "**THAT**:

(a) the share transfer agreement dated 18 March 2019 (the "**Formal Agreement**") entered into between Shenzhen Yongan Huiju Water Technology Co., Ltd.*（深圳永安慧聚水務科技有限公司）, a wholly-owned subsidiary of the Company, as the purchaser and Qinghai Haiqing New Energy Technology Co., Ltd.*（青海海清新能源科技有限公司）, a subsidiary of Guizhou Yongan Finance Holdings Company Limited* (貴州永安金融控股股份有限公司), as the vendor in relation to, among other things, the acquisition of 41.67% of the total issued share capital of Beijing Tepia Technology Co., Ltd.*（北京太比雅科技股份有限公司）at a consideration of RMB90 million upon and subject to the terms and conditions set out therein (a copy of the Formal Agreement has been produced to the EGM marked "A" and signed by the chairman of the EGM for identification purpose), and the transactions contemplated thereby be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company ("**Director(s)**") be and is hereby authorised, for and on behalf of the Company, to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts and things on behalf of the Company as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with (i) the implementations and completion of the Formal Agreement and transactions contemplated thereunder; and/or (ii) any amendment, variation or modification of the terms of the Formal Agreement upon such terms and conditions as such Director may think fit."

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

Zhejiang, the PRC, 24 April 2019

Notes:

1. The H shares ("H Shares") register of members of the Company will be closed from 11 May 2019 to 10 June 2019 (both days inclusive), during which period no transfer of H Shares will be effected. The shareholders of H Shares whose names appeared on the register of members of the Company on Monday, 10 June 2019 will be entitled to attend and vote at the EGM. In order to qualify for attendance and voting at the EGM, all transfer documents accompanied by share certificates must be lodged with the H share registrar of the Company in Hong Kong, Union Registrars Limited ("H Share Registrar") at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by no later than 4:00 p.m. on Friday, 10 May 2019.

2. Any shareholder of H Shares and domestic shares of the Company ("Domestic Shares") entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and vote at the EGM on his/her behalf in accordance with the Articles of Association of the Company. A proxy need not be a holder of H Shares or Domestic Shares.

3. In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be delivered, for holders of H Shares, to the office of the H Share Registrar 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 Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, the PRC not less than 24 hours before the time for holding the EGM (or any adjourned meeting thereof) or 24 hours before the time appointed for taking the poll.

4. Holders of H Shares and Domestic Shares or their proxies shall produce their identity documents when attending the EGM.

5. Holders of H Shares and Domestic Shares who intend to attend the EGM shall complete and lodge the reply slip for attending the meeting at the Company's H Share Registrar and the Company's legal address, respectively on or before Tuesday, 21 May 2019. The reply slip may be delivered to the Company by hand, by post or by fax (at fax No.: (86) 575-84576060).

6. The EGM is not expected to take more than half a day. Shareholders or their proxies attending the EGM shall bear their own traveling and accommodation expenses.

7. The legal address of the Company and the details of the secretarial office of the Board are as follows:-

Yangxun Qiao Town, Keqiao Qu, Shaoxing, Zhejiang Province, The PRC

Postal Code: 312028
Tel: (86) 575-84570099
Fax: (86) 575-84576060
Contact person: Mr. Hu Hua Jun

8. As required under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the above resolutions will be decided by way of poll.

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

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice 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 notice misleading.

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

* *For identification purpose only*