

FIRST QUARTERLY REPORT 2019



YONGAN HOLDINGS

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

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

Stock Code: 8211

**For identification purpose only*

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

HIGHLIGHTS

For the three months ended 31 March 2019,

- revenue of the Group increased from approximately RMB27.17 million to approximately RMB34.23 million, representing an increase of approximately 26% when compared to the corresponding period in 2018;
- net loss was approximately RMB4.31 million; and
- the Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2019.

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

For the three months ended 31 March 2019

The board of directors (the “Board” or the “Directors”) of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.*) (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2019 together with the comparative results for the corresponding period in 2018 as follows:

		Three months ended	
		31 March	
		2019	2018
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
Revenue	3	34,227	27,166
Cost of sales		<u>(31,908)</u>	<u>(24,488)</u>
Gross profit		2,319	2,678
Other income and gains	3	136	248
Selling and distribution costs		(560)	(404)
Administration expenses		(4,364)	(2,745)
Financial costs	4	<u>(1,482)</u>	<u>(1,603)</u>
Loss before taxation		(3,951)	(1,826)
Income tax expenses	5	<u>(357)</u>	<u>(243)</u>
Loss for the period	6	(4,308)	(2,069)
Other comprehensive expenses for the period, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Adjustment on gain on revaluation of properties		<u>—</u>	<u>(80)</u>
Total comprehensive expenses for the period		<u>(4,308)</u>	<u>(2,149)</u>
		RMB	<i>RMB</i>
Loss per share — basic and diluted	8	<u>(0.41) cents</u>	<u>(0.19) cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital	Share premium	Other reserve	Assets revaluation reserve	Statutory surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000 (Note(a))	RMB'000	RMB'000 (Note (b))	RMB'000 (Note (c))	RMB'000
At 1 January 2018 (as restated)	106,350	69,637	331,664	37,431	12,496	(262,175)	295,403
Loss for the period	—	—	—	—	—	(2,069)	(2,069)
Adjustment for gain on revaluation of properties, net of tax	—	—	—	(80)	—	—	(80)
Other comprehensive expenses for the period	—	—	—	(80)	—	—	(80)
Total comprehensive expenses for the period	—	—	—	(80)	—	(2,069)	(2,149)
Balance at 31 March 2018	<u>106,350</u>	<u>69,637</u>	<u>331,664</u>	<u>37,351</u>	<u>12,496</u>	<u>(264,244)</u>	<u>293,254</u>
At 1 January 2019	106,350	69,637	331,664	39,828	12,496	(265,746)	294,229
Loss for the period	—	—	—	—	—	(4,308)	(4,308)
Total comprehensive expenses for the period	—	—	—	—	—	(4,308)	(4,308)
Balance at 31 March 2019	<u>106,350</u>	<u>69,637</u>	<u>331,664</u>	<u>39,828</u>	<u>12,496</u>	<u>(270,054)</u>	<u>289,921</u>

Notes:

- (a) Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company and immediate holding company of the Company.
- (b) As stipulated by the regulations in the People's Republic of China (the "PRC"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior years losses) to general reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.
- (c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 March 2019 and 2018, no reserves were available for distribution due to accumulated losses being noted.

Notes:

1. BASIS OF PREPARATION

The Company is a joint stock limited company established in the PRC and the H Shares of the Company are listed on the GEM of the Stock Exchange. Its immediate parent is 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) (“Guizhou Yongan”), an enterprise established in the PRC, and the ultimate parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd*) (“Zhejiang Yongli”), which is established in the PRC.

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

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

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2018. The unaudited consolidated results of the Group are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the GEM Listing Rules.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with new and amendments to HKFRSs and interpretation that have been issued by the HKICPA.

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

HKFRS 17	Insurance Contracts ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2020.

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

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND OTHER INCOME AND GAINS

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

	Three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or services lines		
Manufacture and sales of woven fabrics	32,683	25,408
Subcontracting fee income	1,544	1,743
Fund management services fee	<u>—</u>	<u>15</u>
	<u>34,227</u>	<u>27,166</u>
	Three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
At a point in time	32,683	25,408
Over time	1,544	1,758
Total revenue from contract with customers	<u>34,227</u>	<u>27,166</u>
	Three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
Other income and gains		
Interest income	50	54
Investment income	<u>—</u>	30
Sundry income	86	1
Gain on disposal of property, plant and equipment	<u>—</u>	13
Government subsidies (<i>note</i>)	<u>—</u>	33
Sales of scrap materials	<u>—</u>	<u>117</u>
	<u>136</u>	<u>248</u>

Note: Government subsidies of RMB33,000 (2019: Nil) was awarded to the Group during the period ended 31 March 2018 for encouraging the usage of the higher productivity machinery and the participation in exhibitions. There is no unfulfilled condition or contingencies relating to these subsidies.

4. FINANCE COSTS

	Three months ended	
	31 March	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Imputed interest on interest-free loan due to immediate holding company	<u>1,482</u>	<u>1,603</u>

5. INCOME TAX EXPENSES

	Three months ended	
	31 March	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Prior year under-provided - PRC Enterprise Income Tax	<u>357</u>	<u>243</u>

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

No provision for PRC Enterprise Income Tax was made for both periods ended 31 March 2019 and 2018.

6. LOSS FOR THE PERIOD

	Three months ended	
	31 March	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period has been arrived at after charging: Depreciation and amortisation	<u>1,591</u>	<u>1,664</u>

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2019.

8. LOSS PER SHARE

Basic and diluted loss per share for the three months ended 31 March 2019 is calculated on the loss for the period of approximately RMB4,308,000 (2018: loss of approximately RMB2,069,000) and the weighted average of 1,063,500,000 (2018: 1,063,500,000) ordinary shares in issue during the period ended 31 March 2019.

There is no difference between basic and diluted loss per share as there were no potentially dilutive shares outstanding during the three months ended 31 March 2019 and 2018.

9. RELATED PARTY TRANSACTIONS

During the period for the three months ended 31 March 2019, the Group has the following related party transactions and continuing connected party transactions.

- (a) During the period for the three months ended 31 March 2019, the Group had paid approximately RMB3,209,000 (2018: RMB3,976,000) to Zhejiang Yongli for electricity charges paid by Zhejiang Yongli on behalf of the Group.

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

- (b) During the period for the three months ended 31 March 2018, the Group had paid approximately RMB5,000 (2019: Nil) to 浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Printing & Dyeing Company Limited*), a fellow subsidiary of the Company, for providing dyeing services to the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the three months ended 31 March 2019 the Group recorded a revenue of approximately RMB34.23 million, represents an increase of approximately 26% when compared with the same period in 2018. It was mainly due to increase of revenue of both domestic sales and export sales of woven fabrics. Gross profit dropped by approximately RMB359,000 or 13.41% mainly due to increase of cost of sales although there was slightly upward of average selling price during the three months ended 31 Mar 2019 when compared with the same period in 2019. The cost of sales increased by approximately 32.02% for the three months ended 31 March 2019 when compared with the same period in 2018 mainly due to increase of raw material cost.

The selling and distribution costs increased by approximately RMB156,000 or 38.61% for the three months ended 31 March 2019 when compared with the correspondence period in 2018 mainly due to increase of exhibition expenses.

Administrative expenses increased significantly by approximately RMB1.62 million or 58.98% during the three months ended 31 March 2019 when compared with the same period in 2019. It was mainly due to (i) research and development expense and staff retirement funds increased as additional qualify staff were engaged under the research and development department for further enhancing new product development; (ii) loss of sales of scrap materials during the three months ended 31 March 2019; (iii) professional fees for preparing the connected and major transactions, details were disclosed in the circular of the Company dated 24 April 2019 and (iv) provision of property tax.

Other income dropped by approximately RMB112,000 or 45.16% as there was loss instead of gain on sales of scrap materials during the three months ended 31 March 2019 when compared with the same period in 2018.

Finance cost of approximately RMB1.48 million for the three months ended 31 March 2019 represents imputed interest in interest-free loan due to immediate holding company.

The respective loss per share for the three months ended 31 March 2019 and 2018 were approximately RMB0.41 cents and RMB0.19 cents respectively.

Business and operation review

During the three months ended 31 March 2019, both domestic sales and export sales increased by approximately 29.37% and 19.08% respectively. The average selling price increased slightly by approximately 6.29% mainly due to potential customers willing to pay better price for higher quality of woven fabrics from the Group. In 2019, the Group expect that the fellow textile manufacturers has to continue to face the pressures of rising of raw material prices and wages in the PRC. The fluctuation of oil price will also affect the cost of raw materials of the textile industry. In additions, the Directors expect that the increasing trade tension between China and the U.S., may cause impact to the worldwide economies. The Group has to balance the existing policies in developing both domestic and overseas market so as to minimise the market risk of the Group.

In view of the current changes in the economy and the securities market in the PRC, private equity funds in the PRC tend to be more cautious and exercise higher level of diligence in identifying investment projects. During the three months ended 31 March 2019, 貴州安恒永晟投資管理有限公司 (Guizhou Anheng Yongcheng Investment Management Co., Ltd.*) (“Guizhou Anheng”), a wholly owned subsidiary of the Company that is principally engaged in assets management in the PRC did not enter into any new asset management services and investment advisory services contracts.

Up until now, 深圳南山金融科技雙創股權投資基金合夥企業(有限合夥) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) (“Nanshan Fintech” or the “Fund”) has yet to identify any suitable investment opportunities due to the current economy condition and securities market in the PRC.

In order to diversify the business risk and enhance the return of capital investment of the shareholders of the Company, on 18 March 2019, the wholly owned subsidiary of the Company, 深圳永安慧聚水務科技有限公司 (Shenzhen Yongan Huiju Water Technology Co., Ltd.*) (“Shenzhen Yongan Huiju”), entered into the sales and purchase agreement with a connected party (“Vendor”) for purchasing of 41.67% of total issued share capital of 北京太比雅科技股份有限公司 (Beijing Taibiya Technology Co., Ltd.*) (the “Target Company”) (the “Acquisition”), details of which were disclosed in the announcement dated 18 March 2019 and circular date 24 April 2019 of the Company. The Directors consider 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 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.

Product research and development

During the three months ended 31 March 2019, the Group continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Sales and marketing

During the three months ended 31 March 2019, the Group actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Group's new products.

OUTLOOK

In order to enhance competitiveness and market share of the textile sector, the Group (i) will install new and advanced production machines in the second half year of 2019 so as to eliminate backward production capacity; (ii) employed some qualify staff in order to strengthen the research and development of Group for improving the product quality and output; and (iii) will further develop the domestic market.

As discussed under the section of business and operation review above, the acquisition of the Target Company will complete on 20 June 2019, the date that the extraordinary general meeting of the Company is to be held for approval of the connected and major transaction. In view of the business prospects of the Target Group and the experienced management team, the Directors believe that the Acquisition will enable the Group to capture the opportunities arising from the potential growth of related businesses such as water management, planning and operation and maintenance.

Guizhou Anheng will continue to engage in the assets management and investment advisory services. At present, the Guizhou Anheng team is also actively exploring investment opportunities to enhance the Group's long-term growth. Guizhou Anheng will serve as a platform for the Group to develop its asset management business and the Group will make full use of the new policies of relevant government departments to seize opportunities and gradually expand the business of Guizhou Anheng, including equity funds, securities investment funds and industrial funds.

Under the leadership of the management team. The Board believes that the Group will be able to meet the upcoming challenges in 2019 and will therefore pay off for its shareholders.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2019, Ms. He Lianfeng, an executive Director and her spouse totally have approximately 0.039% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Mr. He Weifeng is also the deputy chairman of Zhejiang Yongli. Ms. Wang Ai Yu, a supervisor of the Company ("Supervisor"), 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“SFO”)) by virtue of being a holding company of the Company.

Save as disclosed above, as at 31 March 2019, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2019, so far as it is known to the Directors or chief executive or Supervisors, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in the shares of the Company

Domestic shares of the Company (“Domestic Shares”)

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

Notes:

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

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

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

Saved as disclosed above, as at 31 March 2019, so far as was known to the Directors, chief executives and Supervisors, no other person (other than the Directors, chief executives or Supervisors) has an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

As at 31 March 2019, none of the Directors, Supervisors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rule 5.28 and 5.29 of the GEM Listing Rules and code provision C3.3 of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors (“INED”), Mr. Song Ke, Mr. Leng Peng and Mr. Zhu Weizhou. Mr. Leng Peng and Mr. Zhu Weizhou were appointed as INED at the annual general meeting of the Company held on 15 May 2019 so as to replace Mr. Wang Hui and Mr. Wang Zhong who were resigned on 15 May 2019; and were elected as member of audit committee on the same day. Mr. Leng Peng is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited first quarterly results of the Group for the three months ended 31 March 2019 and is of the opinion that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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

Neither the Company nor its subsidiaries purchase, sell or redeem any of the Company's listed securities during the three months ended 31 March 2019.

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

Zhejiang, the PRC, 15 May, 2019

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

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

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