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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)

- (i) INSIDE INFORMATION — THE LAND RESUMPTION AGREEMENT;
(ii) DISCLOSEABLE AND CONNECTED TRANSACTION
— THE LEASE AGREEMENT;
(iii) MAJOR AND CONNECTED TRANSACTION
— THE EQUITY TRANSFER AGREEMENT; AND
(iv) RESUMPTION OF TRADING**

Financial adviser to the Company



THE LAND RESUMPTION AGREEMENT

On 19 December 2023, the Company received a notice from the subdistrict office of Yangxun Qiao Town in Keqiao District, Shaoxing City (紹興市柯橋區楊汛橋街道辦事處). According to the government notice, the Company was informed that the Resumed Land, Construction and Fixtures were subject to resumption by the local government in the Keqiao District, Shaoxing City. The Company shall return the Resumed Land, Construction and Fixtures during the period between 19 December 2023 and 20 January 2024. On 20 December 2023 (after trading hours), the Company entered into the Land Resumption Agreement with the Local Authorities pursuant to which the Local Authorities have agreed to resume, and the Company has agreed to surrender, the Resumed Land, Construction and Fixtures at a total Compensation of approximately RMB294.4 million payable by the Local Authorities to the Company.

The Company has sought legal advice from its PRC lawyers in relation to the Land Resumption and was advised by the PRC lawyers that the Company would be bound to surrender the Resumed Land, Construction and Fixtures in accordance with the relevant laws and regulations of the PRC and the Company would have no discretion to act in an opposite manner.

THE LEASE AGREEMENT

On 22 December 2023, the Company (as lessee) entered into the Lease Agreement with Zhejiang Yongli Warp (as lessor), pursuant to which Zhejiang Yongli Warp agreed to lease the Lease Property to the Company for a term of ten years from 22 December 2023 to 21 December 2033, to relocate the existing manufacturing plant of the woven fabrics products of the Group to a new factory.

THE EQUITY TRANSFER AGREEMENT

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

GEM LISTING RULES IMPLICATIONS

(1) The Land Resumption Agreement

This announcement relates to the Land Resumption and constitutes inside information under Rule 17.10(2)(a) of the GEM Listing Rules and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The Land Resumption Agreement is the usual form for land resumption by the Local Authorities and does not contain any conditions precedent for completion. According to the advice from the Company's PRC lawyers, the Land Resumption is a forced sale by the Local Authorities under the applicable PRC laws and regulations.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

(2) The Lease Agreement

In accordance with HKFRS 16, the entering into of the Lease Agreement by the Company as lessee will require the Group to recognise the Lease Property as right-of-use asset, and as a result, the Lease Agreement and the transactions contemplated thereunder will be regarded as an acquisition of asset by the Group pursuant to the GEM Listing Rules.

As Zhejiang Yongli Warp is a subsidiary of Zhejiang Yongli, the ultimate holding company of the Company, accordingly Zhejiang Yongli Warp is a connected person of the Company and the Lease Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Further, as one or more of the applicable percentage ratios calculated by reference to Rule 19.07 of the GEM Listing Rules in respect of the value of the right-of-use asset under the Lease Agreement exceed(s) 5% but less than 25% and HK\$10,000,000, the Lease Agreement and the transactions contemplated thereunder constitutes a discloseable and connected transaction of the Company which is only subject to the reporting and announcement requirements and is exempt from the Independent Shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules. In addition, the Company has appointed the Independent Financial Adviser to explain the reasons for the Lease Agreement to have a period of more than three years and to confirm that it is a normal business practice for agreement(s) of this type to be of such a duration.

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

(3) The Equity Transfer Agreement

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

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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

THE EGM AND DESPATCH OF CIRCULAR

The EGM will be convened for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) an independent valuation report on the Target Group; (iv) a letter of recommendation from the Independent Board Committee; (v) a letter of advice from the Independent Financial Adviser; and (vi) other information as required under the GEM Listing Rules together with a notice of EGM, will be despatched to the Shareholders within 15 business days after the date of this announcement, which is expected to be no later than 24 January 2024.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on Thursday, 21 December 2023 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange with effect from 9:00 a.m. on Thursday, 4 January 2024.

THE LAND RESUMPTION AGREEMENT

On 19 December 2023, the Company received a notice from the subdistrict office of Yangxun Qiao Town in Keqiao District, Shaoxing City (紹興市柯橋區楊汛橋街道辦事處). According to the government notice, the Company was informed that the Resumed Land, Construction and Fixtures were subject to resumption by the local government in the Keqiao District, Shaoxing City. The Company shall return the Resumed Land, Construction and Fixtures during the period between 19 December 2023 and 20 January 2024. On 20 December 2023 (after trading hours), the Company entered into the Land Resumption Agreement with the Local Authorities, pursuant to which the Local Authorities agreed to resume, and the Company agreed to surrender, the Resumed Land, Construction and Fixtures

at a total Compensation of RMB294.4 million payable by the Local Authorities to the Company. The principal terms of the Land Resumption Agreement are summarized as follows:

Date

20 December 2023

Parties

- (1) The Company
- (2) The Local Authorities, namely (i) Zhejiang Shaoxing Hangshao Airport Demonstration Zone Development Group Co., Ltd.* (浙江紹興杭紹臨空示範區開發集團有限公司), a wholly-owned subsidiary of Shaoxing City Keqiao District State-owned Assets Investment Management Co., Ltd* (紹興市柯橋區國有資產投資經營集團有限公司), as the collector; and (ii) subdistrict office of Yangxun Qiao Town in Keqiao District, Shaoxing City (紹興市柯橋區楊汛橋街道辦事處) as the appointee.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, the Local Authorities and their ultimate beneficial owners are Independent Third Parties.

Subject of the Land Resumption

Pursuant to the Land Resumption Agreement, the Local Authorities have agreed to resume, and the Company has agreed to surrender the Resumed Land, Construction and Fixtures, particulars of which are set out below:

- Address : Yangxun Qiao Town, Keqiao District, Shaoxing City, Zhejiang Province, PRC (中國浙江省紹興市柯橋區楊汛橋鎮)
- Assets subject to the Land Resumption : (i) the land use rights of the two adjoining industrial land parcels located in Yangxun Qiao Town (the “**Resumed Land**”);
(ii) the construction erected on the Resumed Land; and
(iii) the fixtures of the Company erected on the Resumed Land, including structures and attachments,
collectively, the “**Resumed Land, Construction and Fixtures**”.
- Site code : State-owned Land Use Right Certificate No. (2017) 0045376 and State-owned Land Use Right Certificate No. (2017) 0045396

A portion of the Resumed Land, Construction and Fixtures with a total gross floor area of approximately 10,371.5 sq.m. is currently leased to Independent Third Parties. The remaining portion of the Resumed Land, Construction and Fixtures with a total gross floor area of approximately 47,309.29 sq.m. is currently used by the Group for manufacturing of woven fabrics, which is the core business of the Group. Pursuant to the respective lease

entered into with the tenants, the Company has the rights to unilaterally terminate the lease in the event of the land resumption upon notice. As at the date of this announcement, all tenants have been vacated from the Resumed Land.

Set out below is the unaudited financial information attributable to the Resumed Land, together with the Construction and Fixtures for the two financial years ended 31 December 2021 and 2022 and nine months ended 30 September 2023:

	For the year ended 31 December 2021 RMB	For the year ended 31 December 2022 RMB	For the nine months ended 30 September 2023 RMB
Revenue (<i>Note</i>)	308,571	378,527	998,251
Net profit/(loss) before taxation	44,952	(72,063)	131,162
Net profit/(loss) after taxation	33,714	(72,063)	98,371

Notes: the rental income generated by one, four and six tenancy agreements for the years ended 31 December 2021 and 2022 and nine months ended 30 September 2023, respectively between the Company and each of the relevant companies, which are Independent Third Parties. The net loss incurred for the lease operations in 2022 was primarily attributed to the inclusion of property tax and land use right tax for the year 2021, as a result of delay in receiving the tax bill for the year 2021 from the relevant tax departments.

Compensation and Payment Terms

Pursuant to the Land Resumption Agreement, the total Compensation payable to the Company for the Land Resumption shall be RMB294.4 million, which included an incentive reward of approximately RMB2.2 million from the Local Authorities if the Company is able to return the Resumed Land and vacate the Resumed Land, Construction and Fixtures to its satisfaction by 20 January 2024. The Compensation shall be payable by the Local Authorities pursuant to the following payment schedule:

- (i) 20% of the Compensation (approximately RMB58.8 million) shall be paid within seven days after signing of the Land Resumption Agreement;
- (ii) 40% of the Compensation (approximately RMB117.8 million) shall be paid after the cessation of business and production and the termination of the supply of water and electricity in the Resumed Land; and
- (iii) The remaining balance of 40% of the Compensation (approximately RMB117.8 million) shall be paid within 15 days after the completion of all deregistration procedures for the land use right and vacation and handover of the Resumed Land, Construction and Fixtures to the Local Authorities.

As at the date of this announcement, the Company expects that the cessation of business and production and the termination of the supply of water and electricity in the Resumed Land will be completed on or around 5 January 2024 and it does not foresee any material

difficulties to vacate the Resumed Land, Construction and Fixtures by 20 January 2024 and hence, the Directors are of the view that the terms of the incentive reward are in the interest of the Company and its shareholders as a whole.

The Compensation for the Land Resumption was arrived at after arm's length negotiation between the Local Authorities and the Company with reference to (i) the unaudited carrying value of the Resumed Land, Construction and Fixtures of approximately RMB86.02 million as at 30 September 2023; (ii) the appraised market value of the Resumed Land according to the valuation prepared by an independent PRC valuer appointed by the Local Authorities; (iii) the preliminary valuation of the Resumed Land of approximately RMB128.14 million as at 31 October 2023 according to the valuation prepared by the Valuer; and (iv) the laws, regulations and procedures applicable to resumption of land in Shaoxing, Zhejiang Province, the PRC. Taking into account of the above, the Directors consider the Land Resumption and the terms of the Land Resumption Agreement (including the amount of Compensation) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Reasons for and Benefits of the Land Resumption

The Company was advised by the Local Authorities that the Resumed Land, Construction and Fixtures were situated within parcels of land that are subject to resumption due to implementation of the latest urban development plan.

According to the approval issued by the People's Government of Zhejiang Province on 23 May 2022, the Shaoxing area will be designated as part of the plan to develop an integrated economic zone (杭紹臨空經濟一體化發展示範區紹興片區), covering an area of 115 square kilometers. This development plan aims to enhance the city's economy in three key areas: cross-border e-commerce, aviation logistics, and business exhibitions. As part of the plan, new railway and highway lines will be constructed to connect the city and its airport. By 2025, the vision is for Shaoxing to transform into a high-end industrial hub with well-established supporting facilities and comprehensive functions, fostering innovation and enabling diverse forms of entrepreneurship.

The Construction and Fixtures located at the Resumed Land is the existing manufacturing plant owned by the Group for the production of woven fabrics products. Pursuant to the Land Resumption Agreement, the Resumed Land, Construction and Fixtures are expected to be resumed by the Local Authorities. In order to maintain the operation of the Group's woven fabrics business, the Group has identified a suitable location to relocate the existing manufacturing plant to a new factory. The Company has entered into the Lease Agreement with Zhejiang Yongli Warp, and the relocation of production machines and equipment is in the process. For details of the new factory, please see below section headed "The Lease Agreement". As part of the relocation process, the Company intends to sell production machines and equipment that are over 20 years old. This presents an opportunity for the Company to upgrade its product offerings and increase efficiency in production process. By utilizing the compensation proceeds to purchase new machines that are more efficient in producing high-value products, the Company can improve the market competitiveness of its product offerings and enhance profitability.

Relocation of production machines and impact on the operation

During the current economic sentiment, the Group's production machines have not been fully utilised due to a decrease in sales orders. However, the new production machines, which were purchased in 2019, are capable of satisfying the current customers' demands. For more details of the new production machines, please refer to the Company's announcement dated 12 April 2019.

In light of this, the Company has devised a plan to prioritise the relocation of these new production machines to the new factory. As for the old production machines, which have been used for over 20 years and were initially intended for disposal, they have retained to ensure production continues in the existing factory until all the new machines have been installed and become operational. As a result, the Land Resumption will not have any impact on the operation of the Company.

Financial Effect of the Land Resumption and Proposed Use of Proceeds

As at 30 September 2023, the unaudited carrying value of the Resumed Land, Construction and Fixtures was approximately RMB86.02 million. The Company is expected to recognise an unaudited gain of approximately RMB208.38 million, being the difference between the Compensation over the above-mentioned carrying value of the Resumed Land, Construction and Fixtures before expenses and tax. The actual gain in relation to the Land Resumption is subject to assessment and audit upon completion of the Land Resumption, and accordingly, it may be different from the amount stated above.

The net proceeds before deducting the PRC corporate income tax but after deducting relevant legal and professional fees in relation to the Land Resumption will be approximately RMB293.39 million, which will be used in the following manner, if the net proceeds from the Land Resumption differs from RMB293.39 million, the Company will adjust the allocation of the net proceeds to the below purposes on a pro-rata basis:

- (i) approximately RMB199.33 million, representing approximately 68% of the net proceeds will be used for the repayment of shareholder's loan owed by the Company to Guizhou Yongli. For details of the shareholder's loan owed by the Company to Guizhou Yongli, please refer to the announcements of the Company dated 31 March 2022, 16 May 2022 and circular of the Company dated 26 May 2022;
- (ii) approximately RMB30.00 million, representing approximately 10% of the net proceeds will be used for purchasing new production machines and equipment; and
- (iii) the remaining balance of approximately RMB64.06 million, representing approximately 22% of the net proceeds will be utilised as general working capital of the Group.

THE LEASE AGREEMENT

As a result of the Land Resumption, the Group has identified a suitable location and has on 22 December 2023 entered into the Lease Agreement with the Zhejiang Yongli Warp in order to maintain its core business of manufacturing woven fabrics products. Set out below are the principal terms of the Lease Agreement:

Date

22 December 2023

Parties

- (1) Zhejiang Yongli Warp (as lessor)
- (2) The Company (as lessee)

Premises & usage : Xiwu Industrial Park, Hutang Street, Keqiao District, Shaoxing City, Zhejiang Province, the PRC (中國浙江省紹興市柯橋區湖塘街道西屋工業園)

Total gross floor area: 8,672.57 sq.m., comprising

- (i) Production plant of 2,160 sq.m.;
- (ii) Warehouse of 3,600 sq.m.;
- (iii) Two steel-made sheds of 1,639.84 sq.m.; and
- (iv) Office building of 1,272.73 sq.m., collectively, the “**Lease Property**”.

Apart from the above, Zhejiang Yongli Warp will provide the Company with free dormitories, canteen services and car parking facilities throughout the entire lease term.

Term : Ten years commencing from 22 December 2023 to 21 December 2033

Rent-free Period : First three-years period (the “**Rent-free Period**”) commencing from 22 December 2023 to 21 December 2026

Annual rental payable : The rental payable is as follows:

	Amount with tax (RMB)	Amount without tax (RMB)
First year (<i>Rent free</i>)	2,074,330.00	1,975,552.38
Second year (<i>Rent free</i>)	2,074,330.00	1,975,552.38
Third year (<i>Rent free</i>)	2,178,046.50	2,074,330.00
Fourth year	2,178,046.50	2,074,330.00
Fifth year	2,281,763.00	2,173,107.62
Sixth year	2,281,763.00	2,173,107.62
Seventh year	2,385,479.50	2,271,885.24
Eighth year	2,385,479.50	2,271,885.24
Ninth year	2,489,196.00	2,370,662.86
Tenth year	2,489,196.00	2,370,662.86

The rental payable under the Lease Agreement will be financed by the internal resources of the Group.

The rental amount will increase by 5% (equivalent to RMB103,716.5 (tax inclusive)) in the third year, and will continue to increase by the same amount every two years throughout the lease term.

Security deposit : Not required.

Payment term : Quarterly basis. The Company shall pay the rent for the upcoming three months within seven days prior to the expiration of each three-month period.

Renewal : Upon expiry of the lease term, the Company shall inform Zhejiang Yongli Warp 30 days in advance and the Company will have a pre-emptive right to rent the Lease Property on the terms to be agreed between Zhejiang Yongli Warp and the Company.

Termination : Both parties agree that the Lease Agreement shall be terminated under any of the following circumstances:

- Upon the expiration of the Lease Agreement.
- If both parties reach an agreement to terminate the Lease Agreement during the lease term.
- If either party becomes unable to fulfill the Lease Agreement due to force majeure events such as earthquakes, storms, floods, or wars.

- Others : (i) In the event of the Company's late payment of rent, the Company shall also pay a daily late interest equivalent to 0.1% of the outstanding rent amount.
- (ii) If the Company violates the terms of the Lease Agreement by improper use of the Lease Property or by subleasing or transferring it to a third party without authorization, Zhejiang Yongli Warp has the right to unilaterally terminate the Lease Agreement. In such case, Zhejiang Yongli Warp shall refund the rent paid by the Company from the termination date until the expiration date, and the Company shall be liable to pay Zhejiang Yongli Warp one quarter's rent as liquidated damages.

In the event that Zhejiang Yongli Warp retrieves the Lease Property during the lease term or if the Company is unable to use the Lease Property due to Zhejiang Yongli Warp's reasons, Zhejiang Yongli Warp shall refund the rent paid by the Company from the retrieval date until the expiration date. Zhejiang Yongli Warp shall also pay the Company one quarter's rent as liquidated damages and compensate for all losses incurred by the Company, including but not limited to reasonable expenses for identifying alternative factory premises and loss of business during the period of inability to use the Lease Property.

Compliance with GEM Listing Rules

Each of Zhejiang Yongli Warp and the Company has agreed that the terms of the Lease Agreement shall comply with the requirements of the GEM Listing Rules. If the Company is required to comply with the requirements of the GEM Listing Rules, Zhejiang Yongli Warp must try its best to cooperate. In the event that the Company fails to meet the requirements of the GEM Listing Rules, the Company shall have the right to unilaterally terminate the Lease Agreement or adjust or modify the terms of the Lease Agreement in order to comply with the requirements of the GEM Listing Rules. Zhejiang Yongli Warp and the Company further agree that the Company shall not assume any liability for compensation should such circumstance arises.

Reasons for and Benefits of the Lease Agreement

Due to the Land Resumption, the Company requires another factory premises to continue its operations. The Lease Property is conveniently located near the Resumed Land, approximately 6,000 meters away, ensuring minimal impact on operations, including workforce, logistics, and supply. As at 30 June 2023, the Group had bank balances and cash of approximately RMB53.8 million. After receiving net proceeds from the Land Resumption and deducting early repayment of shareholder's loan owed by the Company to Guizhou Yongli and purchase of new machines, the Group's available funds would be approximately RMB117.86 million, ample for leasing a factory building for its long-term operation.

Further, the Lease Agreement is a 10-year lease with favorable terms, including three rent-free years and the Company is provided with free dormitories, canteen services and car parking facilities throughout the entire lease term.

Having considered the above, the Directors believe that entering into the Lease Agreement is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Right-of-use asset to be recognized in connection with the Lease Agreement

In accordance with HKFRS 16, the entering into of the Lease Agreement by the Company as lessee will require the Group to recognize the Lease Property as right-of-use asset, and as a result, the Lease Agreement and the transactions contemplated thereunder will be regarded as an acquisition of asset by the Group pursuant to the GEM Listing Rules. The unaudited value of right-of-use asset to be recognized by the Group under the Lease Agreement amounts to approximately RMB7.4 million in accordance with HKFRS 16 which is based on the present value of the total basic rent payable under the Lease Agreement calculated by using the Company's incremental borrowing rate. The annual rental is determined after arm's length negotiations between the Company and Zhejiang Yongli Warp after taking into consideration the prevailing market rent for similar premises in the same or nearby areas or similar locations.

Views from the Independent Financial Adviser

The Company has appointed the Independent Financial Adviser to explain the reasons for the Lease Agreement to have a period of more than three years and to confirm that it is normal business practice for agreement(s) of this type to be of such duration.

In arriving at its opinion, the Independent Financial Adviser has relied on the information and representations provided by the Company, including but not limited to, the information set out in this announcement and the Lease Agreement. In considering whether it is normal business practice for an agreement of a similar nature to the Lease Agreement to have a term of such duration, the Independent Financial Adviser has identified and reviewed, on a best-effort basis, 13 announcements published by other companies listed on the Stock Exchange during the one-year period before the date of Lease Agreement, involving the entering into of agreements in relation to the leasing of premises for industrial and/or manufacturing purposes with the lease term of over three years (the "**Comparable Agreements**"), which the Independent Financial Adviser considered to be appropriate to reflect the recent market practice on agreements of similar nature. It is noted that the lease term of the 13 Comparable Agreements ranged from four to 20 years, where the duration of the Lease Agreement falls within the range, indicating that it is not uncommon for agreements of similar nature to have a term comparable to that of the Lease Agreement.

In assessing the reasons for the duration of the Lease Agreements being longer than three years, the Independent Financial Adviser has taken into account of the following principal factors considered by the management of the Company:

- (i) the longer lease term protects the interest of the Group in terms of operational consistency and stability by avoiding burdens to identify new locations and premises after expiration of lease, minimising the potential disruption to operation caused by discontinuance of such lease agreement, and refraining from any unnecessary administration costs to the delay of entering into of the Lease Agreement as a result of negotiation between parties, leading to a loss of economic benefits of the Group; and
- (ii) a longer lease term is required for premises for the provision of manufacturing, as they require (a) a significant amount of initial setup costs, including but not limited to production line installation costs and transportation costs; (b) a significant amount of capital expenditure on machineries and equipment; and (c) the stability for the convenience of workers in the manufacturing plant.

Having considered the above, the Independent Financial Adviser is of the view that (i) a duration of longer than three years is required for the Lease Agreement; and (ii) it is normal business practice for the Lease Agreement to have a tenure of up to 10 years.

THE EQUITY TRANSFER AGREEMENT

On 22 December 2023, the Vendor and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Target Shares at a Consideration of RMB32.5 million. Set out below are principal terms of the Equity Transfer Agreement:

Date

22 December 2023

Parties

The Vendor : The Company

The Purchaser : Shaoxing Keqiao Lingyue Automotive Parts Co., Ltd.* (紹興柯橋領悅汽車配件有限公司) is a wholly-owned subsidiary of Zhejiang Yongli, the ultimate holding company of the Company

The Target Company : Zhejiang Yongan Huiju Water Technology Co., Ltd.* (浙江紹興慧聚水務科技有限公司), a wholly-owned subsidiary of the Company in the PRC

Subject matter

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

Consideration and payment terms

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

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

Conditions precedent

The Equity Transfer Agreement and the transactions contemplated thereunder are separate from and not conditional upon the completion of the Land Resumption Agreement or the Lease Agreement. The Disposal is conditional upon and subject to the satisfaction of the following conditions:

- (1) the Independent Shareholders having approved the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM in accordance with the requirements of the GEM Listing Rules and such approval not being revoked;
- (2) the Purchaser being satisfied with the results of due diligence review conducted in respects of the Target Group’s assets, liabilities, business and affairs; and
- (3) the parties to the Equity Transfer Agreement having obtained all the necessary waivers, approvals, grants, licenses, authorisations, consents and orders (if required) in relation to the Equity Transfer Agreement and the transactions contemplated thereunder required by laws, regulations and rules (including the GEM Listing Rules) and other third parties and such waivers, approvals, grants, licenses, authorisations, consents and orders not being revoked.

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

Completion

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

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

Reasons for and Benefits of the Disposal

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

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

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

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

Financial Effects of the Disposal and Proposed Use of Proceeds

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

The net proceeds arising from the Disposal of approximately RMB32.5 million will be utilised as general working capital of the Group.

INFORMATION ON THE PARTIES

The Company

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

The Local Authorities

- (i) Zhejiang Shaoxing Hangshao Airport Demonstration Zone Development Group Co., Ltd.* (浙江紹興杭紹臨空示範區開發集團有限公司) was established on 7 July 2021. The company's business scope includes construction activities and real estate development which includes, among others, land consolidation and rehabilitation, municipal facilities management, leasing and management of public rental housing.

As at the date of this announcement, Zhejiang Shaoxing Hangshao Airport Demonstration Zone Development Group Co., Ltd. was a wholly-owned subsidiary of Shaoxing City Keqiao District State-owned Assets Investment Management Co., Ltd.* (紹興市柯橋區國有資產投資經營集團有限公司). Shaoxing City Keqiao District State-owned Assets Investment Management Co., Ltd. is in turn 90% owned by Keqiao Finance Bureau and 10% owned by Zhejiang Finance Development Company* (浙江省財務開發有限責任公司), a company wholly-owned by Zhejiang Provincial Department of Finance.

- (ii) Subdistrict office of Yangxun Qiao Town in Keqiao District, Shaoxing City (紹興市柯橋區楊汛橋街道辦事處), a department responsible for governmental and administrative matters in the area.

Zhejiang Yongli Warp

Zhejiang Yongli Warp Knitting Co, Ltd. was established in 1986 and has a registered share capital of RMB80 million. The company is a subsidiary of Zhejiang Yongli and principally engaged in the research, development production, sales and service of lace garment fabric, wall cloth, curtain fabrics and ready-made curtains. It has more than 20-year experience in foreign trade business.

Guizhou Yongli

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

Zhejiang Yongli

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

The Purchaser

The Purchaser was established in 2018 and has a registered share capital of RMB100 million. The company is a wholly-owned subsidiary of Zhejiang Yongli and principally engaged in manufacture and sales of automotive parts. As at the date of this announcement, the Purchaser holds 8.34% of Tepia.

The Target Company

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

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

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

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

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

GEM LISTING RULES IMPLICATIONS

(1) The Land Resumption Agreement

This announcement relates to the Land Resumption and constitutes inside information under Rule 17.10(2)(a) of the GEM Listing Rules and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The Land Resumption Agreement is the usual form for land resumption by the Local Authorities and does not contain any conditions precedent for completion. According to the advice from the Company's PRC lawyers, the Land Resumption is a forced sale by the Local Authorities under the applicable PRC laws and regulations.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

(2) The Lease Agreement

In accordance with HKFRS 16, the entering into of the Lease Agreement by the Company as lessee will require the Group to recognize the Lease Property as right-of-use asset, and as a result, the Lease Agreement and the transactions contemplated thereunder will be regarded as an acquisition of asset by the Group pursuant to the GEM Listing Rules.

As Zhejiang Yongli Warp is a subsidiary of Zhejiang Yongli, the ultimate holding company of the Company, accordingly Zhejiang Yongli Warp is a connected person of the Company and the Lease Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Further, as one or more of the applicable percentage ratios calculated by reference to Rule 19.07 of the GEM Listing Rules in respect of the value of the right-of-use asset under the Lease Agreement exceed(s) 5% but less than 25% and HK\$10,000,000, the Lease Agreement and the transactions contemplated thereunder

constitutes a discloseable and connected transaction of the Company which is only subject to the reporting and announcement requirements and is exempt from the Independent Shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules. In addition, the Company has appointed the Independent Financial Adviser to explain the reasons for the Lease Agreement to have a period of more than three years and to confirm that it is a normal business practice for agreement(s) of this type to be of such a duration.

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

(3) The Equity Transfer Agreement

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

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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

THE EGM AND DESPATCH OF CIRCULAR

The EGM will be convened for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) an independent valuation report on the Target Group; (iv) a letter of recommendation from the Independent Board Committee; (v) a letter of advice from the Independent Financial Adviser; and (vi) other

information as required under the GEM Listing Rules together with a notice of EGM, will be despatched to the Shareholders within 15 business days after the date of this announcement, which is expected to be no later than 24 January 2024.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“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 on GEM (stock code: 8211)
“Compensation”	the compensation in an aggregated sum of RMB294.4 million in respect of the Land Resumption pursuant to the Land Resumption Agreement
“Consideration”	a total consideration of RMB32.5 million payable by the Purchaser to the Vendor in respect of the Disposal pursuant to the Equity Transfer Agreement
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Target Shares as contemplated under the Equity Transfer Agreement
“EGM”	an extraordinary general meeting of the Company to be convened and held for the purposes of, among other matters, considering, and if thought fit, approving or ratifying (as the case may be) the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Vendor and the Purchaser on 22 December 2023 in respect of the Disposal
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries from time to time

“Guizhou Yongli”	貴州永利企業管理有限公司 (Guizhou Yongli Enterprise Management Co., Ltd.*), a company established in the PRC, which holds approximately 55.29% of the total issued share capital of the Company as at the date of this announcement, and accordingly, the controlling shareholder and connected person of the Company
“H Share(s)”	Overseas listed foreign share(s) (H shares) of nominal value of RMB0.1 each in the share capital of the Company which are listed on GEM and subscribed for in Hong Kong dollars
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKFRS”	Hong Kong Financial Reporting Standards
“Independent Board Committee”	the independent committee of the Board comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (Advising on Corporate Finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Guizhou Yongli, Zhejiang Yongli and their respective associates and those who are required to abstain from voting at the EGM under the GEM Listing Rules
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates (as defined under the GEM Listing Rules)
“Keqiao Government”	the government authority in Keqiao District, Shaoxing City, Zhejiang Province, PRC (中國浙江省紹興市柯橋區人民政府)
“Land Resumption”	the resumption of the Resumed Land, Construction and Fixtures by the Local Authorities under the Land Resumption Agreement

“Land Resumption Agreement”	the land resumption agreement* (非住宅拆遷貨幣補償協議) dated 20 December 2023 entered into between the Local Authorities and the Company
“Lease Agreement”	the property lease agreement dated 22 December 2023 entered into between the Company and Zhejiang Yongli Warp
“Lease Property”	has the meaning ascribed to it in the section headed “The Lease Agreement” in this announcement
“Local Authority(ies)”	(i) Zhejiang Shaoxing Hangshao Airport Demonstration Zone Development Group Co., Ltd.* (浙江紹興杭紹臨空示範區開發集團有限公司), a wholly-owned subsidiary of Shaoxing City Keqiao District State-owned Assets Investment Management Co., Ltd* (紹興市柯橋區國有資產投資經營集團有限公司), an Independent Third Party; and (ii) Subdistrict office of Yangxun Qiao Town in Keqiao District, Shaoxing City (紹興市柯橋區楊汛橋街道辦事處), an Independent Third Party
“NEEQ”	National Equities Exchange and Quotations in the PRC
“percentage ratio”	the percentage ratios as defined under Rule 19.07 of GEM Listing Rules
“PRC”	the People’s Republic of China
“PRC GAAP”	the Generally Accepted Accounting Principles in the PRC
“Purchaser”	紹興柯橋領悅汽車配件有限公司 (Shaoxing Keqiao Lingyue Automotive Parts Co., Ltd.*), a wholly-owned subsidiary of Zhejiang Yongli in the PRC, the ultimate controlling shareholder of the Company, and accordingly, a connected person of the Company
“Resumed Land, Construction and Fixtures”	has the meaning ascribed to it in the section headed “The Land Resumption Agreement” in this announcement
“Share(s)”	ordinary share(s) of RMB0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	浙江紹興慧聚水務科技有限公司 (Zhejiang Yongan Huiju Water Technology Co., Ltd.*), a wholly-owned subsidiary of the Company in the PRC
“Target Group”	the Target Company, its subsidiaries and Tepia
“Target Shares”	the entire equity interest in the Target Company
“Tepia”	北京太比雅科技股份有限公司 (Beijing Tepia Technology Co., Ltd*), a company incorporated in the PRC company and is listed on the NEEQ (Stock code: 838941) and based in Beijing, the PRC
“Valuer”	AVISTA Valuation Advisory Limited, a qualified independent third party valuer in Hong Kong
“Vendor”	the Company
“Zhejiang Yongli”	浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd*), a company established in the PRC with limited liability and the ultimate holding company of Guizhou Yongli, and accordingly, a connected person of the Company
“Zhejiang Yongli Warp”	浙江永利經編股份有限公司 (Zhejiang Yongli Warp Knitting Co., Ltd.*), a subsidiary of Zhejiang Yongli, the ultimate holding company of the Company, and accordingly, a connected person of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent
“sq.m.”	square metre(s)

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

Zhejiang, the PRC, 3 January 2024

As at the date of this announcement, the executive Directors are Mr. Lou Lijiang (Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive Director is Mr. Xia Zhenbo (Deputy Chairman); and the independent non-executive Directors are Mr. Yue Weidong, Mr. Yuan Lingfeng and Mr. Zhang Jianyong.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Listed Company Information” 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 <http://www.zj-yongan.com>.

** For identification purposes only*