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 or other registered institution in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yongsheng Advanced Materials Company Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company mentioned herein.

永盛新材料
YS Advanced Materials

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

MAJOR AND CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

VEDA | CAPITAL
智略資本

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

千里碩
ELSTONE

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 6 to 28 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter of advice from Elstone Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 31 to 58 of this circular.

A notice convening the EGM to be held at Admiralty Conference Centre, 1804B, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 31 December 2018 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

7 December 2018

* *for identification purpose only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

"Acquisition"	the acquisition of the Sale Shares by the Company from the Vendor pursuant to the terms and conditions of the Share Purchase Agreement
"Announcement"	the announcement of the Company dated 1 November 2018 in relation to the Acquisition and the allotment and issue of the Consideration Shares under the Specific Mandate
"associate(s)"	has the meaning as ascribed thereto under the Listing Rules
"Board"	the board of Director(s)
"Business Day"	any day (excluding a Saturday or Sunday) on which commercial banks are open for business in Hong Kong
"BVI"	the British Virgin Islands
"Company"	Yongsheng Advanced Materials Company Limited, a company incorporated in Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 3608)
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Share Purchase Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	an aggregate consideration of RMB800,000,000 (equivalent to HK$901,600,000) for the Acquisition
"Consideration Shares"	272,661,290 new Shares to be allotted and issued by the Company to the Vendor (or its nominee) to satisfy part of the Consideration
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, among other things, the Share Purchase Agreement and the transactions contemplated thereunder

"Elstone Capital"	Elstone Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company regarding the Share Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition upon Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Company A"	Chang Sheng Investment Holding Co. Limited (昶盛投資控股有限公司), an investment holding company incorporated in Hong Kong with limited liability on 7 June 2018 and is owned as to 100% equity interest by the Target Company
"Hong Kong Company B"	Philosojoy Investment Limited (哲瑞投資有限公司), an investment holding company incorporated in Hong Kong with limited liability on 6 February 2018 and is owned as to 100% equity interest by the Hong Kong Company A
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors, which has been formed for the purpose of advising the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholder(s) other than Mr. Li, Ever Thrive Global Limited and their respective associates, and those who have material interest in the Share Purchase Agreement and the transactions contemplated thereunder and are required to abstain from voting at the EGM
"Issue Price"	HK$2.48, being issue price per Consideration Share
"Last Trading Day"	1 November 2018, being the last trading day in the Shares immediately prior to the issue of the Announcement and the date of the Share Purchase Agreement

"Latest Practicable Date"	6 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers
"Mr. Li"	Mr. Li Cheng, being the ultimate controlling Shareholder, the beneficial owner of the Vendor, the chairman and the executive Director
"Outstanding Debts"	approximately RMB235,613,000 (equivalent to approximately HK$265,530,000), being all the outstanding debts of the Target Group as at 31 October 2018
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Project Company"	Hangzhou Yonghao Investment Management Company Limited*（杭州永浩投資管理有限公司）, a company established under the laws of the PRC with limited liabilities on 11 April 2014
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	entire issued share capital of the Target Company owned by the Vendor to be acquired under the Share Purchase Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)

"Share Purchase Agreement"	the share purchase agreement dated 1 November 2018 entered into between the Vendor, the Company and the Target Company in relation to the Acquisition and the transactions contemplated thereunder
"Specific Mandate"	the specific mandate for the allotment and issue of the Consideration Shares, which is subject to the approval by the Independent Shareholders at the EGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Assets"	collectively, Target Asset A and Target Asset B
"Target Asset A"	an under-construction building located at City North, Western District, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC under real estate right certificate: Zhejiang (2018) Xiaoshan 0098120 for a term up to 4 March 2053
"Target Asset B"	eight office units (i.e. Nos. 1601-1604 and 1701-1704 under Hangzhou property right certificate: Xiaoyi 15425161 and 15425164 respectively) in a building located at No. 3, Ningwei Street Fu Ye Lane, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, PRC, the gross floor area of which is 2,648.78 square meters, which is under the Land Use Rights Certificate granted to the Project Company for a term up to 10 March 2048 for commercial and finance uses.
"Target Company"	First Intelligence International Limited (穎元國際有限公司), an investment holding company incorporated in BVI with limited liability on 13 June 2018 and is wholly owned by the Vendor
"Target Group"	the Target Company and its subsidiary
"Valuer"	Weisi Limited, an independent professional valuer engaged by the Company

"Vendor"	Astute Horizon Limited (睿景有限公司), an investment holding company incorporated in BVI with limited liability on 29 May 2018 and is owned as to 90%, 5% and 5% equity interests by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, respectively
"WFOE"	Changsheng Property (Hangzhou) Company Limited* (昶盛物業(杭州)有限公司), an investment holding company incorporated as a wholly foreign owned enterprise established under the laws of the PRC with limited liability on 17 July 2018 and is owned as to 100% equity interest by the Hong Kong Company A
"%"	per cent

For the purpose of this circular, unless the context otherwise requires, conversion of RMB into Hong Kong dollars is based on the approximate exchange rate of RMB1.0 to HK$1.127. No representation is made that any amounts in RMB and HK$ can be or could have been converted at the above exchange rate or any other rates.

In case of inconsistency, the English text of this circular shall prevail over its Chinese text.

永盛新材料
YS Advanced Materials

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

Executive Directors:
Mr. Li Cheng (*Chairman*)
Mr. Zhao Jidong (*Chief Executive Officer*)
Mr. Li Conghua
Mr. Ma Qinghai

Independent non-executive Directors:
Ms. Wong Wai Ling
Mr. Shiping James Wang
Dr. Wang Huaping

Registered Office:
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman
KY1-1001
Cayman Islands

Place of Business in Hong Kong:
Unit C2
29th Floor
Tower 1, Admiralty Centre
No.18 Harcourt Road
Hong Kong

7 December 2018

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

References are made to (i) the Announcement dated 1 November 2018 in relation to the Acquisition and the transactions contemplated thereunder; and (ii) the supplemental announcement of the Company dated 14 November 2018.

On 1 November 2018 (after trading hours of the Stock Exchange), the Company (as the purchaser), the Vendor (as the vendor) and the Target Company entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire equity interest in the Target Company, for a total Consideration of RMB800,000,000 (equivalent to HK$901,600,000), which shall be satisfied by RMB200,000,000 (equivalent to HK$225,400,000) in cash and RMB600,000,000 (equivalent to HK$676,200,000) by way of allotment and issue of the Consideration Shares according to the payment methods and schedules set out in the paragraph headed "Consideration" in this letter.

The purpose of this circular (the "**Circular**") is to provide you with, among other things, (i) further details about the Share Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendations of the Independent Board Committee in respect of the Acquisition; (iii) a letter of advice from Elstone Capital to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group, the Target Group and the Project Company; (v) the unaudited pro forma financial information of the Enlarged Group; (vi) the valuation report in respect of the Target Assets; (vii) a notice of EGM; and (viii) other information as required under the Listing Rules.

THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are as follows:

Date	:	1 November 2018 (after trading hours of the Stock Exchange)		
Parties	:	Vendor	–	Astute Horizon Limited
		Purchaser	–	the Company
		Target Company	–	First Intelligence International Limited

As at the Latest Practicable Date, (i) Mr. Li, who is the chairman and the executive Director, is interested in approximately 95.71% of total equity interest in Ever Thrive Global Limited (the controlling Shareholder), which holds 206,471,700 Shares, representing approximately 52.34% of the issued share capital of the Company; and (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, is interested in approximately 4.29% of total equity interest in Ever Thrive Global Limited (the controlling Shareholder).

To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, the Vendor is beneficially owned as to 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li, respectively, the Vendor is accordingly, an associate of Mr. Li under the Listing Rules. Therefore, each of Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua and the Vendor is a connected person of the Company under the Listing Rules, and the Acquisition constitutes a connected transaction for the Company.

Assets to be acquired

Under the Share Purchase Agreement, the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing entire issued share capital of the Target Company, subject to the terms and conditions of the Share Purchase Agreement.

Following Completion, the Target Company will become a direct wholly-owned subsidiary of the Company. The Target Company's principal asset is its indirect interest in the Target Assets held by the Project Company. The Sale Shares to be acquired by the Company shall be free from any mortgages, charges, liens, pledges, options and third party rights or other encumbrances at Completion.

Consideration

The Consideration for the Sale Shares is RMB800,000,000 (equivalent to HK$901,600,000). Subject to the terms and conditions set out in the Share Purchase Agreement, the Consideration shall be satisfied by the Company in the following manner:

Cash

(i) as to RMB20,000,000 (equivalent to HK$22,540,000) shall be settled by the Company to the Vendor (or its nominee) in cash upon entering into the Share Purchase Agreement as a refundable deposit (the "**Deposit**"). The Deposit shall be refunded to the Company if the Acquisition cannot be completed by 30 June 2019;

(ii) as to RMB60,000,000 (equivalent to HK$67,620,000) shall be settled by the Company to the Vendor (or its nominee) in cash on or before 31 December 2018 (subject to Completion);

(iii) as to RMB120,000,000 (equivalent to HK$135,240,000) shall be settled by the Company to the Vendor (or its nominee) in cash on or before 31 March 2019 (subject to Completion);

Consideration Shares

(iv) as to RMB364,390,000 (equivalent to approximately HK$410,670,000) shall be settled by the Company to the Vendor (or its nominee) by allotment and issue 165,591,746 shares of the Consideration Shares at the Issue Price of HK$2.48 per Consideration Share upon Completion; and

(v) as to RMB235,610,000 (equivalent to approximately HK$265,530,000) shall be satisfied by the allotment and issue of 107,069,544 shares of the Consideration Shares by the Company to the Vendor (or its nominee) at the Issue Price of HK$2.48 per Consideration Share within the 3 months period after the fulfilment of the conditions precedent as set out in this letter.

In the event that the Outstanding Debts has not been settled after Completion and before 30 June 2019, the Company will not allot and issue the Remaining Consideration Shares to the Vendor (or its nominee). Therefore, the Company will bear all the Outstanding Debts and the amount of the consideration for the Sale Shares will be reduced to RMB564,390,000 (equivalent to approximately HK$636,080,000).

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among others, (i) the business development opportunities and prospects of the Project Company; (ii) the unaudited net asset value of the Project Company as at 31 October 2018 in an amount of approximately RMB162,550,000 (equivalent to approximately HK$183,190,000); and (iii) the valuation prepared by the Valuer showing the market value of the Target Assets as at 31 October 2018 being RMB818,000,000 (equivalent to HK$921,886,000) under market approach, which assuming all construction works have been completed as at the date of Valuation and having taken into account of, among other factors, the deduction of the estimated outstanding construction costs (i.e. approximately RMB194,150,000 (equivalent to approximately HK$218,807,000)) to complete the construction.

Based on the aforesaid, the Directors consider that the Consideration is fair and reasonable and on normal commercial terms and the Acquisition is in the best interests of the Company and the Shareholders as a whole.

Reconciliation of the Target Group's net assets value

The table below sets forth the reconciliation of the net assets value of the Target Group as at 31 October 2018 with the valuation of the Target Assets as at 31 October 2018 as stated in Appendix VI to the Circular, which is for illustrative purposes only, and is subject to the pro forma adjustments as set out in Appendix V to the Circular.

	(RMB'000)
Net asset value of the Target Group as at 31 October 2018	1
Less: book value of the investment properties (i.e. the Target Assets)	(212,831)
Add: market value of the Target Assets	818,000
	605,170
Add: settlement of the Outstanding Debts	235,613
Reconciliated net asset value of the Target Group as at 31 October 2018 (for illustrative purposes only)	840,783

Consideration Shares

The Consideration Shares represent (i) approximately 69.12% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 40.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming there is no change in the issued share capital of the Company from the date of the Latest Practicable Date to the date of Completion, save as the issue of the Consideration Shares).

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, will be credited as fully-paid and rank *pari passu* in all respects with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares.

The Company intends to finance the portion of the Consideration to be settled in cash under the Share Purchase Agreement by internal resources of the Group.

Issue Price

The Issue Price of HK$2.48 per Consideration Share represents:

(i) a premium of approximately 5.08% over the closing price of HK$2.36 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) the closing price of HK$2.48 per Share as quoted on the Stock Exchange as at the Last Trading Day;

(iii) a premium of approximately 0.81% over the average closing price of HK$2.46 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 3.33% over the average closing price of approximately HK$2.40 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and

(v) a premium of approximately 4.64% over the average closing price of approximately HK$2.37 per Share as quoted on the Stock Exchange for the last fifteen (15) consecutive trading days up to and including Last Trading Day.

The Issue Price was determined after arm's length negotiations between the Company and the Vendor with reference to the closing price of the Shares as at the Last Trading Day. The Directors consider that the Issue Price and the Consideration are fair and reasonable, on normal commercial terms and in the best interests of the Company and the Shareholders as a whole.

The aggregate nominal value of the Consideration Shares is HK$2,726,612.90. The allotment and issue of the Consideration Shares will not result in change in control of the Company.

Conditions precedent

Completion shall be conditional upon the following conditions precedent being fulfilled in the form satisfactory to the Company (or waived by the Company in writing) in its sole discretion:

Conditions precedent for cash consideration settlements and allotment and issue of Consideration Shares in the value of RMB364,390,000 (the "Conditions Precedent for Cash Consideration and First Allotment")

(i) all necessary consents and approvals required to be obtained on the part of the board and/or the shareholders of the Vendor in respect of the Share Purchase Agreement and the transactions contemplated thereunder having been obtained;

(ii) approvals from the Board and/or the Shareholders having been obtained for the execution and performance of the Share Purchase Agreement and the transactions contemplated thereunder including (this condition precedent cannot be waived by any party):

(a) the Company shall issue a circular in respect of the Share Purchase Agreement and the transactions contemplated; and

(b) the approval in respect of the Share Purchase Agreement and the transactions contemplated thereunder and the Specific Mandate to allot and issue Shares to satisfy the allotment and issue of the Consideration Shares having been obtained from the Independent Shareholders at the EGM;

(iii) the Company having completed the due diligence review (including but not limited to legal, accounting and business aspects) of the Target Company, its subsidiaries and its associated companies, and the Target Assets and being satisfied with the results thereof in its sole discretion in all aspects;

(iv) approval for the listing of and permission to deal in the Consideration Shares on the Stock Exchange having been obtained from the Listing Committee of the Stock Exchange (this condition precedent cannot be waived by any party);

(v) the Company being satisfied with the legal opinion prepared by the PRC legal adviser in respect of the Share Purchase Agreement and the transactions contemplated thereunder;

(vi) the representations and warranties given by the Company and the Vendor in the Share Purchase Agreement being true, valid, correct and complete in any material respects;

(vii) the passing by the board of the Target Company of an effective board resolution to approve the share transfer contemplated under the Share Purchase Agreement;

(viii) all necessary consents and approvals required to be obtained from any third party (including but not limited to any authorities) in respect of the Share Purchase Agreement and the transaction contemplated thereunder having been obtained;

(ix) the Company being satisfied with the valuation prepared by an independent valuer in respect of the assets, properties and 100% equity interest in the Target Assets, where the valuation shall not be lower than RMB800,000,000;

(x) the Company being satisfied with the legal opinion prepared by the PRC legal adviser that the Target Assets have been legally held by the Project Company in accordance with the requirements of PRC laws and regulations;

(xi) the Company being satisfied with the legal opinion prepared by the PRC legal adviser that the Project Company has been transferred to the Target Group in which the Project Company has been legally and wholly held, directly or indirectly, by the Target Company in accordance with the requirements of PRC laws and regulations; and

(xii) the representations and warranties given by the Vendor in the Share Purchase Agreement shall remain true, valid and correct in any material respects between the date of the Share Purchase Agreement and the date of Completion.

The Company and the Vendor will use their best endeavor to fulfill the above conditions by 30 June 2019, failing which the Share Purchase Agreement will automatically terminate without prejudice to any party's right to claim the other party in respect of any antecedent breach committed by such other party.

Save as the conditions (ii) and (iv) set out in above, the Company may at its absolute discretion at any time waive in writing any of the conditions. Conditions (ii) and (iv) set out above are not capable of being waived by either party to the Share Purchase Agreement.

As at the Latest Practicable Date, save as the conditions (v), (ix), (x) and (xi) set out above, all the conditions have not been fulfilled or waived.

Condition precedent for allotment and issue of remaining Consideration Shares in the value of RMB235,610,000 (the "Condition Precedent for Issue of Remaining Consideration Shares")

The Vendor will settle all the Outstanding Debts and as at the Latest Practicable Date, the Vendor intends to settle the Outstanding Debts by cash. A copy of the written proof of repayment of the Outstanding Debts shall be served and delivered to the Company and (i) in the event that the Vendor settles all the Outstanding Debts (a) before Completion; or (b) after Completion and before 30 June 2019, the Company will allot and issue the 107,069,544 shares of the Consideration Shares, which is the remaining Consideration Shares in the value of RMB235,610,000 (equivalent to approximately HK$265,530,000) (the "**Remaining Consideration Shares**") to the Vendor (or its nominee). The Consideration for the Acquisition will be RMB800,000,000 (equivalent to HK$901,600,000); and (ii) in the event that the Outstanding Debts has not been settled after Completion and before 30 June 2019, the Company will not allot and issue the Remaining Consideration Shares to the Vendor (or its nominee). Therefore, the Company will bear all the Outstanding Debts and the amount of the consideration for the Sale Shares will be reduced to RMB564,390,000 (equivalent to approximately HK$636,080,000).

Completion

Completion shall take place within seven (7) Business Days from the fulfillment or waiver (as the case may be) of all of the Conditions Precedent for Cash Consideration and First Allotment set out above, and shall not be later than 30 June 2019 or such other date as the parties may agree.

Following Completion, the Target Company will become a direct wholly-owned subsidiary of the Company, and the financial information of the Target Group will be consolidated in the accounts of the Group.

SPECIFIC MANDATE

The Consideration Shares may fall to be allotted and issued under the Specific Mandate approved by the Independent Shareholders at the EGM. An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

CHANGES IN SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of the Latest Practicable Date; and (ii) immediately after the allotment and issue of the Consideration Shares is as follows:

	As at the date of the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares	
	No. of Shares	*Approx. %*	*No. of Shares*	*Approx. %*
Ever Thrive Global Limited *(Note 1)*	206,471,700	52.34	206,471,700	30.95
Vendor *(Note 2)*	–	–	272,661,290	40.87
Mr. Ma Qinghai *(Note 3)*	2,675,677	0.68	2,675,677	0.40
Mr. Zhao Jidong *(Note 4)*	3,853,927	0.98	3,853,927	0.58
Public Shareholders	181,486,196	46.00	181,486,196	27.20
Total	394,487,500	100.00	667,148,790	100.00

Notes:

1. Ever Thrive Global Limited is beneficially owned as to 95.71% of total equity interest by Mr. Li, the chairman and the executive Director of the Company, and as to remaining 4.29% of total equity interest by Ms. Li Chunyan, who is a daughter of Mr. Li. Therefore, Mr. Li is deemed to be interested in the Shares held by Ever Thrive Global Limited for the purpose of the SFO.

   Mr. Li is the sole director of Ever Thrive Global Limited.

2. The Vendor is beneficially owned as to 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li, respectively.

   Mr. Li is a director of the Vendor.

3. Mr. Ma Qinghai is an executive Director.

4. Mr. Zhao Jidong is an executive Director who beneficially holds 1,300,000 Shares and is the spouse of Ms. Chen Xi who in turns beneficially holds 2,553,927 Shares. Therefore, Mr. Zhao Jidong is deemed to or taken to be interested in all the Shares held by Ms. Chen Xi for the purpose of SFO.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company which was incorporated in BVI with limited liability. As at the Latest Practicable Date, the Vendor is beneficially owned as to 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li, respectively.

INFORMATION ON THE TARGET GROUP

Target Company

The Target Company is an investment holding company which was incorporated in BVI with limited liability and is a direct wholly-owned subsidiary of the Vendor as at the Latest Practicable Date.

Hong Kong Company A

The Hong Kong Company A is an investment holding company which was incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of the Target Company as at the Latest Practicable Date.

Hong Kong Company B

The Hong Kong Company B is an investment holding company which was incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of the Hong Kong Company A as at the Latest Practicable Date.

WFOE

The WFOE is an investment holding company which was incorporated as a wholly foreign owned enterprise established under the laws of the PRC with limited liability and is a direct wholly-owned subsidiary of Hong Kong Company A as at the Latest Practicable Date.

Project Company

The Project Company was established under the laws of the PRC with limited liability and is owned as to 99% and 1% of total equity interest by the WFOE and the Hong Kong Company B respectively as at the Latest Practicable Date. The business scope of the Project Company is (i) property services; (ii) enterprise project planning; and (iii) business management and consulting (except those involving the implementation of special administrative measures on access stipulated by the state) (projects subject to the approval according to the law shall be approved by the relevant departments in advance of being carried out).

Target Assets

The principal assets of the Project Company are the Target Assets (i.e. the Target Asset A and Target Asset B).

The Target Asset A is a building under construction located at City North, Western District, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC under real estate right certificate: Zhejiang (2018) Xiaoshan 0098120. The site area of the Target Asset A is approximately 10,000 square meters. The land, where the Target Asset A is located, has been granted to the Project Company for a term up to 4 March 2053. Upon completion of the construction, the Target Asset A will comprise 24 floors above ground level and 3 floors below ground level with gross floor area of approximately 64,547.20 square meters, and 477 car parking spaces on ground level and below ground floor area. The Target Asset A will be used as services apartment and commercial office building upon completion of construction.

As at the Latest Practicable Date, the Target Asset A was under construction up to ground level. It is expected that the construction will be completed on or before May 2020.

The total estimated construction cost of the Target Asset A is approximately RMB263,150,000 which has not been fully incurred and paid, and the estimated outstanding construction cost is approximately RMB194.15 million (the "**Outstanding Construction Cost**") which will be further incurred to complete the construction.

The Project Company has entered into a letter of intent with a commercial bank in the PRC (the "**Bank**") for a five-year terms' loan of an aggregate amount of RMB150,000,000 on normal commercial terms and at market rate. The Project Company is current under negotiation with the Bank for another RMB50,000,000 loan. A formal loan agreement will be entered into between the Project Company and the Bank for an aggregate amount of RMB200,000,000. Therefore, the Company does not need to arrange additional external financing to support the development of the Target Asset A.

The land for the construction of the Target Asset A was acquired by Hangzhou Yongsheng Holdings Co., Ltd.*（杭州永盛控股有限公司）from Hangzhou Municipal Bureau of Land and Resources, Xiaoshan Branch at the original consideration of RMB70,100,000 in 2012. As at the Latest Practicable Date, the Target Asset A is owned by the Project Company.

The Target Asset B consists of eight office units (i.e. Nos 1601-1604 and 1701-1704) under Hangzhou property right certificate: Xiaoyi 15425161 and 15425164 respectively with an aggregate gross floor area of 2,648.78 square meters in a building located at No. 3, Ningwei Street Fu Yep Lane, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC which is under the Land Use Rights Certificate granted to the Project Company for a term up to 10 March 2048 for commercial and finance uses. The development of the Target Asset B is completed and is classified as an investment property which is currently for rental purpose.

The Target Asset B was acquired and developed by Hangzhou Yongsheng Holdings Co., Ltd.*（杭州永盛控股有限公司）and the development cost was approximately RMB13,479,600. Upon completion of development of the commercial property in 2014, the Target Asset B was transferred from Hangzhou Yongsheng Holdings Co., Ltd.*（杭州永盛控股有限公司）to the Project Company at a cost of approximately RMB37,918,000. Hangzhou Yongsheng Holdings Co., Ltd.*（杭州永盛控股有限公司）was beneficially owned as to 90%, 5% and 5% of the total equity interests by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, respectively.

The Company has engaged Weisi Limited, the Valuer, to conduct a valuation in respect of the Target Assets. The Board has reviewed the valuation report prepared by the Valuer in respect of the Target Assets as set out in Appendix VI to the Circular (the "**Valuation Report**") and the underlying valuation methodology and discussed with the Valuer, including but not limited to:

(i) the qualification and experience of the Valuer in relation to the valuation of the Target Assets. The Valuer is certified with relevant professional qualifications required to perform the valuation of the Target Assets. Mr. Joseph Leung, who is in-charge of the valuation possesses, is the director of the valuation department of Weisi Limited and has been a qualified valuer since 1993 and has 32 years' experience in the valuation of properties in Hong Kong. Mr. Joseph K P Leung has been involved in the valuation of properties in the PRC and Asia Pacific regions since 1990 and is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors;

(ii) the valuation methodology and assumptions adopted by the Valuer in preparing the valuation of the Target Assets. The Valuer has adopted market comparison approach as their valuation methodology, assuming sale of the Target Assets with the benefit of vacant possession or subject to existing tenancy;

(iii) In respect of the valuation of the Target Asset A, the Valuer has valued the present values of the Target Asset A by a discount rate taking reference to the 10-year Chinese treasury bonds yield plus a 3% risk premium.

The Valuer has assumed all construction works have been completed as at the date of valuation, less the outstanding construction costs to complete the construction, and adjusted in view of the sale clauses restrictions in the Land Use Rights Grant Contract.

In view of the 50% restriction clause in the Land Use Rights Grant Contract of not allowing strata title sales of the Target Asset A, the Valuer has allowed a 15% discount of the property value to reflect the effect over the marketability.

The Valuer has further put another 5% discount as bulk discount (i.e. quantum allowance) to reflect the building as a whole; and

(iv) In respect of the valuation of Target Asset B, the Valuer assessed the values of the two terms of lease and the reversion value to market value. The average of the summation of the term values and reversion value is the market value of Target Asset B in its existing state, i.e. subject to existing tenancy.

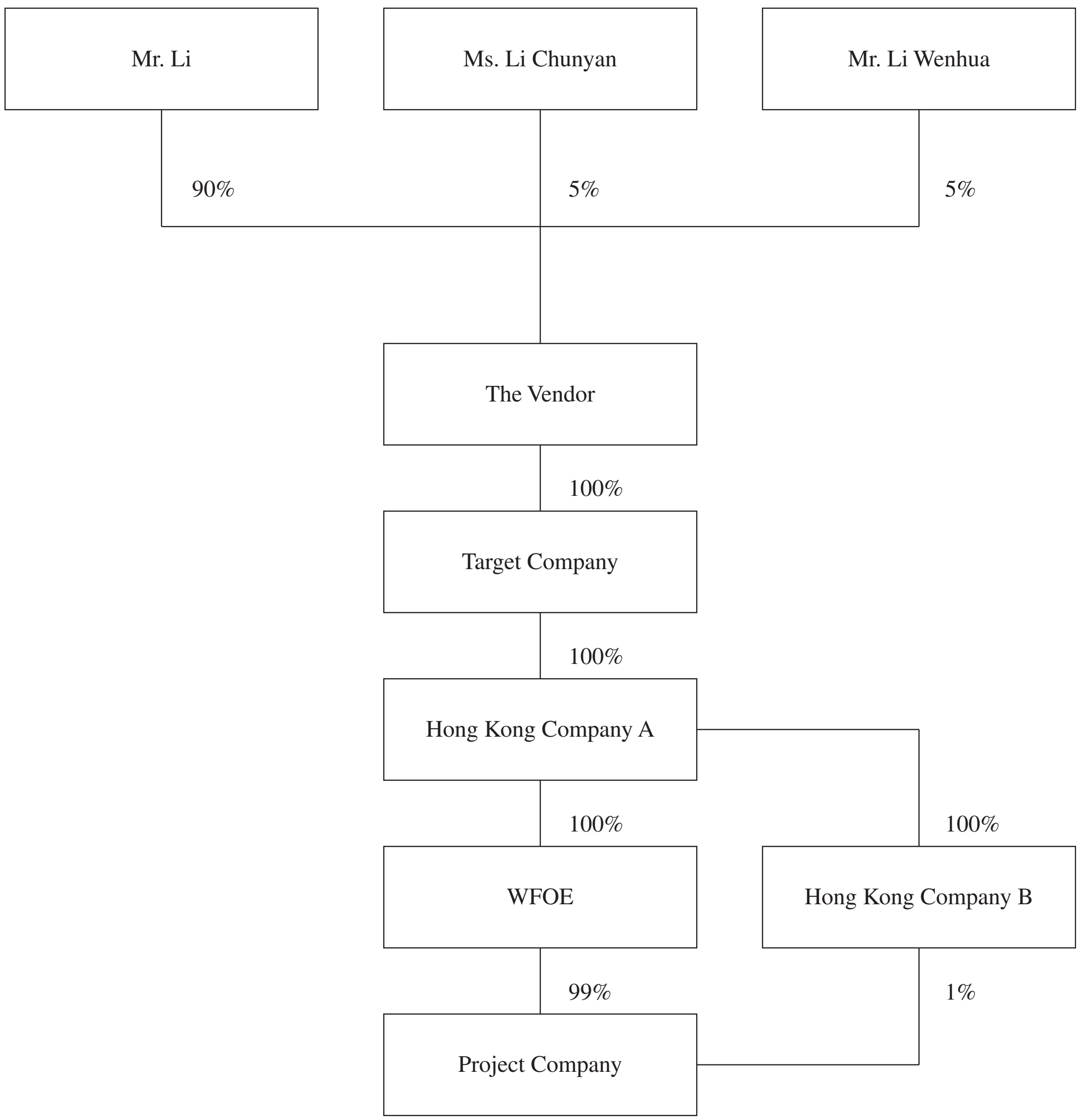
The Valuer has adopted market yields to discount both the term and reversion values. The market yields are referenced to the various market sales prices and market rental values in the office market of Hanzhou.

The Board also noted from the Valuer that, in valuing the Target Assets, the Valuer has fully complied with relevant valuation standards where details such as valuation methodology and key assumptions are set forth in the Valuation Report set out in Appendix VI to the Circular.

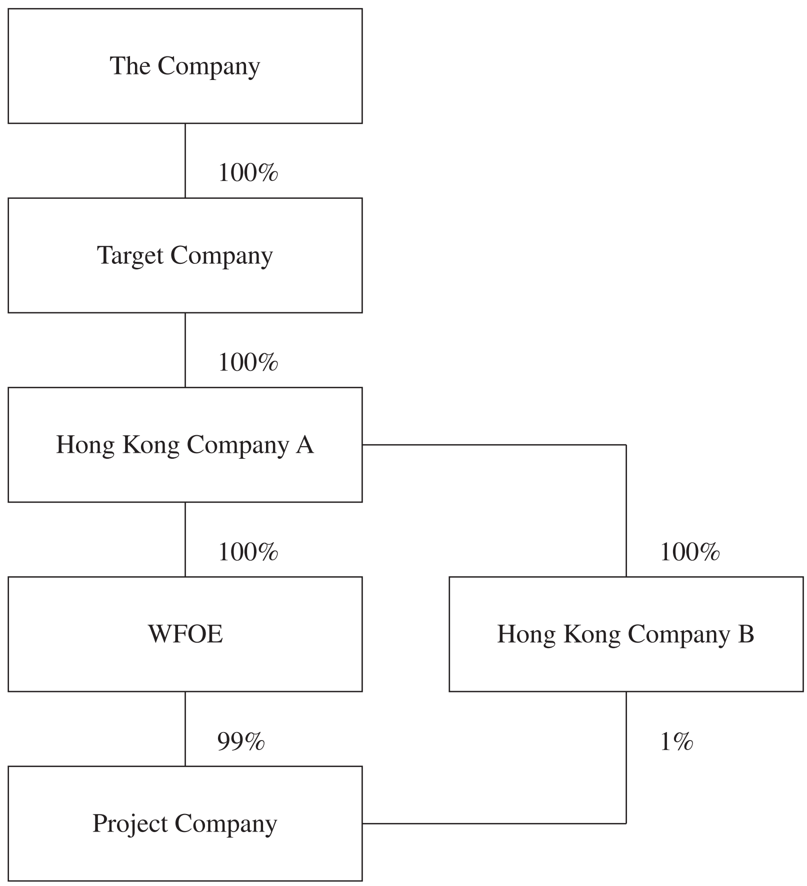
Shareholding structure of the Target Group

The charts below set out the effective shareholding structures of relevant companies of the Target Group as at the Latest Practicable Date and immediately after to Completion:

Shareholding structure of the Target Group as at the Latest Practicable Date and immediately before Completion



Shareholding structure of the Target Group immediately after Completion



FINANCIAL INFORMATION OF THE TARGE GROUP

Set out below is the financial information of the Target Group as extracted from its financial statements for the period from 13 June 2018 (date of incorporation) to 31 October 2018 as set out in Appendix II of the Circular.

	For the period from 13 June 2018 (date of incorporation) to 31 October 2018
	RMB'000
Revenue	–
Profit before tax	–
Profit after tax	–

The total assets and the net assets of the Target Group as at 31 October 2018 was approximately RMB235,610,000 (equivalent to approximately HK$265,532,000) and approximately RMB1,000 (equivalent to HK$1,127) respectively.

Set out below is the financial information of the Project Company as extracted from its financial statements for the year ended 31 December 2016 and 31 December 2017, and for the ten months period ended 31 October 2018, respectively as set out in Appendix III of the Circular.

	For the ten months ended 31 October	**For the year ended 31 December**	
	2018	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	350	440	530
Loss before tax	(1,216)	(1,060)	(2,724)
Loss after tax	(1,216)	(1,060)	(2,724)

The net assets of the Project Company as at 31 October 2018 was approximately RMB162,547,000 (equivalent to approximately HK$183,190,000).

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company, the Hong Kong Company A, the Hong Kong Company B, the WFOE and the Project Company will become wholly-owned subsidiaries of the Company.

As extracted from the interim report of the Company for the year ended 30 June 2018, the Group's unaudited total assets and liabilities as at 30 June 2018 were approximately RMB839,655,000 and approximately RMB266,613,000 respectively, representing a net assets position of approximately RMB573,042,000.

Based on the unaudited pro forma financial information of the Enlarged Group in accordance with Appendix V to the Circular, as if the Acquisition and the transactions contemplated thereunder had been completed, the total assets of the Enlarged Group would increase from approximately RMB839,655,000 to approximately RMB1,439,655,000, total liabilities would remain the same, and the net assets value would increase from approximately RMB573,042,000 to approximately RMB1,173,042,000.

Details of which are set out in the unaudited pro forma financial information of the Enlarged Group of Appendix V to the Circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) developing and manufacturing of polyester filament yarns, (ii) provisions of dyeing services of differentiated polyester filament fabric; and (iii) trading of polyester filament yarn products in the PRC. The Project Company is principally engaged in (i) property services; (ii) enterprise project planning; and (iii) business management and consulting (except those involving the implementation of special administrative measures on access stipulated by the state) (projects subject to the approval according to the law shall be approved by the relevant departments in advance of being carried out).

In respect of business potential of the Target Asset A, it is located in Xiaoshan Economic and Technological Development Zone, Hangzhou, which is an advanced geographic location with facilities and a good environment for settlement and investment and waterway traffic systems among coastal cities. As the urbanisation and development process in the PRC will continue to ascend in the future, there will be sizable rigid demands in the PRC real estate market with a promising prospect for long-term fundamentals. The site area of the Target Asset A is approximately 10,000 square meters and upon completion of the construction, the Target Asset A will comprise 24 floors above ground level and 3 floors below ground level with gross floor area of approximately 64,547.20 square meters. The Target Asset A will be used as serviced apartments and commercial office building upon completion of construction. As at the Latest Practicable Date, the Company intends that the Target Asset A will be held for investment purposes. In view of the 50% restriction clause in the Land Use Rights Grant Contract of not allowing strata title sales of the Target Asset A, no less than 50% of the gross floor area of the Target Asset A will be held by the Group mainly for rental purposes. The rest 50% gross floor area of the Target Asset A may or may not be sold by the Group upon completion of the construction, depending on the then prevailing property market conditions in Hangzhou City, Zhejiang Province, the PRC.

Apart from Hangzhou was the host city of "The G20", an international forum for the governments and central bank governors from all over the world in 2016, the 2022 Asian Games, which is a continental multi-sport event held every four years from all over Asia, will also be held in Hangzhou. As a result, it is anticipated that more tourists and business travellers will be brought into Hangzhou, the Directors believe that there will be a positive outlook and development to Hangzhou, which in turn will drive the residential or commercial demand in the region.

Furthermore. as stated above under the paragraph headed "Target Assets", the Outstanding Construction Cost of the Target Asset A shall be funded by the bank financing available to the Project Company, and hence the development of the Target Asset A will not bring material impact to the Group's liquidity positions and operating results.

The Directors are optimistic about the long-term prospect of the real estate market in the PRC, in particular Hangzhou and are positive towards future prospects of the Target Assets held by the Target Group and will continue to develop the Target Asset A in order to create greater returns for the Shareholders. The Directors believe that there will be a positive outlook and development to Hangzhou, which in turn will drive the residential or commercial demand in the region.

The Acquisition represents an investment opportunity in the real estate market in Hangzhou, which together with the pursuit and the incorporation of the business scope of the Project Company to the Group. Upon completion of the construction of the Target Asset A, the Acquisition will diversify the income sources of the Group through leasing out the serviced apartments and commercial office building. Meanwhile, the Acquisition would enlarge and diversify the Group's investment portfolio with high quality assets, which would also potentially provide capital appreciation to the Group and potentially provide capital appreciation to the Group in the future. This is conducive to the long-term investment and sustainable development of the Group as a whole and will enhance the Shareholders' value in the long term.

On the other hand, in respect of the Target Asset B, the Target Asset B comprises eight office units which are classified as investment properties and have been leased out for rental income of the Project Company. Nevertheless, the Project Company's revenue was at a relatively minimal level for the two years ended 31 December 2016 and 2017. The leasing agreement (the "**Leasing Agreement**") was entered into between the Project Company (as the lessor) and an independent third party (as the lessee) in December 2014 for a period of five years. The initial rental rate was RMB400,000 per year for the first three years. According to the Leasing Agreement, after the first three years the rental rate shall increase by 5% annually. Since December 2017 the rental rate has been increased to RMB420,000 annually. The Leasing Agreement of the Target Asset B will be renewed in 2019 and it is expected that the rental rate is likely to increase. In addition, the Group may also enjoy the possible capital appreciation of the Target Asset B and may consider disposing the Target Asset B to realise the possible capital appreciation should the opportunity arise in the future.

The Acquisition will not only provide an additional and stable rental income to the Group but will also broaden the income resources of the Group. Therefore, the Directors are of the view that the terms of the Share Purchase Agreement in accordance therewith are fair and reasonable and the Acquisition is in the best interests of the Company and the Shareholders as a whole.

Except for Mr. Li, none of other Directors had any material interest in the Share Purchase Agreement and the Acquisition, and therefore none of other Directors abstained from voting on the board resolution(s) which approved the Share Purchase Agreement and the Acquisition.

LISTING RULES IMPLICATIONS

Major transaction

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company. Therefore, it is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Connected transaction

As at the date of this announcement, (i) Mr. Li, who is the chairman and the executive Director, is interested in approximately 95.71% of total equity interest in Ever Thrive Global Limited (the controlling Shareholder), which holds 206,471,700 Shares, representing approximately 52.34% of the issued share capital of the Company; and (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, is interested in approximately 4.29% of total equity interest in Ever Thrive Global Limited (the controlling Shareholder). As the Vendor is beneficially owned as to 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li, respectively, the Vendor is an associate of Mr. Li under the Listing Rules. Therefore, each of Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua and the Vendor is a connected person of the Company under the Listing Rules, and the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li, Ever Thrive Global Limited (the controlling Shareholder) and their respective associates are required to abstain from voting on the resolution(s) in respect of the Share Purchase Agreement and the transactions contemplated thereunder and the issue of the Consideration Shares at the EGM.

INDEPENENT BOARD COMMITTEE AND ELSTONE CAPITAL

An Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping, has established to advise the Independent Shareholders as to, among other things, whether the terms of Share Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Elstone Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The letter from Elstone Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 58 of the Circular and the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 29 to 30 of the Circular.

EGM

The EGM will be held at Admiralty Conference Centre, 1804B, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 31 December 2018 at 10:30 a.m., Hong Kong for the purpose of approving, among other matters, the Share Purchase Agreement and the transactions contemplated thereunder by way of poll.

At the EGM, any Shareholders with a material interest in the Acquisition are required to abstain from voting in respect of the resolution(s) approving the Acquisition. As at the Latest Practicable Date, Mr. Li and his associate, namely Ever Thrive Global Limited, are interested in 206,471,700 Shares, representing approximately 52.34% of the total issued share capital of the Company, therefore, Mr. Li, Ever Thrive Global Limited, and their respective associates are required to abstain from voting on the resolution(s) in respect of the Acquisition and the transactions contemplated thereunder at the EGM.

A form of proxy for use at the EGM is enclosed with the Circular. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the accompanying form of proxy in accordance with the instructions printed on it to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time fixed for holding the EGM (i.e. at or before 10:30 a.m. on Saturday, 29 December 2018 (Hong Kong time) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude the Shareholders from attending, and voting at, the EGM or any adjournment thereof if the Shareholders so wish.

The Company will publish an announcement on the results of the EGM with respect to whether or not the proposed resolutions have been passed by the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of the Shareholders to attend and vote at the EGM (or at any adjournment thereof), the Company's register of members will be closed from Friday, 21 December 2018 to Monday, 31 December 2018 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 20 December 2018.

RECOMMENDATION

The Directors (including the independent non-executive Directors who having taken into account the advice of Elstone Capital) consider that the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who having taken into account the advice of Elstone Capital) recommend the Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM for approving (i) the Share Purchase Agreement and the transactions contemplated thereunder; (ii) the allotment and issue of the Consideration Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to the Circular.

Yours faithfully,
By Order of the Board
Yongsheng Advanced Materials Company Limited
Li Cheng
Chairman and Executive Director

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

7 December 2018

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 7 December 2018 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider whether the terms of the Share Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Elstone Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board on pages 6 to 28 of the Circular, which sets out details of the Share Purchase Agreement and the transactions contemplated thereunder. We also wish to draw your attention to the letter from Elstone Capital set out on pages 31 to 58 of the Circular, which contains its advice and recommendation in the same respect.

Having considered the terms of the Share Purchase Agreement and the advice of Elstone Capital, we consider that although the Acquisition is not in the ordinary and usual course of business of the Company, the terms of the Share Purchase Agreement are fair and reasonable in so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Share Purchase Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee

Ms. Wong Wai Ling **Mr. Shiping James Wang** **Dr. Wang Huaping**

Independent non-executive Directors

The following is the full text of the letter of advice from Elstone Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in the Circular.

千里碩
ELSTONE

Suite 1612, 16/F, West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

7 December 2018

To: The Independent Board Committee and the Independent Shareholders of Yongsheng Advanced Materials Company Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter (the "**Letter**") from the Board contained in the circular of the Company dated 7 December 2018 (the "**Circular**") of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless defined otherwise in this letter.

On 1 November 2018, the Company (as purchaser), the Vendor (as vendor) and the Target Company entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Shares, representing the entire equity interest in the Target Company for a total Consideration of RMB800.0 million (equivalent to HK$901.6 million), which shall be satisfied by RMB200.0 million (equivalent to HK$225.4 million) in cash and RMB600.0 million (equivalent to HK$676.2 million) by way of allotment and issue of the Consideration Shares.

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company. As at the Latest Practicable Date, (i) Mr. Li, who is the chairman and the executive Director, is interested in approximately 95.7% of total equity interest in Ever Thrive Global Limited (the controlling Shareholder) ("**ETGL**"), which holds 206,471,700 Shares, representing approximately 52.3% of the total issued share capital of the Company; and (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, is interested in approximately 4.3% of the total equity interest in ETGL. As the Vendor is beneficially owned as at 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li. Therefore, each of Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua and the Vendor is a connected person of the Company under the Listing Rules. Accordingly, the Acquisition is a connected transaction for the Company and subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Ms. Wong Wai Ling, Mr. Shiping James Wang and Dr. Wang Huaping, each being an independent non-executive Director, has been established to consider and make a recommendation to the Independent Shareholders as to (i) whether the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the ordinary resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder at the EGM. We, Elstone Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there have been no engagements between the Company and Elstone Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Elstone Capital Limited; and (b) the Group and the Vendor that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Share Purchase Agreement as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the time of the EGM. We have also sought and received confirmation from the management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Group and the Target Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the transactions contemplated under the Share Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background information

(a) Information of the Group

As at the Latest Practicable Date, the Group is principally engaged in (i) the developing and manufacturing of polyester filament yarns ("**PFY**"); (ii) provision of dyeing services of differentiated polyester filament fabric; and (iii) trading of PFY products in the PRC.

Set out below are the summarised consolidated financial statements of the Group for the three years ended 31 December 2017 as extracted from the annual reports of the Company for the years ended 31 December 2017 (the "**2017 Annual Report**"), 31 December 2016 (the "**2016 Annual Report**") and 31 December 2015 and the interim report of the Company for the six months ended 30 June 2018 (the "**2018 Interim Report**"). Your attention is also drawn to the "Financial information of the Group" set out in Appendix I to the Circular.

	For the year ended 31 December			**For the six months ended 30 June**
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Revenue	491,165	580,651	647,811	346,792
Gross profit	141,423	167,205	180,159	86,058
Net profit attributable to the Shareholders	56,230	79,128	92,144	41,359
Net cash flows from/(used in) operating activities	(1,874)	181,841	80,373	30,557

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Non-current assets	182,954	188,299	266,514	273,636
Current assets	363,716	484,533	534,436	566,019
Cash and cash equivalents (including pledged deposits)	144,620	69,067	162,987	39,555
Current liabilities	110,970	158,387	217,143	246,247
Non-current liabilities	15,608	17,232	18,950	20,366
Total equity attributable to Shareholders	381,470	448,068	518,806	528,215
Gearing ratio *(note)*	nil	nil	2.9%	4.5%

Note: The gearing ratio was measured on the basis of the total loans and borrowings over total equity attributable to the Shareholders.

As set out in the 2018 Interim Report, the Group recorded revenue of approximately RMB346.8 million, representing an increase of approximately 5.2% from approximately RMB329.6 million for the corresponding period in 2017, mainly attributable to the substantial growth in business segments of trading of PFY and dyeing and processing of differentiated polyester filament fabric. The Group recorded gross profit of approximately RMB86.1 million for the six months ended 30 June 2018, representing an increase of approximately 0.2% from approximately RMB85.9 million for the six months ended 30 June 2017. During the six months ended 30 June 2018, the rise in warehousing and transportation costs brought pressure on the Group's earnings. The profit attributable to the Shareholders for the six months ended 30 June 2018 amounted to approximately RMB41.4 million, representing a decrease of approximately 4.4% as compared with approximately RMB43.3 million in the corresponding period of 2017. As at 30 June 2018, the Group had total assets of approximately RMB839.7 million and total equity attributable to the Shareholders of approximately RMB528.2 million. As of 30 June 2018, the cash balance of the Group was approximately RMB39.6 million, including pledged deposits of approximately RMB3.2 million, and the Group had interest-bearing bank and other borrowings of approximately RMB24.0 million. Accordingly, the gearing ratio was approximately 4.5% as at 30 June 2018.

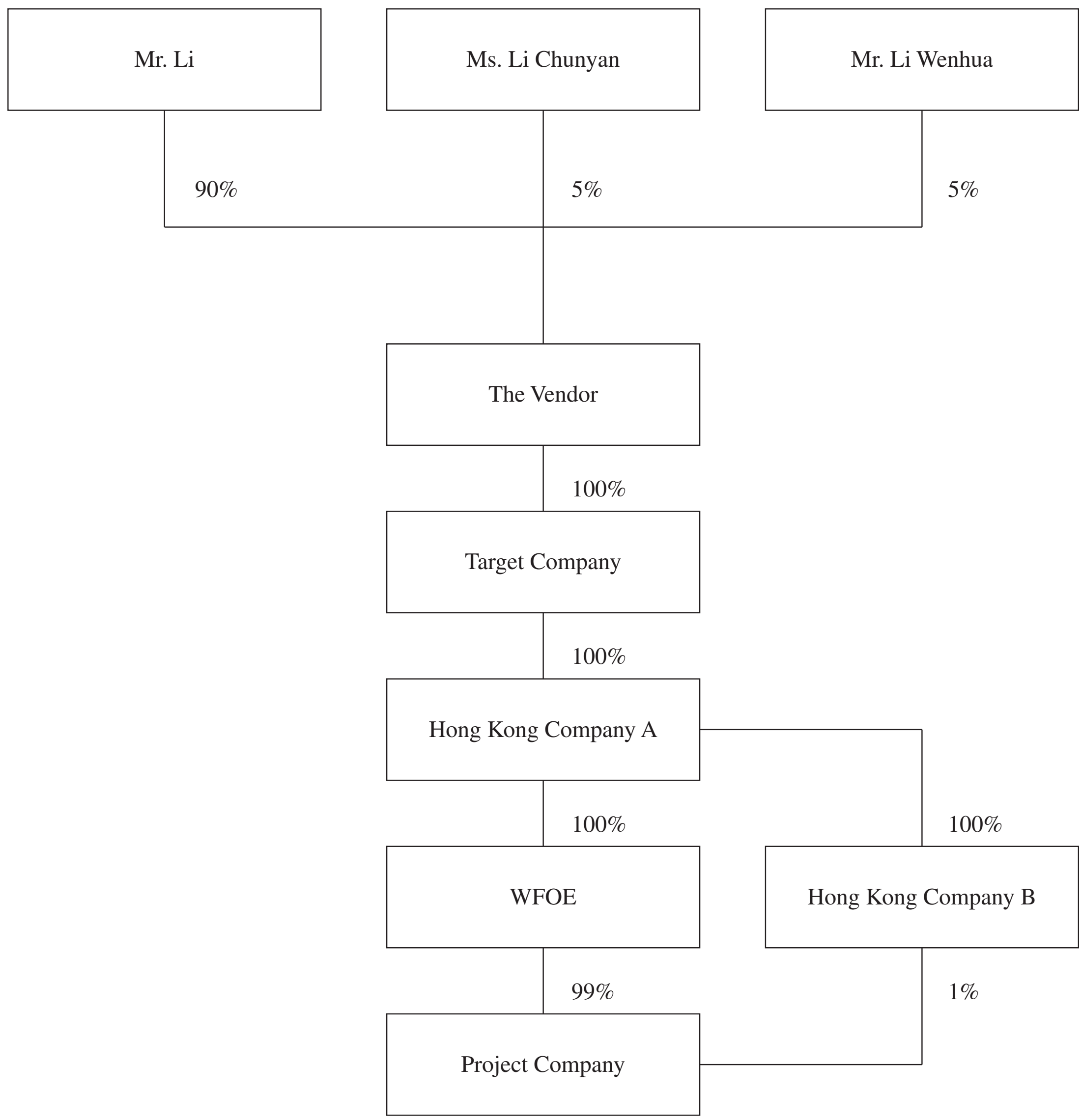
As set out in the 2017 Annual Report, the Group recorded revenue of approximately RMB647.8 million, representing an increase of approximately 11.6% from approximately RMB580.7 million for the corresponding period in 2016, and recorded gross profit of approximately RMB180.2 million, representing an increase of approximately 7.8% as compared with approximately RMB167.2 million in 2016. This was primarily due to the strategy that the Group has continuously focused on differentiated PFY products with higher profit margin by providing high-quality products and services to maintain market share and attain recognition and support from customers. Meanwhile, the Group's profit also recorded significant increase, which was attributable to the constant development of new products and the expansion of customer base. The profit attributable to Shareholders amounted to approximately RMB92.1 million, representing an increase of approximately 16.4% as compared with approximately RMB79.1 million for the corresponding period in 2016. As at 31 December 2017, the Group had total assets of approximately RMB801.0 million and total equity attributable to the Shareholders of approximately RMB518.8 million. As of 31 December 2017, the cash balance of the Group was approximately RMB163.0 million, including pledged deposits of approximately RMB10.2 million, and the Group had interest-bearing bank and other borrowings of approximately RMB15.0 million. Accordingly, the gearing ratio was approximately 2.9% as at 31 December 2017.

As set out in the 2016 Annual Report, the total revenue of the Group was approximately RMB580.7 million for the year ended 31 December 2016, representing an increase of approximately 18.2% from approximately RMB491.2 million for the year ended 31 December 2015. The Group recorded gross profit of approximately RMB167.2 million, representing an increase of approximately 18.2% from approximately RMB141.4 million in 2015. The results were mainly contributed by the Group's strategy to focus on differentiated PFY products, which had higher profit margin, as well as an increase in production capacity by investing more resources to accommodate the increasing demand in the market, while the profit margin of the dyeing and processing of differentiated polyester fabric segment further improved due to the technical edges of the Group. All these contributed to the growth of the Group's overall profitability. As a result of the above, the Group recorded profit attributable to the Shareholders of approximately RMB79.1 million for the year ended 31 December 2016, representing an increase of approximately 40.7% from approximately RMB56.2 million in the corresponding period of 2015. As at 31 December 2016, the Group had total assets of approximately RMB672.8 million and total equity attributable to the Shareholders of approximately RMB448.1 million. As of 31 December 2016, the cash balance of the Group was approximately RMB69.1 million, including pledged deposits of approximately RMB1.7 million. As at 31 December 2016, the Group had no interest-bearing bank and other borrowings.

(b) Background and financial information of the Target Group

(i) Background information of the Target Group

The shareholding structures of the Target Group as at the Latest Practicable Date and immediately before Completion is set out below:



The Target Company was incorporated on 13 June 2018 in BVI with limited liability and is a direct wholly-owned subsidiary of the Vendor as at the Latest Practicable Date. The Hong Kong Company A and Hong Kong Company B were incorporated on 7 June 2018 and 6 February 2018, respectively, in Hong Kong with limited liability and are both wholly-owned subsidiaries of the Target Company. The WFOE was incorporated on 17 July 2018 as a wholly foreign owned enterprise established under the laws of the PRC with limited liability and a direct wholly-owned subsidiary of Hong Kong Company A. Each of the Target Company, Hong Kong Company A, Hong Kong Company B and the WFOE is principally engaged in investment holding and does not have any material assets as at the Latest Practicable Date. The Project Company was established under the laws of the PRC with limited liability on 11 April 2014 and is owned as to 99% and 1% total equity interest by the WOFE and the Hong Kong Company B, respectively, as at the Latest Practicable Date. The Project Company is principally engaged in (1) property services; (2) enterprise project planning; and (3) business management and consulting (except those involving the implementation of special administrative measures on access stipulated by the state) (projects subject to the approval according to the law shall be approved by the relevant departments in advance of being carried out). The major asset of the Target Group is the Project Company's interest in the Target Assets (i.e. the Target Asset A and Target Asset B).

(ii) Financial information of the Target Group

As stated in the accountants' report of the Target Group as set out in Appendix II to the Circular, the non-current assets of the Target Group amounted to approximately RMB212.8 million as at 31 October 2018, which comprised of investment properties. The current assets of the Target Group amounted to approximately RMB22.8 million as at 31 October 2018, which mainly comprised of amount due from a director and other receivables. The current liabilities of the Target Group amounted to approximately RMB235.6 million as at 31 October 2018, which mainly comprised of amount due to a related party, which are unsecured, interest free and repayable on demand. Hence, the Target Group recorded net current liabilities of approximately RMB212.8 million. The Target Group recorded no revenue or profit or loss for the period from 13 June 2018, being date of incorporation, to 31 October 2018 as the financial information of the Project Company consolidated into the accounts of the Target Group on 31 October 2018.

Set out below are the audited financial information of the Project Company for the three years ended 31 December 2017 and for the ten months ended 31 October 2018 (the "**Relevant Period**") as stated in the accountants' report of the Project Company as set out in Appendix III to the Circular:

	For the year ended 31 December			For the ten months ended 31 October
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	171	530	440	350
Net loss before & after tax	348	2,724	1,060	1,216

	As at 31 December			As at 31 October
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	55,438	49,885	48,424	205,378
Current assets	1,501	4,141	4,586	22,782
Current liabilities	642	453	497	65,613
Total equity	56,297	53,573	52,513	162,547

The non-current assets of the Project Company, which comprised of investment properties, amounted to approximately RMB205.4 million as at 31 October 2018, representing a significant increase of approximately 4.24 times as compared to that of approximately RMB48.4 million as at 31 December 2017; while the current assets amounted to approximately RMB22.8 million as at 31 October 2018, representing a significant increase of approximately 4.96 times as compared to that of approximately RMB4.6 million as at 31 December 2017. The significant increase of the non-current assets and liabilities of the Project Company as at 31 October 2018 as compared to 31 December 2017 was mainly due to acquisition of the Target Asset A from Hangzhou Yongsheng Holding Limited Company*（杭州永盛控股有限公司）("**HYH**") on 22 September 2018. HYH was beneficially owned as to 90%, 5% and 5% of the total equity interests by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, respectively. The increase of the current assets of the Project Company was mainly due to increase of the amount due from a director of approximately RMB13.7 million and the other receivables of approximately RMB8.6 million which were related to the unsettled consideration of the disposal of investment properties to a director during the period and the valued-add tax for acquisition of Target Asset A respectively.

The increase of the current assets of the Project Company of approximately RMB0.4 million in 2017 from 2016 was mainly due to increase of (i) the amount due from related parties; and (ii) bank and cash balances. The increase of the current assets of the Project Company of approximately RMB2.6 million in 2016 from 2015 was mainly due to increase of the amount due from related parties.

The revenue of the Project Company comprised of rental income generated from its investment properties. The significant increase of revenue in 2016 from 2015 was mainly due to the significant increase of rental income generated from Target Asset B in 2016. The decrease of revenue in 2017 from 2016 was mainly due to one of the investment properties of the Project Company was sold in 2016. The Project company recorded net losses during the Relevant Period was mainly due to the significant administrative expenses incurred as compared to the revenue received in each of the year during the Relevant Period.

2. Reasons for and benefits of the Acquisition

As stated in the Letter, the land of the Target Asset A is located in Xiaoshan Economic and Technological Development Zone of Hangzhou City ("**XETZ**") in the PRC, which is an advanced geographic location with facilities and a good environment for settlement and investment and waterway traffic systems among coastal cities. The Directors considered that as the urbanization and development process in the PRC will continue to ascend in the future, there will be sizable rigid demands in the real estate market in the PRC, in particular Hangzhou, with a promising prospect for long-term fundamentals. The Directors anticipated that more tourists and business travelers will go to Hangzhou for business and the Directors believes that there will be a positive outlook and development to Hangzhou, which in turn will drive the residential or commercial demand in the region.

As set out in the Letter, the Directors are of the view that the Acquisition and the pursuit and the incorporation of the business scope of the Project Company to the Group, if materialised, represents an investment opportunity in the real estate market in Hangzhou. Upon completion of the construction of the Target Asset A, the Acquisition will diversify the income sources of the Group through leasing out the serviced apartments and commercial office building. Meanwhile, the Acquisition would enlarge and diversify the Group's investment portfolio with high quality assets, which would also potentially provide capital appreciation to the Group and potentially provide capital appreciation to the Group in the future. This is conducive to the long-term growth and sustainable development of the Group as a whole and will enhance long-term Shareholders' value.

On the other hand, the Target Asset B comprises eight office units which are classified as investment properties and have been leased out for rental income of the Project Company. Nevertheless, the rental income was at a relatively minimal level for the two years ended 31 December 2016 and 2017. The leasing agreement of the Target Asset A will be expired and to be renewed in 2019 and the Company expected that the rental rate is likely to increase. In addition, the Group may also enjoy the possible capital appreciation of the Target Asset B and may consider disposing the Target Asset B to realise the possible capital appreciation should the opportunity arise in the future.

The Directors consider that the Acquisition will not only provide an additional and stable rental income to the Group but will also broaden the income resources of the Group. The Directors consider that the terms of the Share Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

We note that the Hangzhou economy is growing at a rate higher than the growth rate of the PRC as a whole. Based on the information published on the website of the Hangzhou Statistical Information Network, Hangzhou has a permanent resident population of approximately 9.5 million as at 31 December 2017. Hangzhou's gross domestic product for the year ended 31 December 2017 was approximately RMB1.26 trillion, representing a growth of approximately 8.1% as compared to the same period in 2016. According to the National Bureau of Statistics of the PRC, the real gross domestic product growth was 6.9% in 2017. The total number of tourists traveled to Hangzhou have increased from approximately 97.3 million people in 2013 to approximately 162.9 million people in 2017, representing a compound annual growth rate ("**CAGR**") of approximately 13.8%. In addition, the total investment in real estate development in Hangzhou for the year of 2017 was approximately RMB273.4 billion, representing an increase of approximately 4.9% as compared to the year of 2016. In which, the aggregated total investments in office buildings and buildings for business use in Hangzhou for the year of 2017 recorded a growth of approximately 3.1% as compared to the year of 2016. This shows that the real estate market continues to grow in Hangzhou.

Based on the information published on the government website of XETZ, XETZ was approved by the State Council of the PRC in May 1993 to serve as the main platform for the economic growth and investment promotion in Xiaoshan District. Based on the information published on the website of the Hangzhou Statistical Information Network, over 600 foreign investment projects from over 30 countries and regions have been ratified in XETZ with an aggregated total foreign investment of approximately US$4,903 million actually used. The total foreign investment actually used in XETZ has been growing with a CAGR of approximately 5.3% from 2013 to 2017. The gross industrial output value of XETZ increased from approximately RMB72,481 million in 2013 to RMB126,400 million in 2017, representing a CAGR of approximately 14.9%. The fulfilled profits of the enterprises in XETZ increased from approximately RMB4,259 million in 2013 to RMB12,040 million in 2017, representing a CAGR of approximately 29.7%. The total financial revenue of the XETZ government increased from approximately RMB5,402 million in 2013 to RMB9,814 million in 2017, representing a CAGR of approximately 16.1%. The aforementioned shows that the economy and the real estate market of XETZ has potential to continue to grow and develop in the future.

We also note from the 2017 Annual Report and the 2018 Interim Report, the Group has held an aggregate amount of approximately RMB292.9 million, RMB273.6 million and RMB230.2 million in trust loan and other loan receivable, financial assets at fair value through profit or loss, pledged deposits and cash and cash equivalents as at 31 December 2016, 31 December 2017 and 30 June 2018, respectively. As set out in the sub-section headed "1. Background information" above, we note that the Group had generated positive cash flow from operating activities and maintained a low level of gearing ratio of the Group during the two years ended 31 December 2017 and the six months ended 30 June 2018. As advised by the management of the Company, the Company has been seeking opportunities for mergers and acquisitions to capture appropriate investment opportunities with potential for development in various regions in order to increase the size of the Group. The Acquisition allows the Company to utilize the current asset of trust loan and other loan receivable and investment in financial assets into a long term investment with potential of capital appreciation of the Target Assets. At the same time, the Target Assets would generate rental income stream for the Group which can diversify the income sources of the Group in the future.

Having considered the abovementioned reasons and benefits, we are of the view that the Acquisition offers the Company a good opportunity to develop its business and diversify its income stream in the investment properties market in the PRC and are of the opinion that although the Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

3. Property development through the Project Company

As advised by the management of the Company, the Target Asset A will be developed into a building with 24 floors above ground level, which will be used as retail, serviced apartments and commercial office, and three floors below group level, which will be used as carparks, mechanical and refuge area. The construction of the Target Asset A has been commenced. As at the Latest Practicable Date, the Target Asset A was under construction up to ground level and it is expected that the construction will be completed on or before May 2020.

As advised by the management of the Company, the Project Company has engaged a professional property developer/contractor to perform the construction work of Target Asset A. After the Acquisition, the construction work will still continue under the engagement between the property developer/contractor and the Project Company. The total estimated construction cost of the Target Asset A is approximately RMB263.2 million, among which approximately RMB194.2 million (the "**Outstanding Construction Cost**") will be further incurred to complete the construction work of Target Asset A. As advised by the management of the Company, the Company intends to settle the Outstanding Construction Cost with bank borrowings of an aggregate amount of RMB200.0 which is currently under negotiation between the Project Company and a commercial bank in the PRC. As stated in the Letter, the Project Company has entered into a letter of intent with a commercial bank in the PRC for a five-year terms' loan of an aggregate amount of RMB150.0 million on normal commercial terms and at market rate and is currently under negotiation for another RMB50.0 million bank loan. Therefore, the Company does not need to arrange additional external financing to support the development of the Target Asset A.

4. Principal terms of the Share Purchase Agreement

A summary of the major terms and conditions of the Share Purchase Agreement is set out below:

Date:	1 November 2018
Parties:	
Vendor:	Astute Horizon Limited
Purchaser:	the Company
Target Company:	First Intelligence International Limited
Subject matter:	The Vendor agrees to sell to the Company the entire equity interest in the Target Company, which indirectly holds the entire equity interest in the Project Company. The primary asset of the Project Company is the Target Assets.

(a) Conditions precedent

The Share Purchase Agreement takes effect upon, among other things, the parties to the agreement having all necessary consents and approvals (including but not limited to the independent Shareholders' approval and the approval for the listing of and permission to deal in the Consideration Shares on the Stock Exchange) in respect of the Share Purchase Agreement and the transactions contemplated thereunder.

(b) Target Assets to be acquired

The principal assets of the Project Company are the Target Asset A and Target Asset B.

The Target Asset A is situated at City North, Western District, XETZ, Hangzhou City, Zhejiang Province, PRC. The site area of the Target Asset A is approximately 10,000 square. Upon completion of the construction, the Target Asset A will be a building comprise of 24 floors above ground level and three floors below ground level with a gross floor area ("**GFA**") of approximately 64,547.2 square meters, which is intended to be developed into serviced apartment and commercial office building, upon completion of construction. As stated in the Letter, the Target Asset A was acquired by HYH from Hangzhou Municipal Bureau of Land and Resources, Xiaoshan Branch at the original consideration of RMB70.1 million in 2012. On 22 September 2018, the Target Asset A was transferred from HYH to the Project Company at a cost of approximately RMB170.8 million. As stated in the Letter, as at the Latest Practicable Date, the Company intends that the Target Asset A will be held for investment purposes. In view of the 50% restriction clause in the Land Use Rights Grant Contract of not allowing strata title sales of the Target Asset A, no less than 50% of the gross floor area of the Target Asset A will be held by the Group mainly for rental purposes. The rest of the 50% gross floor area of the Target Asset A may or may not be sold by the Group upon completion of the construction, depending on the then prevailing property market conditions in Hangzhou City, Zhejiang Province, the PRC.

The Target Asset B consists of eight office units in a building located at No. 3, Ningwei Street Fu Yep Avenue, XETZ, Hangzhou City, Zhejiang Province, PRC with an aggregate GFA of 2,648.78 square meters for commercial and finance uses. As stated in the Letter, the Target Asset B was acquired and developed by HYH and the development cost of the Target Asset B was approximately RMB13.5 million. Upon completion of development of the commercial property in 2014, the Target Asset B was transferred from HYH to the Project Company at a cost of approximately RMB37.9 million.

(c) Reconciliation of the Target Group's net assets value

Taking into account the Valuation (as defined below) of the Target Assets, the table below sets out the reconciliation of the net assets value of the Target Group as at 31 October 2018, which is for illustrative purposes only, and is subject to the pro-forma adjustments as set out in Appendix V to the Circular:

	(RMB'000)
Net asset value of the Target Group as at 31 October 2018	1
Less: book value of the investment properties (i.e. the Target Assets)	(212,831)
Add: market value of the Target Assets	818,000
Subtotal	605,170
Add: settlement of the Outstanding Debts	235,613
Reconciliated net asset value of the Target Group as at 31 October 2018	840,783

(d) Consideration

The Consideration for the Sale Shares is RMB800 million (equivalent to HK$901.6 million), subject to the terms and conditions set out in the Share Purchase Agreement, shall be satisfied by the Company in the following manner:

(i) as to RMB20.0 million (equivalent to HK$22.5 million) shall be settled by the Company to the Vendor (or its nominee) in cash upon entering into the Share Purchase Agreement as a refundable deposit (the "**Deposit**"). The Deposit shall be refunded to the Company if the Acquisition cannot be completed by 30 June 2019;

(ii) as to RMB60.0 million (equivalent to approximately HK$67.6 million) shall be settled by the Company to the Vendor (or its nominee) in cash on or before 31 December 2018 (subject to Completion);

(iii) as to RMB120.0 million (equivalent to approximately HK$135.2 million) shall be settled by the Company to the Vendor (or its nominee) in cash on or before 31 March 2019 (subject to Completion);

(iv) as to approximately RMB364.4 million (equivalent to approximately HK$410.7 million) shall be settled by the Company to the Vendor (or its nominee) by allotment and issue 165,591,746 shares of the Consideration Shares (the "**First Batch Consideration Shares**") at the Issue Price of HK$2.48 per Consideration Share upon Completion; and

(v) as to approximately RMB235.6 million (equivalent to approximately HK$265.5 million) shall be satisfied by the allotment and issue of 107,069,544 shares of the Consideration Shares (the "**Second Batch Consideration Shares**") by the Company to the Vendor (or its nominee) at the Issue Price of HK$2.48 per Consideration Share within the 3 months period after the Vendor has settled the Outstanding Debts by cash and served and provided to the Company a copy of the written proof of repayment of the Outstanding Debts. In the event that the Outstanding Debts have not been settled after Completion and before 30 June 2019, the Company will not allot and issue the Second Batch Consideration Shares to the Vendor (or its nominee). Therefore, the Company will bear all the Outstanding Debts and the amount of the consideration for the Sale Shares will be reduced to RMB564,390,000 (equivalent to approximately HK$636,080,000).

According to the Letter, the Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among others, (i) the business development opportunities and prospects of the Project Company; (ii) the unaudited net asset value of the Project Company as at 31 October 2018 in amount of approximately RMB162.6 million (equivalent to approximately HK$183.2 million); and (iii) the valuation ("**Valuation**") prepared by the Valuer showing the market value of the Target Assets as at 31 October 2018 (the "**Valuation Date**") being RMB818.0 million (equivalent to approximately HK$921.9 million) under market approach, which assuming all construction works have been completed as at the Valuation Date and having taken into account of, among other factors, the deduction of the estimated outstanding construction costs (i.e. approximately RMB194.2 million (equivalent to approximately HK$218.8 million)) to complete the construction. The Company intends to finance the cash portion of the Consideration under the Share Purchase Agreement by internal resources of the Group.

As shown in the valuation report of the Target Assets as set out in Appendix VI to the Circular (the "**Valuation Report**"), the aggregate appraised value of the Target Assets amounted to RMB818.0 million (equivalent to HK$921.9 million) as at 31 October 2018. The Consideration of RMB800.0 million represents a slight discount of the aforesaid Valuation.

(e) Consideration Shares

The Consideration Shares represent (i) approximately 69.1% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 40.9% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to the date of Completion, save as the issue of the Consideration Shares. The Consideration Shares, when allotted and issued, will be credited as fully-paid and rank *pari passu* in all respects with the Shares in issue.

The Issue Price of HK$2.48 per Consideration Share represents:

(i) the closing price of HK$2.48 per Share as quoted on the Stock Exchange as at the Last Trading Day;

(ii) a premium of approximately 0.8% over the average closing price of HK$2.46 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 3.3% over the average closing price of approximately HK$2.40 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 4.6% over the average closing price of approximately HK$2.37 per Share as quoted on the Stock Exchange for the last fifteen (15) consecutive trading days up to and including Last Trading Day;

(v) a premium of approximately 64.2% over the net asset value per Share attributable to Shareholders of approximately HK$1.51 as at 30 June 2018; and

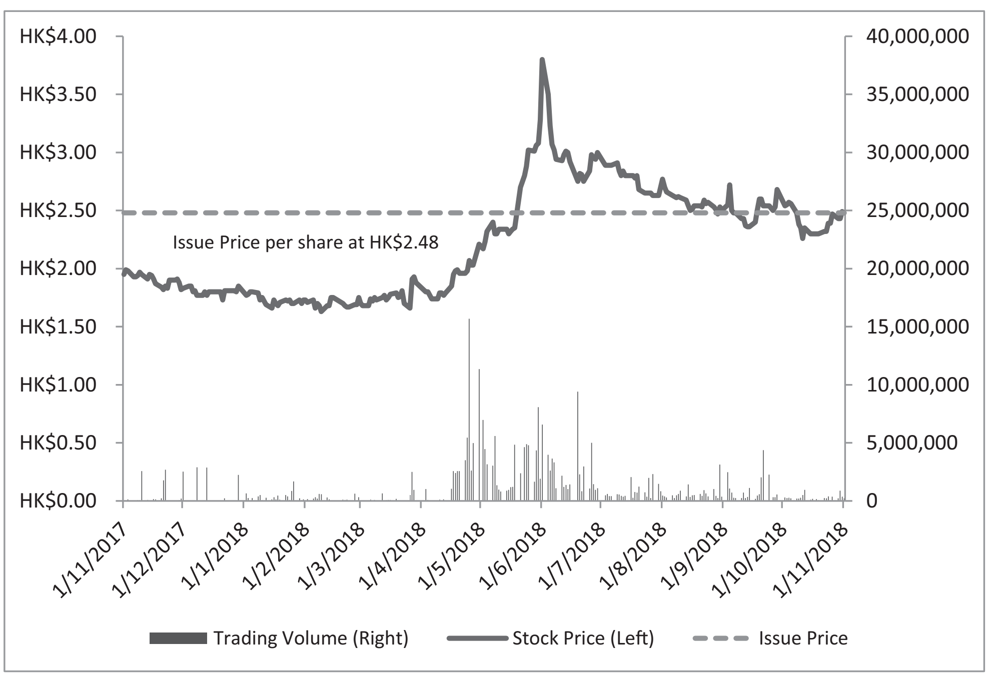
(vi) a premium of approximately 5.1% over the closing price of HK$2.36 per Share as at the Latest Practicable Date.

As set out in the Letter, the Issue Price was determined after arm's length negotiations between the Company and the Vendor with reference to the closing price of the Shares as at the Last Trading Day. We note that the Issue Price is same as the closing price of the Shares as at the Last Trading Day. The allotment and issue of the Consideration Share will not result in change in control of the Company. The Directors consider that the Issue Price and the Consideration are fair and reasonable, on normal commercial terms and in the best interests of the Company and Shareholders as a whole.

(f) Review on the share price performance of the Shares

To assess the fairness and reasonableness of the Issue Price, we set out the following information analyses which include reviews on both the historical price and trading liquidity of the Shares. Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 1 November 2017 to 1 November 2018, being the Last Trading Day (the "**Review Period**"):

Stock price and trading volume of the Shares during the Review Period



As illustrated in the above chart, the closing price of the Shares was HK$1.95 per Share on 1 November 2017. After reaching the lowest point of HK$1.63 per Share on 26 March 2018, the closing price of the Shares experienced an upward trend until the closing price of the Shares reached HK$3.80 per Share on 1 June 2018, representing an increase of approximately 133.1% over approximately two-month period, being the lowest and highest closing price of the Shares during the Review Period, respectively. We note that the day of the lowest closing price of the Shares during the Review Period, being 26 March 2018, is also the same day the Company published its annual results announcement for the year ended 31 December 2017. We also note that the Company published, amongst others, the following major announcements: (i) the unaudited financial and business update of the Group for the third quarter ended 30 September 2017 on 30 November 2017; (ii) a proposed spin-off and separate listing of the polyester filament yarn manufacturing business on the Main Board of the Stock Exchange on 28 December 2017 and a subsequent progress update announcement on 25 June 2018; (iii) the interim results of the Group for the six months ended 30 June 2018 on 29 August 2018; and (iv) the Announcement on 1 November 2018.

We note that the Issue Price was at premium over the historical closing price of the Shares throughout over half of the Review Period with the closing price of the Shares ranged from HK$1.63 to HK$2.35 per Share during the period from 1 November 2017 to 18 May 2018 and was at discount to the historical closing price of the Shares from 21 May 2018 to 28 August 2018, ranged from HK$2.50 to HK$3.80 per Share. Since then and up to the Last Trading Day, the Shares closed between HK$2.26 to HK$2.72 per Share, representing a range of discount of approximately 8.8% and premium of approximately 9.7% as compared to the Issue Price during such period. During the Review Period, we note that the Company has repurchased an aggregate of 9,940,000 Shares, representing approximately 2.5% of the total number of issued share of the Company as at the Latest Practicable Date, for approximately HK$27.1 million.

(g) Review on the trading liquidity of the Shares

As illustrated above, during the Review Period, the average daily trading volume of the Shares as a percentage of the total number of issued share of the Company ranged from nil to approximately 3.9% with the average daily volume being approximately 0.3%. During the Review Period, the daily trading volume of the Shares was below 1.5% of the total number of issued share of the Company except for six trading days, i.e., 25 April 2018, 30 April 2018, 2 May 2018, 30 May 2018, 1 June 2018 and 19 June 2018. Apart from the above trading days, the trading liquidity of the Shares as compared to the total number of issued share of the Company remained thin during the Review Period.

(h) The Valuation

Given that the appraised value of the Target Assets are principal components of the consideration for the Acquisition, we have reviewed the Valuation Report prepared by the Valuer.

The Company has engaged the Valuer to perform the Valuation on the market value of the Target Assets as at 31 October 2018. In order to assess the fairness and reasonableness of the Valuation, we have reviewed and enquired the qualification, experience and independence of the Valuer. We have reviewed the terms of the engagement letter between the Company and the Valuer and we note that the scope of works is appropriate to the opinion given and, as confirmed by the Valuer during our enquiry, there were no limitations on the scope of works. We have discussed with the Valuer in relation to their experiences and were given to understand that Mr. Joseph K P Leung, MSc, MRICS, MHKIS, RPS (G.P.), a director of the valuation department of the Valuer, the person-in-charge of the Valuation and signing of the Valuation Report, has been involved in the valuation of properties including Hong Kong, the PRC and the Asia Pacific regions since 1990. He is a qualified valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in connection with Takeovers and Mergers published by The Hong Kong Institute of Surveyors. The Valuer has also confirmed that they are independent to the Company, the Purchaser, the Vendor and/or any of their core connected persons. Thus, we consider that the Valuer possesses sufficient relevant experience, professional qualifications and independence required to perform the Valuation.

(i) Valuation methodology

We have discussed with the Valuer regarding the methodology of the Valuation and were given to understand that they had considered three generally accepted valuation approaches, i.e. income approach, direct comparison approach (also known as the market approach) and cost approach, in arriving at the market value of the Target Assets as at the Valuation Date. In respect of the income approach, the Valuer considers that income approach requires a reliable and justifiable financial estimation (such as future cash flows, discount rates and perpetuity growth rates) and such input assumptions can fluctuate widely which sometimes can be easily beyond reasonable range, and thus, can be unreliable and easily manipulated. The Valuer considers that the cost approach could not reflect the true value of the Target Assets. Therefore, the income approach and the cost approach was not adopted for the Valuation.

The direct comparison approach has been adopted by the Valuer during the course of the valuation by establishing a pool of comparable properties with similar characteristics of the Target Assets assuming sale of the Target Assets with the benefit of vacant possession or subject to existing tenancy and appropriate adjustments and analyses have been made among the comparable properties and the Target Assets. We have discussed with the Valuer in respect of each of the Target Assets and understand that direct comparison method approach is commonly used for determining the market value of land, constructing building properties and office units.

For Target Asset A, we understand that the Valuer has established the value of the Target Asset A in its existing state (the "**Completion Value A**") as if it has completed the construction as at the Valuation Date and discounted the Completion Value A from May 2020, the expected completion date of the construction, to the Valuation Date using a discount rate, which was set with reference to the 10-year Chinese treasury bonds yield plus a 3% risk premium percentage. Before applying the discount rate to the Completion Value A, we understand from the Valuer that aggregate discounts of 20% were provided to the Completion Value A to reflect (i) the limitation that no less than 50% of the GFA of the Target Asset A should be used by its owner and such area is not allowed to be assigned and to be sold in strata title, detail of which is set out in the Valuation Report; and (ii) the bulk discount for transacting the entire building. The Valuer has used two kinds of direct comparison approach, being the (i) market comparison approach, which made reference to sale prices of similar properties and apply them to different usages and flooring of the Target Asset A; and (ii) the yield capitalisation approach, which made reference to similar properties capitalised by market yields of different kind property usages and apply them to different usages and flooring of the Target asset A, and the Valuer has taken the average of the Completion Value A under the aforementioned two kinds of comparison approach with the aforementioned discounts and then less the Outstanding Construction Costs to arrive at the final market value of the Target Asset A. We understand that the Valuer had identified certain comparable properties and found reference of the market price (the "**Property A Comparable**") based on certain selection criteria with reference to the characteristics of the Target Asset A, including but not limited to (i) being located in Hangzhou; and (ii) being used as retail stores of first floor to fourth floor, serviced apartment, commercial office and carpark units purpose. In this regard, we have obtained from the Valuer, and reviewed, the details of the Property A Comparable and noted that the Property A Comparable met the selection criteria as set out above. Based on the above, the Valuer concluded that the appraised value of the Target Asset A as at the Valuation Date was RMB778.5 million.

For Target Asset B, we understand that the Valuer has employed Term and Reversion Valuation Approach and capitalised values of the two terms of lease, being (i) the first term from 1 November 2018 to 30 November 2018 with pro-rata annual rent rate of RMB420,000 per year and (ii) the second term from 1 December 2018 to 30 November 2019 with annual rent rate of RMB441,000 per year, and add the reversion value, assuming the Target Asset B will be sold at the market value immediately after the expiry of existing tenancy. The Valuer has also capitalised values of the two terms of lease plus the capitalisation of reversion value to market rental value of the Target Asset B with the expected average investment yield with reference to the Property B Comparable (as defined below). The Valuer has taken the average of the two values from above to arrive at the final market value of the Target Asset B. We understand that the Valuer had identified a recent transaction in the same building of the Target Asset B in August 2018 and certain comparable properties (the "**Property B Comparable**") based on certain selection criteria with reference to the characteristics of the Target Asset B, including but not limited to (i) being located in Hangzhou; and (ii) being commercial office units in grade A or B level of commercial office building. In this regard, we have obtained from the Valuer, and reviewed, the details of the Property B Comparable and noted that the Property B Comparable met the selection criteria as set out above. Based on the above, the Valuer concluded that the appraised value of the Target Asset B as at the Valuation Date was RMB39.5 million.

We have obtained from the Valuer, and reviewed, the calculation of reference value of the Target Assets. During the course of our review and discussion with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies used in arriving at the appraised value of the Target Assets.

(ii) Assumptions

Based on our discussion with the Valuer, we understand that all other assumptions in the Valuation are generally adopted in other valuations of similar assets and are necessary for the Valuer to arrive at a reasonable estimated appraised value of the Target Assets. Accordingly, we consider that the adoption of the assumptions in the Valuation is fair and reasonable.

According to the Valuation Report, the appraised value of the Target Assets as at the Valuation Date was RMB818.0 million. Having considered that (i) the Consideration was determined after arm's length negotiations between the Company and the Vendor; and (ii) the Consideration represents a discount of approximately 2.3% to the aggregated appraised value of the Target Assets (being the principal assets underlying the Target Company) as appraised by the Valuer as at the Valuation Date; (iii) the Outstanding Construction Costs have been taken into account during the Valuation of the Target Asset A; and (iv) the reasons and benefits of the Acquisition as discussed above, we consider that the bases for determining the Consideration is fair and reasonable.

(i) Completion

Completion shall take place within seven Business Days after the Share Purchase Agreement becomes effective as all of the conditions precedent for Cash Consideration and First Allotment under the Share Purchase Agreement as set out in the Letter have been fulfilled or waived (as the case may be), and shall not be later than 30 June 2019 or such later date as the parties may agree. Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company.

(j) Conclusion

Having considered the above, we are of the view that terms of the Share Purchase Agreement are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

5. Dilution effect on the shareholding interests of existing Shareholders

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the First Batch Consideration Shares but before the allotment and issue of the Second Batch Consideration Shares; and (iii) immediately after the allotment and issue of the Consideration Shares is as follows:

	As at the Latest Practicable Date		Immediately after the allotment and issue of the First Batch Consideration Shares but before the allotment and issue of the Second Batch Consideration Shares		Immediately after the allotment and issue of the Consideration Shares	
	No. of Shares	*Approx. %*	*No. of Shares*	*Approx. %*	*No. of Shares*	*Approx. %*
ETGL *(Note 1)*	206,471,700	52.3	206,471,700	36.8	206,471,700	30.9
Vendor *(Note 2)*	–	–	165,591,746	29.6	272,661,290	40.9
Mr. Ma Qinghai *(Note 3)*	2,675,677	0.7	2,675,677	0.5	2,675,677	0.4
Mr. Zhao Jidong *(Notes 3, 4)*	3,853,927	1.0	3,853,927	0.7	3,853,927	0.6
Public Shareholders	181,486,196	46.0	181,486,196	32.4	181,486,196	27.2
Total	394,487,500	100.0	560,079,246	100.0	667,148,790	100.0

Notes:

1. *ETGL is beneficially owned as to 95.71% of total equity interest by Mr. Li, the chairman and the executive Director, and as to remaining 4.29% of total equity interest by Ms. Li Chunyan, who is a daughter of Mr. Li. Therefore, Mr. Li is deemed to be interested in the Shares held by ETGL for the purpose of the SFO. Mr. Li is the sole director of ETGL.*

2. *The Vendor is beneficially owned as to 90%, 5% and 5% of total equity interest by Mr. Li, Ms. Li Chunyan and Mr. Li Wenhua, who is a nephew of Mr. Li, respectively. Mr. Li is a director of the Vendor.*

3. *As at the Latest Practicable Date, Mr. Ma Qinghai and Mr. Zhao Jidong are the executive Director, each of them is a connected person of the Company.*

4. *Mr. Zhao Jidong beneficially holds 1,300,000 Shares and is the spouse of Ms. Chen Xi who in turns beneficially holds 2,553,927 Shares. Therefore, Mr. Zhao Jidong is deemed to or taken to be interested in all the Shares held by Ms. Chen Xi for the purpose of the SFO.*

As shown from the table above, the shareholding interests of the existing public Shareholders in the Company would be reduced by approximately 13.6 and 18.8 percentage point (i) immediately after the allotment and issue of the First Batch Consideration Shares but before the allotment and issue of the Second Batch Consideration Shares; and (ii) immediately after the allotment and issue of the Consideration Shares, respectively, assuming no additional Shares are issued and no outstanding options in respect of the Shares are exercised before the allotment and issue of the Consideration Shares, while the aggregate shareholding interests of the Controlling Shareholder and its connected person in the Company would be increased by approximately 19.5 percentage point immediately after the allotment and issue of the Consideration Shares.

Notwithstanding the potential dilution effect brought by the issue of Consideration Shares, taking into account (i) the reasons and benefits of the Acquisition above; (ii) the analysis on the reasonableness of the Consideration and the Issue Price; and (iii) the financial impact of the Acquisition as analysed below, we are of the view that the potential dilution on the shareholding interest of the existing public Shareholders is acceptable.

6. Other financing alternatives available to the Group

As advised by the Directors, apart from the issue of the Consideration Shares, the Directors have also considered other means of financing, such as bank borrowings, placing, open offer, rights issue, to raise capital required for the Acquisition.

With respect to debt financing such as bank borrowings, the management of the Company confirmed that the Company communicates with banks about the costs and collateral requirements for further financing from time to time. The Company, as informed by the banks, would be required to pledge a certain amount of assets which should not represent a significant discount to the loan amount as collateral or unsecured bank loans or other external financing which may charge the Company at an interest rate higher than the current fixed interest rate range of the Group on the existing short-term borrowings of 4.35% to 4.785% as noted from the 2018 Interim Report. As the value of the Consideration Shares, which is amounted to RMB600 million, representing approximately 71.5% of the total assets of the Company as at 30 June 2018, the Company does not consider the debt financing method could be done in the interests of the Group and the Shareholders as a whole.

With respect to equity financing such as placing, open offer and rights issue, most would incur substantial costs in form of placing commission or underwriting commission. Moreover, as advised by the Directors, given that the price of the Shares has dropped approximately 34.7% from the highest closing price during the Review Period and recent market sentiment of secondary equity market, it is difficult for the Company to locate any potential investors for placing without a significant discount on the placing price. For the same reason, without a significant discount on the subscription price, it is also difficult for the Company to attract any shareholder or potential investor to participate in other fund raising exercises such as open offer or rights issue. Although both open offer and rights issue may allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, such fund raising exercises would be relatively time consuming as compared to the proposed issue of Consideration Shares and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. As such, the Directors consider that the issue of Consideration Shares is relatively simple, less time consuming and cost effective, and are of the view that the issue of Consideration Shares is an appropriate fund raising method available to the Group.

Taking into account the above and the funding need of the Company, we concur with the Directors' view that issue of the Consideration Shares is an acceptable means for the Company to settle the Consideration of the Acquisition.

7. Financial effects of the Acquisition

As disclosed in the Letter, the Target Company will become a direct wholly-owned subsidiary of the Company upon Completion and therefore the financial position and results of the Target Company will be consolidated into the financial statements of the Group. Set out below is an analysis of the financial impact of the Acquisition on the Group.

(a) Effect on net asset value

According to the pro forma financial statements of the Enlarged Group, the unaudited pro forma net asset value of the Enlarged Group was approximately RMB1,173.0 million, representing an increase of RMB600.0 million when compared to the unaudited consolidated net asset value of the Group as at 30 June 2018 of approximately RMB573.0 million. As noted above, there will not be any significant adverse impact on the net asset value of the Group immediately following the Acquisition.

We note that the unaudited consolidated net asset value of the Group as at 30 June 2018 amount to RMB1.45 per Share (or approximately HK$1.63 per Share) (calculated based on 394,487,500 Shares in issue as at the Latest Practicable Date). Upon issue of the Consideration Shares, the number of Shares in issue will increase to 667,148,790 Shares. On such basis, the unaudited pro forma net asset value of the Enlarged Group will be approximately RMB1.76 per Share (HK$1.99 per Share), representing an approximately 21.4% increase as compared to the net asset value of the Group per Share as at 30 June 2018.

However, Shareholders should note that the exact effects of the Acquisition on the Group's net assets value shall only be determined, and subject to audit, upon Completion based on the then fair value of the consolidated net assets of the Target Company and the then fair value of the Consideration.

(b) Effect on earnings

According to the accountants' reports of the Target Company and Project Company as set out in appendices II and III to the Circular, the Project Company was loss making for the year ended 31 December 2017 and for the ten months ended 31 October 2018 while the Target Company recorded no revenue or profit or loss for the period from 13 June 2018, being date of incorporation, to 31 October 2018.

As the Target Company will become a wholly-owned subsidiary of the Company upon Completion and its financial results will be fully consolidated into those of the Group, the Enlarged Group would consolidate the net profit or loss of the Target Group upon Completion. The actual effect on earnings or losses of the Enlarged Group will depend on future financial performance of the Target Group.

(c) Effect on working capital position

According to the pro forma financial statements of the Enlarged Group, assuming the Vendor settled the amounts due from related parties, amount due from a director and amounts due to related parties before the day of Completion, the total Consideration of RMB800.0 million will be satisfied as to RMB200.0 million in cash and RMB600.0 million by allotment and issued of Consideration Shares. As advised by the Directors, the cash consideration of RMB200.0 million will be settled by internal resources of the Group, i.e. the contract expired of trust loan and other loan receivable and disposal of financial assets designated as at fair value through profit or loss. According to the 2018 Interim Report, the Group, as at 30 June 2018, has (i) a trust loan receivable of RMB50.0 million matured and received on 11 July 2018 and was extended for another six months (the "**Trust Loan**"); (ii) an other loan receivable of approximately RMB17.4 million matured on 15 October 2018 (the "**Other Loan**"); and (iii) financial assets at fair value through profit or loss of approximately RMB123.2 million which were mainly invest in money market, bonds and fixed income products and were deposited to designated accounts at PRC commercial banks (the "**Financial Assets**").

As advised by the management of the Company, the Outstanding Construction Cost is expected to incur upon Completion to the completion of the development of the Target Asset A which is expected to be on or before May 2020. The Outstanding Construction Cost is expected to be funded by bank loans of an aggregated of RMB200.0 million which are currently under negotiation between the Project Company and a commercial bank in the PRC. We note from the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular that the Enlarged Group would have cash and cash equivalent balance of approximately RMB27.0 million on unaudited consolidated pro forma basis after, among other things, the pro forma adjustments for the cash consideration payment of RMB200.0 million, including the Trust Loan, the Other Loan, the proceeds from the disposal of the Financial Assets and cash and cash equivalents of the Group. As set out in the sub-section headed "3. Sufficiency of working capital" in the appendix I of the Circular, the Directors are of the opinion that taking into account the existing banking and other borrowing facilities available, the existing cash and bank balances and the effect of the Acquisition, the Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of publication of the Circular, in the absence of unforeseeable circumstances.

(d) Effect on gearing

As set out in the sub-section headed "1. Background information" above, the gearing ratio of the Group was approximately 4.5% as at 30 June 2018. Based on the respective amounts of loan and borrowings as set out in the pro forma financial statements of the Enlarged Group, we note that the gearing ratio, being measured on the basis of the total loans and borrowings over the total equity attributable to the Shareholders, of the Enlarged Group would be approximately 2.1%, representing a decrease of 2.4 percentage points as compared to the actual gearing ratio of the Group as at 30 June 2018. We consider that the gearing ratio of the Enlarged Group is at comfortable level upon Completion. Notwithstanding the above, as disclosed in the Letter, the Company intends to finance the capital requirement to complete the construction of the building of the Target Asset A. This would result in a near-term hike in the Group's gearing ratio should the Acquisition go through.

Taking into account (i) the positive impact of the Acquisition on the pro forma net asset and pro forma net asset value per Share of the Enlarged Group; (ii) the reasons and benefits as detailed in sub-section headed "2. Reasons for and benefits of the Acquisition" above; and (iii) the Enlarged Group has sufficient working capital to cover the Consideration for the Acquisition and the development of the Target Asset A, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the terms of the Share Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Share Purchase Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
for and on behalf of
ELSTONE CAPITAL LIMITED

Ringo Kwan
Managing Director

Fanny Lee
Managing Director

Note: Mr. Ringo Kwan and Ms. Fanny Lee have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2005 and 2006, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.

1. FINANCIAL SUMMARY OF THE GROUP

Details of the audited consolidated financial statements of the Group for the years ended 31 December 2015, 2016 and 2017 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.chinaysgroup.com/).

(i) The audited financial information of the Group for the year ended 31 December 2015 is disclosed in the annual report of the Company for the year ended 31 December 2015 published on 18 April 2016, from pages 86 to 182;

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0418/LTN20160418819.pdf

(ii) The audited financial information of the Group for the year ended 31 December 2016 is disclosed in the annual report of the Company for the year ended 31 December 2016 published on 19 April 2017, from pages 86 to 186;

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0419/LTN20170419530.pdf

(iii) The audited financial information of the Group for the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 published on 20 April 2018, from pages 75 to 178:

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0420/LTN201804201268.pdf

(iv) The unaudited financial information of the Group for the six months ended 30 June 2018 is disclosed in the interim report of the Company for the six months ended 30 June 2018 published on 20 September 2018, from pages 7 to 43:

http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0920/LTN20180920509.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2018, being the latest practicable date for the purpose this indebtedness statement, the indebtedness of the Group was as follows:

(i) secured borrowing from a bank of approximately RMB16,100,000 which is secured by the bills receivables of approximately RMB16,000,000;

(ii) secured borrowing from a bank of approximately RMB15,000,000 which is secured by the buildings of approximately RMB8,029,000; and

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, the Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 October 2018, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular.

Save as aforesaid, the Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Group since 31 October 2018, the date to which the indebtedness statement is made and up to the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that taking into account the existing banking and other borrowing facilities available, the existing cash and bank balances and the effect of the Acquisition, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in (i) developing and manufacturing of polyester filament yarns; (ii) provisions of dyeing services of differentiated polyester filament fabric; and (iii) trading of polyester filament yarn products in the PRC. As disclosed in the annual report of the Group for the year ended 31 December 2017, revenue of the Group for the year ended 31 December 2017 was approximately RMB647,811,000, representing an increase of approximately 11.6% as compared with the year ended 31 December 2016. The increase in revenue of the Group was mainly contributed by the increase in revenue derived from the differentiated polyester filament yarn production of approximately RMB40,636,000 and the increase in revenue derived from the dyeing and processing of approximately RMB28,351,000.

Looking ahead, the Group is still optimistic towards the development of the PRC's economy and meanwhile, the Group will closely monitor the development of the Sino-American trade war. Though the Group is not subject to direct impacts of the Sino-American trade war, consumer sentiment may change as a result of the fluctuation of economic environment and as a result may have an impact on the end users of various brands and thus their procurement volume from the supply chain. Facing such changing external environment, the Company will strive to keep its core competitiveness and sustain its ability in providing quality products, and to explore continuously customers' potential needs so as to diversify the Group's product mix and customer base in order to adapt to the changing market.

The Group will proactively explore new business initiatives with particular focus on opportunities related to or those which may pursue diversified investment strategies with objectives to create value for the Group and enhance shareholders' return.

The following is the text of a report received from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this investment circular.

7 December 2018

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YONGSHENG ADVANCED MATERIALS COMPANY LIMITED

Introduction

We report on the historical financial information of First Intelligence International Limited (the ''Target Company'') and its subsidiaries (hereinafter collectively referred to as the ''Target Group'') set out on pages II-4 to II-28, which comprises the consolidated and company statements of financial position of the Target Company as at 31 October 2018, and 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 period from 13 June 2018 (date of incorporation) to 31 October 2018 (the ''Relevant Period'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated 7 December 2018 in connection with the proposed acquisition of the entire equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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.

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' judgement, 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 Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 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, 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 the accountants' report, a true and fair view of the Target Company's and Target Group's financial position as at 31 October 2018 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Material Uncertainty Related to Going Concern

We draw attention to note 3 to the Historical Financial Information which mentions that as at 31 October 2018, the Target Group had net current liabilities of RMB212,830,000. This condition indicates a material uncertainty which may cost significant doubt on the Target Group's ability to continue as a going concern. Our option is not modified in respect of this matter.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-5 have been made.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084

Hong Kong, 7 December 2018

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.

First Intelligence International Limited (the "Target Company") was incorporated on 13 June 2018 in the British Virgin Islands (the "BVI") with limited liability and acts as an investment holding company. The Target Company and its subsidiaries are hereinafter collectively referred to as the "Target Group". As at the date of this report, The Target Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Target Group	Principal activities
Chang Sheng Investment Holding Co. Limited ("Hong Kong Company A")	Hong Kong 7 June 2018	HKD1	100%	Investment holding company
Philosojoy Investment Limited ("Hong Kong Company B")	Hong Kong 6 February 2018	HKD1	100%	Investment holding company
昶盛物業(杭州)有限公司 Chang Sheng Property (Hangzhou) Company Limited*	the People's Republic of China (the "PRC") 17 July 2018	RMB20,000,000	100%	Investment holding company
杭州永浩投資管理有限公司 Hangzhou Yonghao Investment Management Company Limited* ("Project Company")	the PRC 11 April 2014	RMB50,500,000	100%	Property investment for rental income

All the companies of the Target Group have adopted 31 December as the financial year end date.

* *The English name is a translation of its Chinese name of 昶盛物業(杭州)有限公司 and 杭州永浩投資管理有限公司 and included herein for identification purpose only.*

No audited financial statements of the Hong Kong Company A and Hong Kong Company B have been prepared for the Relevant Period as they are new incorporation and no audit requirement in the Relevant Period.

No audited financial statements of the other companies of the Target Group have been prepared for the Relevant Period as there is no statutory audit requirement in the country of their incorporation.

The directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Period in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). We have performed our independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the period from 13 June 2018 (date of incorporation) to 31 October 2018 RMB'000
Revenue	7	–
Administrative expenses		–
Profit before tax		–
Income tax expenses	9	–
Profit and total comprehensive income for the period	10	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 31 October 2018 RMB'000
NON-CURRENT ASSETS		
Investment properties	13	212,831
CURRENT ASSETS		
Amount due from a related party	14	500
Amount due from a director	15	13,665
Amount due from an ultimate holding company	16	1
Other receivables		8,609
Bank and cash balances		8
		22,783
CURRENT LIABILITIES		
Accruals and other payables		35
Amounts due to related parties	17	235,578
		235,613
NET CURRENT LIABILITIES		(212,830)
NET ASSETS		1
CAPITAL AND RESERVE		
Share capital	18	1
Reserves		–
TOTAL EQUITY		1

STATEMENT OF FINANCIAL POSITION

		At 31 October 2018
	Notes	*RMB'000*
CURRENT ASSETS		
Amount due from an ultimate holding company	*16*	1
NET ASSETS		1
CAPITAL AND RESERVE		
Capital	*18*	1
Reserves		–
TOTAL EQUITY		1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*
Issue of share capital	1	–	1
Profit and total comprehensive income for the period	–	–	–
At 31 October 2018	1	–	1

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the period from 13 June 2018 (date of incorporation) to 31 October 2018
	RMB'000
Cash flows from investing activities	
Net cash inflow arising on acquisition of a subsidiary	8
NET CASH GENERATED FROM INVESTING ACTIVITIES	8
NET INCREASE IN CASH AND CASH EQUIVALENTS	8
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8
ANALYSIS OF CASH AND CASH EQUIVALENTS	
Bank and cash balances	8

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. General information

The Target Company was incorporated in the BVI with limited liability on 13 June 2018. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, BVI. and the principal place of business is Room 2601, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Target Company is an investment holding company and it's subsidiaries are investment holding.

In the opinion of the Directors, as at 31 October 2018, Astute Horizon Limited, a company incorporated in the BVI, is the ultimate holding company and Mr. Li Cheng is the ultimate controlling party of the Company.

2. Basis of preparation and presentation of historical financial information

The Historical Financial Information has been prepared in accordance with the accounting policies set out in Note 4 below which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. Going concern basis

As at 31 October 2018, the Target Group has net current liabilities of RMB212,830,000. This condition indicates a material uncertainty which may cast significant doubt on the Target Group's ability to continue as a going concern.

The Historical Financial Information have been prepared on a going concern basis, the validity of which depends upon the financial support of the related party, at a level sufficient to finance the working capital requirements of the Target Group. The related party has agreed to provide adequate funds for the Target Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the Historical Financial Information on a going concern basis. Should the Target Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Target Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

4. Adoption of new and revised international financial reporting standards

The Target Group had adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 13 June 2018. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations.

The Target Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Target Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on the results of operations and financial position of the Target Group.

5. Significant accounting policies

The Historical Financial Information has been prepared under the historical cost convention.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 30-50 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Recognition and derecognition of financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Group transfers substantially all the risks and rewards of ownership of the assets; or the Target Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Target Group are classified as financial assets at amortised cost.

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Target Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Target Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Target Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Other payables

Other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Target Group are recorded at the proceeds received, net of direct issue costs.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in a subsidiary, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated 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 that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Target Group.

(A) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group.

(B) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group. If the Target Group is itself such a plan, the sponsoring employers are also related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to a parent of the Target Group.

Impairment of assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Target Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

6. Financial risk management

The Target Group's activities expose it to credit risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Credit risk

The carrying amounts of the amount due from a related party, amount due from a director, amount due from an ultimate holding company, other receivables and bank and cash balances included in the statements of financial position represent the Target Group's maximum exposure to credit risk in relation to the Target Group's financial assets.

The Target Group has no significant concentrations of credit risk.

Amount due from a related party, amount due from a director and amount due from an ultimate holding company are closely monitored by the directors.

The credit risk on bank and cash balances is limited because the counterparties are banks with good reputation.

The Target Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring 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 information is used:

– internal credit rating;

– external credit rating (if available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower;

– significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Target Group. The Target Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Target Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

(b) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All of the Target Group's financial liabilities are dated within one year.

(c) Categories of financial instruments

	31 October 2018
	RMB'000
Financial assets:	
Financial assets at amortised cost	14,244
Financial liabilities:	
Financial liabilities at amortised cost	235,613

(d) Fair values

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

7. Revenue

There was no revenue generated during the Relevant Period.

8. Segment information

The Target Group's operating segment is investment holding. Since this is the only operating segment of the Target Group, no further analysis thereof is presented.

The Target Group's operation and operating assets are substantially located in the Hong Kong. Accordingly, no geographical segment information is presented.

There was no revenue generated during the Relevant Period.

9. Income tax expenses

No provision for income tax has been made since the Target Group has no assessable profit for the Relevant Period.

10. Profit for the period

The Target Group's profit for the Relevant Period is stated after charging the following:

	For the period from 13 June 2018 (date of incorporation) to 31 October 2018
	RMB
Directors' emoluments	–

11. Earning per share

Earning per share has not been presented as its inclusion is not considered meaningful for the purpose of the Historical Financial Information.

12. Dividends

The directors of the Target Group do not recommend the payment of any dividend in respect of the Relevant Period.

13. Investment properties

	RMB'000
Cost	
At 13 June 2018 (date of incorporation)	–
Additions on acquisition of subsidiaries	212,831
At 31 October 2018	212,831
Carrying amount	
At 31 October 2018	212,831
Fair value	
At 31 October 2018	822,000

The fair values of the investment properties for the Relevant Period were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

No rental income arise from investment properties for the period ended 31 October 2018. At the end of the Reporting Periods, the Target Group had no unprovided contractual obligations for future repairs and maintenance.

At 31 October 2018, no investment property was pledged.

14. Amount due from a related party

Amount due from a related party disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	**Name of director having beneficial interest**	**31 October 2018** *RMB'000*
Hangzhou Yongsheng Group Limited Company* 杭州永盛集團有限公司	Li Cheng	500

All the above amount is unsecured, interest-free and has no fixed repayment terms.

Maximum amount outstanding amount due from a related party disclosed are as follows:

Name	**During the ten months ended 31 October 2018** *RMB'000*
Hangzhou Yongsheng Group Limited Company* 杭州永盛集團有限公司	500

15. Amount due from a director

Amount due from a director disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	**31 October 2018** *RMB'000*
Li Cheng	13,665

All the above amount is unsecured, interest-free and has no fixed repayment terms.

Maximum amount outstanding amount due from a director disclosed are as follows:

Name	During the ten months ended 31 October 2018
	RMB'000
Li Cheng	13,665

16. Amount due from an ultimate holding company

Amounts due from an ultimate holding company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	Name of director having beneficial interest	31 October 2018
		RMB'000
Astute Horizon Limited	Li Cheng	1

All the above amount is unsecured, interest-free and has no fixed repayment terms.

Maximum amount outstanding amounts due from an ultimate holding company disclosed are as follows:

Name	During the ten months ended 31 October 2018
	RMB'000
Astute Horizon Limited	1

17. Amounts due to related parties

The amounts are unsecured, interest free and repayable on demand.

18. Share capital

	RMB'000
At 31 October 2018	1

On incorporation date, 100 ordinary shares were issued a United States dollars 1 per share for cash to the shareholders for raising initial working capital.

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

19. Reserves

The Target Group

The amounts of the Target Group's reserves and the movements therein for the Relevant Period are presented in the consolidated statements of changes in equity of the Historical Financial Information.

The Target Company

The Target Company does not have any profit or loss or movements in reserves since its incorporation and up to 31 October 2018.

20. Acquisition of a subsidiary

The Group acquired assets and liabilities by way of acquisition of equity interest in Hangzhou Yonghao from a related company which is not business:

In the October of 2018, the Target Company acquired 100% equity interest in Project Company at a cash consideration of approximately RMB170,000,000. The principal assets of Project Company are a land with an under-construction building and eight office units in Hangzhou City, Zhejiang Province, PRC.

	RMB'000
Assets and liabilities recognised at the respective dates of acquisition: Investment properties	212,831
Amount due from a related party	500
Amount due from a director	13,665
Other receivables	8,609
Bank and cash balances	8
Accruals and other payables	(35)
Amounts due to related parties	(65,578)
	170,000
Satisfied by:	
Amount due to a related company	170,000
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	8

21. Contingent liabilities

At the end of the Reporting Periods, the Target Group did not have any significant contingent liabilities.

22. Related party transactions

In addition to those related party transactions and balances disclosed elsewhere in the Historical Financial Information, the Target Group had no other transactions with its related parties during the Relevant Period.

23. Subsequent financial statements

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 October 2018.

The following is the text of a report received from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this investment circular.

中汇 ZHONGHUI

7 December 2018

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YONGSHENG ADVANCED MATERIALS COMPANY LIMITED

Introduction

We report on the historical financial information of Hangzhou Yonghao Investment Management Company Limited* (the "Project Company") set out on pages III-4 to III-27, which comprises the statements of financial position of the Project Company as at 31 December 2015, 2016 and 2017 and 31 October 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years ended 31 December 2017 and ten months ended 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated 7 December 2018 in connection with the proposed acquisition of the entire equity interest in the Project Company.

Directors' responsibility for the Historical Financial Information

The directors of the Project Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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.

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' judgement, 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 Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 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, 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 the accountants' report, a true and fair view of the Project Company's financial position as at 31 December 2015, 2016 and 2017 and 31 October 2018 and of the Project Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Project Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the ten months ended 31 October 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Project Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Material Uncertainty Related to Going Concern

We draw attention to note 3 to the Historical Financial Information which mentions that as at 31 October 2018, the Project Company had net liabilities of RMB42,831,000. This condition indicates a material uncertainty which may cost significant doubt on the Project Company's ability to continue as a going concern. Our option is not modified in respect of this matter.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084
Hong Kong, 7 December 2018

* *The English name is a translation of its Chinese name of 杭州永浩投資管理有限公司 and included herein for identification purpose only.*

HISTORICAL FINANCIAL INFORMATION OF THE PROJECT COMPANY

Preparation of Historical Financial Information

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

Hangzhou Yonghao Investment Management Company Limited* (the "Project Company") was incorporated on 11 April 2014 in the People's Republic of China (the "PRC") with limited liability and engaged in property investment for rental income purpose.

The Project Company has adopted 31 December as the financial year end date.

No audited financial statements of the Project Company have been prepared for the Relevant Periods as there is no statutory audit requirement in the country of their incorporation.

The directors of the Project Company have prepared the financial statements of the Project Company for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). We have performed our independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

* *The English name is a translation of its Chinese name of 杭州永浩投資管理有限公司 and included herein for identification purpose only.*

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Ten months ended 31 October	
		2015	**2016**	**2017**	**2017**	**2018**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*8*	171	530	440	342	350
Other income	*9*	–	1	–	–	675
Administrative expenses		(519)	(3,255)	(1,500)	(1,255)	(2,241)
Loss before tax		(348)	(2,724)	(1,060)	(913)	(1,216)
Income tax expenses	*11*	–	–	–	–	–
Loss and total comprehensive expenses for the years/periods	*12*	(348)	(2,724)	(1,060)	(913)	(1,216)

STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 31 October
		2015	2016	2017	2018
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Investment properties	*15*	55,438	49,885	48,424	205,378
		55,438	49,885	48,424	205,378
CURRENT ASSETS					
Amounts due from related parties	*16*	1,000	3,492	3,912	500
Amount due from a director	*17*	–	–	–	13,665
Other receivables		–	158	–	8,609
Bank and cash balances		501	491	674	8
		1,501	4,141	4,586	22,782
CURRENT LIABILITIES					
Accruals and other payables		642	453	497	35
Amount due to a related party	*16*	–	–	–	65,578
		642	453	497	65,613
NET CURRENT ASSETS/(LIABILITIES)		859	3,688	4,089	(42,831)
NET ASSETS		56,297	53,573	52,513	162,547
CAPITAL AND RESERVE					
Capital	*18*	50,000	50,000	50,000	50,500
Reserves		6,297	3,573	2,513	112,047
TOTAL EQUITY		56,297	53,573	52,513	162,547

STATEMENTS OF CHANGES IN EQUITY

	Capital	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	50,000	6,803	(158)	56,645
Loss and total comprehensive expenses for the year	–	–	(348)	(348)
At 31 December 2015 and 1 January 2016	50,000	6,803	(506)	56,297
Loss and total comprehensive expenses for the year	–	–	(2,724)	(2,724)
At 31 December 2016 and 1 January 2017	50,000	6,803	(3,230)	53,573
Loss and total comprehensive expenses for the year	–	–	(1,060)	(1,060)
At 31 December 2017 and 1 January 2018	50,000	6,803	(4,290)	52,513
Addition of reserve *(Note 19)*	–	110,750	–	110,750
Addition of share capital	500	–	–	500
Loss and total comprehensive expenses for the period	–	–	(1,216)	(1,216)
At 31 October 2018	50,500	117,553	(5,506)	162,547
At 1 January 2017	50,000	6,803	(3,230)	53,573
Loss and total comprehensive expenses for the period (unaudited)	–	–	(913)	(913)
At 31 October 2017 (unaudited)	50,000	6,803	(4,143)	52,660

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Cash flows from operating activities					
Loss before tax	(348)	(2,724)	(1,060)	(913)	(1,216)
Adjustments for:					
Interest income	–	(1)	–	–	–
Depreciation	365	1,528	1,461	1,217	1,052
Loss/(gain) on disposal of investment properties	–	1,657	–	–	(675)
Operating profit/(loss) before working capital changes	17	460	401	304	(839)
Change in amounts due from/to related parties	–	(2,492)	(420)	(420)	939
Change in other receivables	–	(158)	158	38	(70)
Change in accruals and other payables	472	(189)	44	(399)	(696)
NET CASH GRNERATED FROM/(USED IN) OPERATING ACTIVITIES	489	(2,379)	183	(477)	(666)
Cash flows from investing activities					
Interest received	–	1	–	–	–
Proceeds from the disposal of investment properties	–	2,368	–	–	–
NET CASH GENERATED FROM INVESTING ACTIVITIES	–	2,369	–	–	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	489	(10)	183	(477)	(666)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	12	501	491	491	674
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	501	491	674	14	8
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank and cash balances	501	491	674	14	8

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. General Information

The Project Company was incorporated in the PRC with limited liability on 11 April 2014. The address of its registered office and principal place of business is 蕭山區經濟技術開發區市心北路99號408F.

The Project Company is principally engaged in property investment for rental income purpose.

In the opinion of the Directors, as at 31 October 2018, Chang Sheng Property (Hangzhou) Company Limited (昶盛物業(杭州)有限公司), a company incorporated in the PRC, is the immediate holding company and Mr. Li Cheng is the ultimate controlling party of the Company.

2. Basis of Preparation and Presentation of Historical Financial Information

The Historical Financial Information has been prepared in accordance with the accounting policies set out in Note 4 below which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. Going Concern Basis

As at 31 October 2018, the Project Company has net current liabilities of RMB42,831,000. This condition indicates a material uncertainty which may cast significant doubt on the Project Company's ability to continue as a going concern.

The Historical Financial Information have been prepared on a going concern basis, the validity of which depends upon the financial support of the related party, at a level sufficient to finance the working capital requirements of the Project Company. The related party has agreed to provide adequate funds for the Project Company to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the Historical Financial Information on a going concern basis. Should the Project Company be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Project Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

4. Adoption of New and Revised International Financial Reporting Standards

The Project Company had adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations.

The Project Company has not applied the new and revised IFRSs that have been issued but are not yet effective. The Project Company has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on the results of operations and financial position of the Project Company.

5. Significant Accounting Policies

The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these Historical Financial Information, are disclosed in note 6 to the Historical Financial Information.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 30-50 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Project Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Project Company transfers substantially all the risks and rewards of ownership of the assets; or the Project Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Project Company are classified as financial assets at amortised cost.

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Project Company recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Project Company measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Project Company measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Project Company's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Project Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Other payables

Other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Project Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Project Company recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Project Company's performance;

– the Project Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Project Company's performance does not create an asset with an alternative use to the Project Company and the Project Company has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised using the effective interest method.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 Project Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in a subsidiary, except where the Project Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated 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 that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Project Company intends to settle its current tax assets and liabilities on a net basis.

Related Parties

A related party is a person or entity that is related to the Project Company.

(A) A person or a close member of that person's family is related to the Project Company if that person:

(i) has control or joint control over the Project Company;

(ii) has significant influence over the Project Company; or

(iii) is a member of the key management personnel of the Project Company or of a parent of the Project Company.

(B) An entity is related to the Project Company if any of the following conditions applies:

(i) The entity and the Project Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Project Company or an entity related to the Project Company. If the Project Company is itself such a plan, the sponsoring employers are also related to the Project Company.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Project Company or to a parent of the Project Company.

Impairment of assets

At the end of each reporting period, the Project Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Project Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Project Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Project Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

6. Critical Judgments and Key Estimates

Key sources of estimation uncertainty

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

(a) Investment properties and depreciation

The Project Company determines the estimated useful lives, residual values and related depreciation charges for the Project Company's investment properties. This estimate is based on the historical experience of the actual useful lives and residual values of investment properties of similar nature and functions. The Project Company will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

7. Financial Risk Management

The Project Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Project Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Project Company's financial performance.

(a) Credit risk

The carrying amounts of the amounts due from related parties, amount due from a director, other receivables, bank and cash balances included in the statements of financial position represent the Project Company's maximum exposure to credit risk in relation to the Project Company's financial assets.

The Project Company has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related parties, amount due from a director is closely monitored by the directors.

The credit risk on bank and cash balances is limited because the counterparties are banks with good reputation.

The Project Company considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring 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 information is used:

– internal credit rating;

– external credit rating (if available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower;

– significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Project Company. The Project Company normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Project Company, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

(b) Liquidity risk

The Project Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All of the Project Company's financial liabilities are due within one year.

(c) Categories of financial instruments

	At 31 December			At 31 October
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:				
Financial assets at amortised cost (including cash and cash equivalents)	1,501	4,141	4,586	14,243
Financial liabilities:				
Financial liabilities at amortised cost	275	86	147	65,578

(d) Fair values

The carrying amounts of the Project Company's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

8. Revenue

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income from investment properties	171	530	440	342	350

9. Other Income

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	–	1	–	–	–
Gain on disposal of investment property	–	–	–	–	675
	–	1	–	–	675

10. Segment Information

The Project Company's operating segment is property investment for rental income in the PRC. Since this is the only operating segment of the Project Company, no further analysis thereof is presented.

The Project Company's operation and operating assets are substantially located in the PRC. Accordingly, no geographical segment information is presented.

Revenue from major customers:

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer a	120	114	39*	9*	–*
Customer b	50	38*	–*	–*	–*
Customer c	1*	345	–*	–*	–*
Customer d	–*	33*	401	333	350

* *Revenue from these customers did not exceed 10% of total revenue in the respective year/period. These amounts were shown for comparative purpose.*

11. Income Tax Expenses

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
PRC Corporate Income Tax	–	–	–	–	–

No provision for PRC Corporate Income Tax has been made since the Project Company has sufficient tax losses brought forward to set off against the assessable profit for the year ended 31 December 2015. No provision for PRC Corporate Income Tax is required since the Project Company has no assessable profit for the years ended 31 December 2016 and 2017 and for the periods ended 31 October 2017 and 2018.

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The reconciliation between the income tax expense and the loss before tax multiplied by the PRC Corporate Income Tax rate is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before tax	(348)	(2,724)	(1,060)	(913)	(1,216)
Tax at domestic income tax rate of 25%					
Tax effect of utilisation of tax losses not previously recognised	(87)	(681)	(265)	(228)	(304)
Tax effect of temporary differences not recognised	87	–	–	–	–
	–	681	265	228	304
Income tax expense	–	–	–	–	–

12 Loss for the years/periods

The Project Company's loss for the Relevant Periods is stated after charging/(crediting) the following:

	Year ended 31 December			Ten months ended 31 October	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Directors' emoluments	–	–	–	–	–
Depreciation of investment properties	365	1,528	1,461	1,217	1,052
Loss/(gain) on disposals of investment properties	–	1,657	–	–	(675)

13. Dividends

The directors of the Project Company do not recommend the payment of any dividend in respect of the Relevant Periods.

14. Earnings Per Share

Earnings per share have not been presented as the inclusion is not considered meaningful for the purpose of the Historical Financial Information.

15. Investment Properties

	RMB'000
Cost	
At 1 January 2015, 31 December 2015 and 1 January 2016	55,803
Disposals	(4,220)
At 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	51,583
Addition	170,762
Disposals	(13,665)
At 31 October 2018	208,680

	RMB'000
Accumulated depreciation	
At 1 January 2015	–
Charged for the year	365
At 31 December 2015 and 1 January 2016	365
Charged for the year	1,528
Disposals	(195)
At 31 December 2016 and 1 January 2017	1,698
Charged for the year	1,461
At 31 December 2017 and 1 January 2018	3,159
Charged for the period	1,052
Disposals	(909)
At 31 October 2018	3,302
Carrying amount	
At 31 October 2018	205,378
At 31 December 2017	48,424
At 31 December 2016	49,885
At 31 December 2015	55,438
Fair value	
At 31 October 2018	822,000
At 31 December 2017	59,476
At 31 December 2016	50,668
At 31 December 2015	55,940

The fair values of the investment properties for the Relevant Periods were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

The rental income arising from investment properties for the period ended 31 October 2018 of RMB350,000 (period ended 31 October 2017: RMB342,000, year ended 31 December 2017: RMB440,000, 31 December 2016: RMB530,000, 31 December 2015: RMB171,000) are included in revenue and depreciation charges are included in administrative expense. At the end of each Reporting Periods, the Project Company had no unprovided contractual obligations for future repairs and maintenance.

At 31 October 2018, no investment properties was pledged. At 31 December 2017, the carrying amount of investment properties pledged as security to obtain the bank facilities of a related party control by Mr. Li Cheng, 杭州蕭山永盛對外貿易有限公司 amounted to approximately RMB35,517,000 (31 December 2016: RMB18,359,000, 31 December 2015: RMBNil).

16. Amounts Due from/(to) Related Parties

Amounts due from related parties disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	Name of director having beneficial interest	At 31 December 2015	2016	2017	31 October 2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hangzhou Yongsheng Holding Limited Company* 杭州永盛控股有限公司	Li Cheng	–	2,492	2,912	(65,578)
Hangzhou Yongsheng Group Limited Company* 杭州永盛集團有限公司	Li Cheng	1,000	1,000	1,000	500
		1,000	3,492	3,912	(65,078)

All the above amounts are unsecured, interest-free and has no fixed repayment terms.

Maximum amounts outstanding amount due from related parties disclosed are as follows:

Name	During the year ended 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	During the Ten months ended 31 October 2018 RMB'000
Hangzhou Yongsheng Holding Limited Company* 杭州永盛控股有限公司	–	2,492	2,912	2,912
Hangzhou Yongsheng Group Limited Company* 杭州永盛集團有限公司	1,000	1,000	1,000	1,000

* *The English name is a translation of its Chinese name and included herein for identification purpose only.*

17. Amount Due from a Director

Amount due from a director disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	At 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	31 October 2018 RMB'000
Li Cheng	–	–	–	13,665

All the above amount is unsecured, interest-free and has no fixed repayment terms.

Maximum amount outstanding amounts due from a director disclosed are as follows:

Name	During the year ended 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	During the Ten months ended 31 October 2018 RMB'000
Li Cheng	–	–	–	13,665

18. Capital

	RMB'000
Paid-up capital:	
At 1 January 2015, 31 December 2015, 2016, 2017	50,000
Addition of share capital	500
At 31 October 2018	50,500

The Project Company's objectives when managing capital are to safeguard the Project Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

19. Major Non-Cash Transaction

On 22 September 2018, the Project Company and 杭州永盛控股有限公司, entered into an agreement, pursuant to which a 杭州永盛控股有限公司's investment property was sold to the Project Company in amounting RMB170,762,000. The consideration treated as capital injection in amounting RMB110,750,000 and the remaining balance was accounted for as amount due to a related party.

20. Contingent Liabilities

At the end of each Reporting Periods, the Project Company did not have any significant contingent liabilities.

21. Related Party Transactions

In addition to those related party transactions and balances disclosed elsewhere in the Historical Financial Information, the Project Company had the following transactions with its related parties during the Relevant Periods.

Sale of investment property to a director

On 13 July 2018, The Project Company and Mr. Li Cheng, entered into an agreement, pursuant to which a Project Company's investment property was sold to Mr. Li Cheng in amounting RMB13,665,000.

22. Subsequent Financial Statements

No audited financial statements have been prepared by the Project Company in respect of any period subsequent to 31 October 2018.

Set out below is the management discussion and analysis of the Target Group and the Project Company, which should be read in conjunction with accountants' report of the Target Group and the Project Company as set out in Appendix II and III to this circular respectively.

BACKGROUND

Set out below is the management discussion and analysis of the Target Group for the period from 13 June 2018 (date of incorporation) to 31 October 2018, and the Project Company for the years ended 31 December 2015, 2016, 2017 and the ten months ended 31 October 2018. As at the Latest Practicable Date, the Target Group comprised the Target Company and its subsidiaries including (i) the Hong Kong Company A; (ii) the Hong Kong Company B; (iii) the WFOE; and (iv) the Project Company. The following financial information is based on the financial information of the Target Group and the Project Company as set out in Appendix II and III to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS ON TARGET GROUP

(1) General information

The Target Company is an investment holding company incorporated in the BVI with limited liability, which holds the entire equity interest in certain other subsidiaries, including the Hong Kong Company A, the Hong Kong Company B, the WFOE, and the Project Company. The Target Assets are owned by the Project Company as at the Latest Practicable Date.

The Target Company, the Hong Kong Company A, the Hong Kong Company B and the WFOE were incorporated on 13 June 2018, 7 June 2018, 6 February 2018 and 17 July 2018, respectively. Each of the Target Company, the Hong Kong Company A, the Hong Kong Company B and the WFOE is principally engaged in investment holding and does not have any material assets as at the Latest Practicable Date. The Project Company was established under the laws of the PRC with limited liabilities on 11 April 2014 and is principally engaged in property investment for rental income purpose.

The major asset of the Target Group is the Project Company's interest in the Target Assets (i.e. the Target Asset A and Target Asset B).

(2) Business and financial review

Consolidated statements of profit or loss

Set out below is the consolidated statements of profit or loss of the Target Group for the period from 13 June 2018 (date of incorporation) to 31 October 2018, and the Project Company for the years ended 31 December 2015, 2016, 2017 and the ten months ended 31 October 2017 and 2018 as extracted from the accountants' report as set out in Appendix II and III to this circular.

Target Group

	For the period from 13 June 2018 (date of incorporation) to 31 October 2018
	RMB'000
Revenue	–
Profit before tax	–
Profit and total comprehensive income for the period	–

Project Company

	For the year ended 31 December			For the ten months period ended 31 October	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	171	530	440	342	350
Loss before tax	(348)	(2,724)	(1,060)	(913)	(1,216)
Loss and total comprehensive expenses for the years/periods	(348)	(2,724)	(1,060)	(913)	(1,216)

For the period from 13 June 2018 (date of incorporation) to 31 October 2018, as the financial information of the Project Company consolidated into the accounts of the Target Group on 31 October 2018, the Target Group has recorded nil revenue and profit during the period.

For the years ended 31 December 2015, 2016 and 2017 and the ten months period ended 31 October 2018, the Project Company recorded the revenue of approximately RMB171,000, RMB530,000, RMB440,000 and RMB350,000 respectively. During the periods, the revenue of the Project Company was generated from the rental income of the Target Asset B. As at the Latest Practicable Date, the Target Asset A is still under construction and it has yet to generate any revenue.

Consolidated statements of financial position

Set out below is the consolidated statements of financial position of the Target Group as at 31 October 2018, and the Project Company as at 31 December 2015, 2016, 2017 and 31 October 2018 as extracted from the accountants' report as set out in Appendix II and III to this circular.

Target Group

	As at 31 October 2018
	RMB'000
Non-current assets	212,831
Current assets	22,783
Current liabilities	235,613
Net assets	1

Project Company

	As at 31 December			**As at 31 October**
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	55,438	49,885	48,424	205,378
Current assets	1,501	4,141	4,586	22,782
Current liabilities	642	453	497	65,613
Net assets	56,297	53,573	52,513	162,547

As stated in the accountants' report of the Target Group, the non-current assets of the Target Group amounted to approximately RMB212,831,000 as at 31 October 2018 comprised of investment properties. The current assets of the Target Group amounted to approximately RMB22,783,000 as at 31 October 2018 comprised of, among other things, amount due from a director and other receivables. The current liabilities of the Target Group amounted to approximately RMB235,613,000 as at 31 October 2018 comprised of, among other things, amount due to a related parties.

As stated in the accountants' report of the Project Company, the non-current assets of the Project Company, comprising of investment properties, was amounted to approximately RMB205,378,000 as at 31 October 2018, representing a significant increase of approximately 4.24 times as compared to that of approximately RMB48,424,000 as at 31 December 2017; while the current assets was recorded approximately RMB22,782,000 as at 31 October 2018, representing a significant increase of approximately 4.96 times as compared to that of approximately RMB4,586,000 as at 31 December 2017.

The significant increase of the non-current assets of the Project Company was mainly due to acquisition of the Target Asset A from Hangzhou Yongsheng Holdings Co., Ltd.* (杭州永盛控股有限公司). The increase of the current assets of the Project Company was mainly due to increase of (i) the amount due from a director of approximately RMB13,665,000; and (ii) the other receivables of approximately RMB8,609,000 which were related to the unsettled consideration of investment properties to a director during the period and the valued-add tax for acquisition of Target Asset A respectively.

The Project Company also recorded the current liabilities of approximately RMB65,613,000 as at 31 October 2018, which represents a significant increase of approximately 131 times as compared to that of approximately RMB497,000 as at 31 December 2017.

Segment information

The Target Group's operating segment is investment holding and the Project Company's operating segment is property investment for rental income in PRC.

Contingent liabilities

As at 31 October 2018, the Target Group did not have any significant contingent liabilities.

As at 31 December 2015, 2016 and 2017, and as at 31 October 2018, the Project Company did not have any significant contingent liabilities.

Charges on assets

As at 31 October 2018, the Target Group did not have any charges on its assets.

At as 31 October 2018, the Project Company did not have any charges on its assets.

At as 31 December 2017, the Project Company have pledged its investment properties as security to obtain the bank facilities of a related party amounted to approximately RMB35,517,000 (31 December 2016: RMB18,359,000, 31 December 2015: Nil).

Capital commitments

As at 31 October 2018, the Target Group did not have any charges on its assets.

As at 31 December 2015, 2016 and 2017, and as at 31 October 2018, the Project Company did not commit to any material capital expenditure.

Foreign exchange rate risks

The Target Group and the Project Company operates in the PRC and most of the transactions denominated and settled in RMB. In this respect, there is no significant currency mismatch in their operational cashflows and the Target Group and the Project Company are not exposed to any significant foreign currency exchange risk in its operations.

Employee and remuneration policies

As at 31 October 2018, the Target Group did not employ any employees and hence the Target Group did not incur any staff costs nor does it adopt any remuneration policies, bonus and share option schemes and training schemes.

As at 31 December 2015, 2016 and 2017 and 31 October 2018, the Project Company did not employ any employees and hence the Project Company did not incur any staff costs nor does it adopt any remuneration policies, bonus and share option schemes and training schemes.

Material acquisition or disposal of subsidiaries and affiliated companies

There has no other material acquisition or disposal of subsidiaries and affiliated companies of the Target Group during 13 June 2018 (date of incorporation) to 31 October 2018.

There has no other material acquisition or disposal of subsidiaries and affiliated companies of the Project Company during the three years ended 31 December 2017 and ten months ended 31 October 2018.

Significant investments

There were no material financial investments held by the Target Group during 13 June 2018 (date of incorporation) to 31 October 2018.

There were no material financial investments held by the Project Company during the three years ended 31 December 2017 and ten months ended 31 October 2018.

Liquidity, financial resources and capital structure

Liquidity and financial resources

As at 31 December 2015, 31 December 2016, 31 December 2017, and 31 October 2018 the net current assets/(liabilities) of the Target Group and Project Company were as follow:

	Target Group *(RMB'000)*	**Project Company** *(RMB'000)*
As at 31 December 2015		
Net current assets	N/A	859
As at 31 December 2016		
Net current assets	N/A	3,688
As at 31 December 2017		
Net current assets	N/A	4,089
As at 31 October 2018		
Net current liabilities	(212,830)	(42,831)

The current ratio (being current assets over current liabilities) as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 October 2018 of the Target Group and Project Company were as follow:

	Target Group *(RMB'000)*	**Project Company** *(RMB'000)*
As at 31 December 2015		
Current ratio	N/A	2.34
As at 31 December 2016		
Current ratio	N/A	9.14
As at 31 December 2017		
Current ratio	N/A	9.22
As at 31 October 2018		
Current ratio	0.10	0.35

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 October 2018 the net assets of the Target Group and Project Company were as follow:-

	Target Group *(RMB'000)*	**Project Company** *(RMB'000)*
As at 31 December 2015		
Net assets	N/A	56,297
As at 31 December 2016		
Net assets	N/A	53,373
As at 31 December 2017		
Net assets	N/A	52,313
As at 31 October 2018		
Net assets	1	162,547

Capital structure

As at 31 October 2018, the paid-up capital of the Target Company was RMB1,000.

As at 31 December 2015, 2016 and 2017, the paid-up capital of the Project Company was RMB50,000,000 and, as at 31 October 2018, the paid-up capital of the Project Company was RMB50,500,000. Save for the increase of RMB500,000 in the paid-up capital during the period from 1 January 2018 to 31 October 2018, there was no material change in the capital structure of the Project Company.

Future prospect of the Target Group

The Group is principally engaged in (i) developing and manufacturing of polyester filament yarns, (ii) provisions of dyeing services of differentiated polyester filament fabric; and (iii) trading of polyester filament yarn products in the PRC. The Project Company is principally engaged in property development and provision of property service.

The Target Asset A is a building under construction located at City North, Western District, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC under real estate right certificate: Zhejiang (2018) Xiaoshan 0098120. The site area of the Target Asset A is approximately 10,000 square meters. The land, where the Target Asset A is located, has been granted to the Project Company for a term up to 4 March 2053. Upon completion of the construction, the Target Asset A will comprise 24 floors above ground level and 3 floors below ground level with gross floor area of approximately 64,547.20 square meters. The Target Asset A will be used as services apartment and commercial office building upon completion of construction.

The Target Asset B consists of eight office units (i.e. Nos 1601-1604 and 1701-1704) under Hangzhou property right certificate: Xiaoyi 15425161 and 15425164 respectively with an aggregate gross floor area of 2,648.78 square meters in a building located at No. 3, Ningwei Street Fu Yep Lane, Xiaoshan Economic and Technological Development Zone, Hangzhou City, Zhejiang Province, the PRC which is under the Land Use Rights Certificate granted to the Project Company for a term up to 10 March 2048 for commercial and finance uses.

The Directors are of the view that the Acquisition and the pursuit of the Project Company, if materialised, will diversify the income sources of the Group. This is conducive to the long-term growth and sustainable development of the Group as a whole and will enhance long-term Shareholders' value. On the above basis, the Directors are of the view that the terms of the Share Purchase Agreement in accordance therewith are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.

中汇
ZHONGHUI

7 December 2018

The Board of Directors
Yongsheng Advanced Materials Company Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Yongsheng Advanced Materials Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 30 June 2018 (the "Statement") as set out on pages V-5 to V-6 of the investment circular issued by the Company. The applicable criteria on the basis of which the directors have compiled the Statement are described in Appendix V of the Circular.

The Statement has been compiled by the directors to illustrate the impact of the proposed acquisition of the entire equity interest in First Intelligence International Limited (the "Target Company") on the Group's financial position as at 30 June 2018 as if the transaction had been taken place at 30 June 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's condensed financial statements as included in the interim report for the six months ended 30 June 2018, on which no audit or review report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" 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 requirement 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 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement 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 Statement 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 accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Statement in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" 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 Statement, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Statement.

The purpose of the Statement included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Statement 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 Statement 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 pro forma adjustments give appropriate effect to those criteria; and
- The Statement reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Statement has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Statement.

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 Statement 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 Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Practising Certificate Number P06084

(1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Capitalised terms used herein shall have the same meanings as those defined in this Circular, unless the context requires otherwise.

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the ''Unaudited Pro Forma Financial Information'') has been prepared by the Directors of the Company to illustrate the effect of the Acquisition.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as extracted from the Group's condensed consolidated financial statements as included in the interim report for the six months ended 30 June 2018, the audited consolidated statement of financial position of the Target Group as at 31 October 2018 as extracted from the accountants' report as set out in Appendix II of this Circular after making certain proforma adjustments resulting from the Acquisition.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 30 June 2018. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I of this Circular, the financial information of the Target Group as set out in Appendix II of this Circular respectively and other financial information included elsewhere in this Circular.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018	Audited statement of financial position of the Target Group as at 31 October 2018	Sub-total	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	
Non-current assets						
Property, plant and equipment	201,526	–	201,526	–	–	201,526
Prepayments for property, plant and equipment	38,272	–	38,272	–	–	38,272
Prepaid land lease payments	28,115	–	28,115	–	–	28,115
Intangible assets	5,247	–	5,247	–	–	5,247
Deferred tax assets	476	–	476	–	–	476
Investment properties	–	212,831	212,831	–	578,552	791,383
	273,636	212,831	486,467	–	578,552	1,065,019
Current assets						
Inventories	92,007	–	92,007	–	–	92,007
Trade and bills receivables	223,216	–	223,216	–	–	223,216
Prepayments, deposits and other receivables	17,781	8,609	26,390	–	–	26,390
Trust loan and other loan receivable	67,415	–	67,415	–	(67,415)	–
Financial assets designated as at fair value through profit or loss	123,245	–	123,245	–	(123,245)	–
Amounts due from related parties	2,800	501	3,301	(501)	–	2,800
Amount due from a director	–	13,665	13,665	(13,665)	–	–
Pledged deposits	3,190	–	3,190	–	–	3,190
Cash and cash equivalents	36,365	8	36,373	–	(9,340)	27,033
	566,019	22,783	588,802	(14,166)	(200,000)	374,636

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018	Audited statement of financial position of the Target Group as at 31 October 2018	Sub-total	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	
Current liabilities						
Trade and bills payables	176,538	35	176,573	(35)	–	176,538
Amounts due to related parties	57	235,578	235,635	(235,578)	–	57
Other payables, advances from customers and accruals	34,792	–	34,792	–	–	34,792
Government grants	1,126	–	1,126	–	–	1,126
Income tax payable	9,734	–	9,734	–	–	9,734
Interest-bearing bank and other borrowings	24,000	–	24,000	–	–	24,000
	246,247	235,613	481,860	(235,613)	–	246,247
Net current assets	319,772	(212,830)	106,942	221,447	(200,000)	128,389
Total assets less current liabilities	593,408	1	593,409	221,447	378,552	1,193,408
Non-current liabilities						
Government grants	11,997	–	11,997	–	–	11,997
Deferred tax liabilities	8,369	–	8,369	–	–	8,369
	20,366	–	20,366	–	–	20,366
Net assets	573,042	1	573,043	221,447	378,552	1,173,042

(3) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Figures are extracted from the unaudited condensed consolidated statement of financial position of the Group as set out in the condensed consolidated financial statements of the Company for the six months ended 30 June 2018.

(2) Figures are extracted from the Target Group's consolidated statement of financial position as at 31 October 2018 included in the accountants' report of the Target Group as set out in Appendix II to the Circular.

(3) Pursuant to the Share Purchase Agreement and directors estimate, the Vendor procures the Target Company to settle the amounts due from related parties, amount due from a director, trade and bills payables and amounts due to related parties before the day of completion.

(4) The adjustment represents if the Vendor settled the amounts due from related parties, amount due from a director and amounts due to related parties before the day of completion, the total consideration amounting to RMB800.00 million for the acquisition of entire equity interests of Target Group, which will be satisfied as to (i) RMB200.00 million in cash and RMB600.00 million by allotment and issued of consideration share. The Directors of the Company have assessed that there will be no business in the completion date and the Acquisition is accounted for as an acquisition of assets and liabilities under International Financial Reporting Standards as the Target Group proposed to be acquired by the Company does not constitute a business.

According to paragraph 2(b) of IFRS 3 (revised), IFRS 3 (revised) applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the acquisition shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

For the purpose of preparation of this unaudited pro forma consolidated statement of financial position, RMB578.55 million was allocated to investment properties. The allocation of the assets is as follows:

	RMB'000
Transaction consideration	800,000
Less: Target Group's asset and liabilities	(1)
Less: Settlement by Vendor before completion *(Note 3)*	(221,447)
Cost adjustment	578,552

According to the Director's opinion, the the cash consideration RMB200.00 million will be generated from the contract expired of trust loan and other loan receivable and disposal of financial assets designated as at fair value through profit or loss.

6 December 2018

Weisi Limited
Suite 2203, Level 22
Office Tower, Langham Place
8 Argyle Street
Mongkok, Kowloon
Hong Kong

The Board of Directors
Yongsheng Advanced Materials Company Limited
Unit C2, 29th Floor, Tower 1
Admiralty Centre
No.18 Harcourt Road
Hong Kong

Dear Sirs

Valuation of (1) Property Development Project of Yong Sheng Plaza(永盛大廈項目)and (2) Eight Office Units of 浙江民營企業發展大廈1幢in Hangzhou City of Zhejiang Province(浙江省杭州市), PRC

In accordance with your instructions for us to assess the value of the captioned Properties to be acquired by Yongsheng Advanced Materials Company Limited (hereinafter together referred to as the "Company"), we hereby provide you with our opinion of the value of the Property interests as at 31 October 2018 (hereinafter referred to as the "Valuation Date"), in their existing state.

THE PROPERTY

Property (1):

Property (1) comprises a development site for commercial uses with a net site area of about 14.93 Mu (9,954.95 sq m or 107,154 sq ft), and the total permissible GFA above ground to be built upon the site is about 42,000 sq m or 452,084 sq ft. The Property is currently under construction (i.e. CIP). It is expected that the construction will be completed within the second quarter of 2020.

Property (2):

Property (2) comprises eight office units in 浙江民營企業發展大廈1幢, i.e. Units 1601 to 1604 and 1701 to 1704.

BASIS OF VALUATION

Our valuation is our opinion of the market value of the Properties which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION ASSUMPTION AND METHODOLOGY

There are three generally accepted approaches in arriving at the market value of the Properties, namely the Direct Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

Income Approach relies heavily on input assumptions. Depending on the selection of the input assumptions specific for the subject matter, how the subject matter will operate, how the market will unfold and how the assumptions interact with the subject matter and the market, the Income Approach valuation can fluctuate widely which sometimes can be easily beyond reasonable range. Certain important input assumptions, such as future cash flows, discount rates and perpetuity growth rates, can be unreliable and easily manipulated.

On the other hand, the Cost Approach was not adopted because it could not reflect the true value of the subject Property.

In the course of our valuation, we have established a pool of comparable transactions with similar characteristics as that of the subject Properties and found a reliable reference of the market price of the subject Properties themselves. Accordingly, we have adopted Direct Comparison Approach as our valuation methodology, assuming sale of the Properties with the benefit of vacant possession or subject to existing tenancy. Appropriate adjustments and analyses have been made among the comparable properties and the subject Properties.

We have valued the two Properties in their existing state:

For Property (1) – we have valued the present values of the Property assuming all construction works have been completed as at the date of valuation, less the outstanding construction costs to complete the construction. These present values are to be arrived by either market comparison approach (i.e. sale prices of similar properties) or yield capitalisation approach (one kind of Market Valuation Approaches) whereby market rents with reference to similar properties are capitalised by market yields of different kind property usages. These two resultant present values are summed up and are to be adjusted in view of the sale clauses restrictions in the Land Use Rights Grant Contract.

For Property (2) – we have employed Term and Reversion Approach (one kind of Market Valuation Approaches) and have assessed the values of the two terms of lease and the reversion value to market value. The summation of the term values and reversion value is the market value of the Property in its existing state, i.e. subject to existing tenancy.

We have assumed the gross floor area and site area would form no discrepancy with the figures stated and written in the current and future official property documents. No taxes or similar elements such as Value Added Tax and Government levies have been considered during our valuation. In the course of our valuation for such CIP property, we have allowed construction payments to complete the construction process.

TITLE DOCUMENTS AND ENCUMBRANCES

We have been provided with copies of extracts of title documents including State-owned Land Use Rights and other relevant documents. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have relied on the information given by the Company relating to the Properties. We have no reason to doubt the truth and accuracy of the information provided to us which is material to the valuation.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have been provided with major title documents by the Company which are listed below:

Property (1):

Major Documents	**Status**
Land Use Rights Grant Contract (土地出讓合同)	Obtained
Land Use Rights Certificate (土地證)	Obtained
Certificate of Property Right (不動產權證書)	Obtained
Construction Land Use Planning Certificate (建設用地規劃許可證)	Obtained
Construction Engineering Planning Certificate (建設工程規劃許可證)	Obtained
Construction Permit (建築工程施工許可證)	Obtained
Property Ownership Certificate (房產證)	NA

Property (2):

Major Documents	**Status**
Land Use Rights Grant Contract（土地出讓合同）	NA
Land Use Rights Certificate（土地證）	Obtained
Construction Land Use Planning Certificate（建設用地規劃許可證）	NA
Construction Engineering Planning Certificate（建設工程規劃許可證）	NA
Construction Permit（建築工程施工許可證）	NA
Property Ownership Certificate（房產證）	Obtained

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Company. We have accepted advice given by the Company on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy and site area. Dimensions, measurements and areas included in the valuation report are based on information provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site area of the Property (1) and we have assumed that the areas shown on the documents handed to us are correct. We were also advised that no material facts have been omitted from the information provided. We have relied considerably on the advice given by the Company's PRC legal advisers, Messrs De Heng Law Offices (Shenzhen), concerning the validity of the title and documents of the Properties.

INSPECTION AND STRUCTURAL CONDITION

We have inspected the Properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services like pipes, drainages, electricity wires, gas pipes etc. In addition, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any further developments. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period for the future development. We have not been able to carry out a land survey to verify the site boundary and the correctness of the site area of the Property (1). We have assumed that the site area shown on the documents handed to us is correct. We have also assumed the Properties are not at risk of flooding, but this should be verified by specialist advisors.

REMARKS

This valuation report is provided subject to the assumptions, qualifications, limitations and disclaimers detailed in this report. Reliance on this report and extension of our liability is conditional upon the reader's acknowledgement and understanding of these statements. The Valuer has no pecuniary interest that would conflict with the proper valuation of the Properties.

In valuing the subject Properties, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

The property inspection was carried out in August 2018 by Mr Joseph KP Leung.

CURRENCY

Unless otherwise stated, all monetary amounts stated are in Renminbi.

Yours faithfully
For and on behalf of
Weisi Limited

Joseph K P Leung *MSc MRICS MHKIS RPS (GP)*
Director
Valuation Department

Note: Joseph K P Leung, MSc, MRICS, MHKIS, RPS (G.P.), has been a qualified valuer since 1993 and has 32 years' experience in the valuation of properties in Hong Kong and has been involved in the valuation of properties in the People's Republic of China and Asia Pacific regions since 1990. He is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

No.	Properties	Market Value as at 31 October 2018
	Property under development:	
1	Property Development Project of Yong Sheng Plaza (永盛大廈) in The Economic and Technological Development Zone of Xiao Shan District in Hangzhou City of Zhejiang Province (浙江省杭州市蕭山經濟技術開發區), The People's Republic of China	RMB778,500,000
	Property held for investment:	
2	Office Units Nos.1601 – 1604 and 1701-1704 in 浙江民營企業發展大廈1幢，寧圍街道富業巷3號in Xiao Shan District in Hangzhou City of Zhejiang Province (浙江省杭州市蕭山區), The People's Republic of China	RMB39,500,000
	Total Value:	RMB818,000,000

VALUATION REPORT:
(1) PROPERTY UNDER DEVELOPMENT

Property	Description and Tenure	Particulars of Occupancy	Market value in existing state as at 31 October 2018
Property Development Project of Yong Sheng Plaza（永盛大廈）in The Economic and Technological Development Zone of Xiao Shan District in Hangzhou City of Zhejiang Province（浙江省杭州市蕭山經濟技術開發區）, The People's Republic of China	The Property is a square shape corner site having a site area of about 14.93 Mu (9,954.95 sq m or 107,154 sq ft), abutting onto Bo Ao Road（博奥路）and Jian She Third Road（建設三路）in the Economic and Technological Development Zone of Xiao Shan District（蕭山經濟技術開發區）. Erected thereon the site is a 24-storey (excluding 3 storeys of basements) Grade-A commercial property development known as Yong Sheng Plaza（永盛大廈）. The Property is under construction up to ground level as at the date of inspection and it is expected that the construction will be completed on or before May 2020.	The Property is assessed on a vacant possession basis.	RMB778,500,000

Upon completion, the Property will have a total GFA above ground of about 41,873.50 sq m (450,722 sq ft) whereas floor area below ground is about 22,673.71 sq m (244,058 sq ft). Details of the development are listed below:

Level	User	GFA *(sq m/sq ft)*
B1-B3	Carparks, mechanical & refuge area	22,673.71/ 244,058
1	Retail	3,248.67/34,968
2	Retail	2,805.64/30,200
3	Retail	2,805.68/30,200
4	Retail	1,604.32/17,269
5-9	Loft Apartment	7,884.51/84,868
10-16	Apartment	11,211.37/ 120,678
17-24	Office	12,099.09/ 130,233
Top	Mechanical	214.22/2,306

The Property has 477 car parking spaces on ground level and below ground floor area.

At the date of valuation, construction works was up to ground level.

The Property is held under a Land Use Rights Certificate for a term up to 4 March 2053 for Commercial Uses（商業、商務用地）.

Notes:

1. The valuation of the Property assumed all construction works were completed as at the date of valuation is about RMB1,075,000,000.

2. As at the date of valuation, the outstanding construction costs to complete the development is about RMB194,150,000.

3. Pursuant to a Business License No. 913301090976081850 dated 31 October 2018, Hangzhou Yong Hao Investment Management Company Limited (杭州永浩投資管理有限公司) was incorporated with a registered capital of RMB 50,500,000 for a valid period up to 25 October 2038. The scope of business includes investment management (except securities, futures and investment funds) and property services (services rendered for projects only after having proper legal approvals).

4. By virtue of a Land Use Rights Grant Contract No. 3301092012A21613 dated 28 November 2012 issued by Hangzhou Land Resources Bureau Xiao Shan Sub-Bureau (杭州市國土資源局蕭山分局), the Property has been granted to Hangzhou Yong Sheng Holdings Limited (杭州永盛控股有限公司) with the following terms and conditions which are material to this valuation:

   Clause No.4:

   The site area is 10,000 sqm;

   Clause No.13:

   Development Conditions:

   User – commercial/business (商業/商務);

   GFA – 42,000 sq m;

   Plot ratio – not more than 4.2 and not less than 3.5;

   Building height – 100 meters;

   Building density – not more than 40%;

   Greenary ratio – not less than 25%

   Other Requirements:

   A. Hangzhou Yongsheng Holdings Co., Ltd.* (杭州永盛控股有限公司), which is the successful tenderer, needs to set up an enterprise within two months in the Xiao Shan Economic and Technological Development Zone;

   B. Hangzhou Yongsheng Holdings Co., Ltd.* (杭州永盛控股有限公司) is obliged to complete an annual sales turnover of at least RMB800M and pay taxes of above RMB20M in the Xiao Shan Economic and Technological Development Zone and the above obligations have been fulfilled by Hangzhou Yongsheng Holdings Co., Ltd.* (杭州永盛控股有限公司);

C. If the successful tenderer fails to achieve Clause "A" above, a penalty of 10% of the land premium will be imposed. If the successful tenderer fails to achieve Clause "B" above, a penalty of 10% of the land premium will be imposed annually;

D. 50% of the total GFA is for self-occupation and this floor area is not allowed to be sold or to be assigned in strata-titles. The rest of floor area could be assigned in strata-titles;

E. The above other requirements are to be supervised by the Development Zone of Xiao Shan.

Clause No.16:

Construction works should be commenced before 19 May 2014 and should be completed before 19 May 2017. Delay for either commencement and completion of construction works should be approved by the relevant authorities, but this should not be more than one year.

5. By virtue of a Land Use Rights Certificate No.杭蕭國用(2013)第4700005號 dated 7 March 2013, the Property has been granted to Hangzhou Yong Sheng Holdings Limited (杭州永盛控股有限公司) for a term up to 4 March 2053.

6. Pursuant to an announcement (土地使用權公告) issued by the Hangzhou Land and Resources Bureau (Xiao Shan District Sub-Bureau)(杭州市土地資源局蕭山分局) dated 26 September 2018, the ownership of the Property was transferred to Hangzhou Yong Hao Investment Management Company Limited (杭州永浩投資管理有限公司).

7. Pursuant to a Certificate of Property Right (不動產權證書) No. 浙(2018)蕭山區不動產權第0098120號dated 24 October 2018 issued by Ministry of Land and Resources (國土資源部), the Property having a site area of about 14.93 Mu (9,954.95 sq m or 107,154 sq ft) has been granted to Hangzhou Yong Hao Investment Management Company Limited (杭州永浩投資管理有限公司) for a term up to 4 March 2053.

8. By virtue of a Construction Land Use Planning Certificate No. 地字第330109201700149 dated 16 August 2017, the Property with a site area of 10,000 sq m was permitted to use for commercial uses;

9. By virtue of a Construction Engineering Planning Certificate 建字第浙規證(2017)0110027號dated 5 September 2017, the Property is permitted to build a GFA of 41,873.49 sq m (450,722 sq ft) above ground and 22,673.71 sq m (244,058 sq ft) below ground.

10. By virtue of a Construction Permit No. 330109201709200101 dated 20 September 2017 a GFA of 64,547.2 sq m (694,780 sq ft) was permitted to commence construction.

11. We have been provided with a legal opinion on the Property and contains, *inter alia*, the following information:

(a) the current owner of the Property legally owns the Property;

(b) The owner of the Property is entitled to occupy and use the Property and no less than 50% GFA of the Property should be used by its owner, and this part is not allowed to be assigned and to be sold. However, this restrictive 50% GFA could be assigned or to be sold in one Lot through the sale or assignment of the shares of the holding company holding the ownership of this 50% GFA. The rest 50% GFA could be assigned or to be sold in strata titles;

(c) The Company could obtain the ownership of the Property through buying the shares of Hangzhou Yong Hao Investment Management Company Limited (杭州永浩投資管理有限公司) and changing its shareholding to be owned by the Company's subsidiary company;

(d) The current owner of the Property has sought the approval of the relevant authorities for the extension of the commencement and completion of the construction works and have already paid all necessary levies or payments for such an extension.

(2) PROPERTY HELD FOR INVESTMENT

Property	**Description and Tenure**	**Particulars of Occupancy**	**Market value in existing state as at 31 October 2018**
Office Units Nos.1601-1604 and 1701-1704 in 浙江民營企業發展大廈1幢, 寧圍街道富業巷3號 in Xiao Shan District in Hangzhou City of Zhejiang Province（浙江省杭州市蕭山區）, The People's Republic of China	The Property comprises eight office units in a 29-storey commercial property development known as 浙江民營企業發展大廈1幢 which is completed in 2012.The Property has a total GFA of about 2,648.78 sq m (28,511 sq ft). The Property is held under a Land Use Rights Certificate for a term up to 10 March 2048 for Commercial and Finance Uses（商務金融用地）.	The Property subject to a tenancy agreement for a term of five years from 1 December 2014 up to 30 November 2019. The rent increases 5% from the 4th year onward. The current rent passing is RMB420,000 per year.	RMB39,500,000

Notes:

1. By virtue of two Property Ownership Certificates Nos. 杭房權證蕭移字第15425161號 and 杭房權證蕭移字第15425164號 both dated 25 August 2015, the Property has been granted to Hangzhou Yong Hao Investment Management Company Limited（杭州永浩投資管理有限公司）up to 10 March 2048.

2. Pursuant to a Business License No. 913301090976081850 dated 31 October 2018, Hangzhou Yong Hao Investment Management Company Limited（杭州永浩投資管理有限公司）was incorporated with a registered capital of RMB 50,500,000 for a valid period up to 25 October 2038. The scope of business includes investment management (except securities, futures and investment funds) and property services (services rendered for projects only after having proper legal approvals).

3. We have been provided with a legal opinion on the Property and contains, *inter alia*, the following information:

   (a) the current owner of the Property legally owns the Property;

   (b) The owner of the Property is entitled to occupy, use, lease, assign and mortgage the Property.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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. SHARE CAPITAL

The authorised and issued share capital in the Company as at the Latest Practicable Date and immediately following the allotment and issue of the Consideration Shares will be as follows:

(i) As at the Latest Practicable Date

Authorised:		*HK$*
2,000,000,000	Shares of HK$0.01 each	20,000,000.00
Issued and paid-up share capital:		
394,487,500	Shares of HK$0.01 each in issue	3,944,875.00

(ii) Immediately following the allotment and issue of the Consideration Shares

Authorised:		*HK$*
2,000,000,000	Shares of HK$0.01 each	20,000,000.00
Issued and paid-up share capital:		
394,487,500	Shares of HK$0.01 each in issue	3,944,875.00
272,661,290	Consideration Shares to be issued pursuant to the Share Purchase Agreement	2,726,612.90
667,148,790		6,671,487.90

As at the Latest Practicable Date, save as the share options granted under the share option scheme of the Company entitling the holders to subscribe for a total of 21,110,500 Shares upon full exercise of such options, the Company had no outstanding warrants, options, derivatives or securities convertible into or exchangeable for Shares.

All the Shares in issue rank, *pari passu* in all respects with each other including rights to dividends, voting and return of capital. The Consideration Shares, when allotted, issued and fully paid, will rank *pari passu* with each other and the then existing Shares in issue in all respects including rights to dividends, voting and return of capital.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DISCLOSURE OF INTERESTS

a) Directors and chief executive

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests in Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of Shares subject to options granted	Approximate percentage of interest
Mr. Li (*Note 1*)	Interest of controlled corporation	206,471,700 (*Note 1*)	–	52.34%
Mr. Ma Qinghai (“**Mr. Ma**”)	Beneficial interest in underlying Shares	–	4,400,000 (*Note 2*)	1.12%
	Beneficial owner	2,675,677	–	0.68%
Mr. Zhao Jidong (“**Mr. Zhao**”) (*Notes 3*)	Beneficial interest in underlying Shares	–	5,700,000 (*Note 2*)	1.44%
	Beneficial owner	1,300,000	–	0.33%
	Interest of spouse	2,553,927	–	0.65%

Notes:

1. As at the Latest Practicable Date, Mr. Li beneficially owns approximately 95.71% of the issued share capital of Ever Thrive Global Limited which in turn, beneficially holds 206,471,700 Shares. Therefore, Mr. Li is deemed or taken to be interested in all the Shares held by Ever Thrive Global Limited for the purpose of the SFO.

2. These options were granted by the Company under the share option scheme adopted by the Company on 7 November 2013.

3. Mr. Zhao is the spouse of Ms. Chen Xi who in turns beneficially holds 2,553,927 Shares. Therefore, Mr. Zhao is deemed to or taken to be interested in all the Shares held by Ms. Chen Xi for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, options, warrants, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long position in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Approximate percentage of interest
Ever Thrive Global Limited *(Note 1)*	Beneficial owner	206,471,700	52.34%
Mr. Li *(Note 1)*	Interest in controlled corporation	206,471,700	52.34%
Ms. Chen Fangqin *(Note 2)*	Interest of spouse	206,471,700	52.34%

Notes:

1. Ever Thrive Global Limited is beneficially owned as to 95.71% of the total equity interest by Mr. Li. Mr. Li is deemed to be interested in the Shares held by Ever Thrive Global Limited for the purpose of the SFO.

   Mr. Li is the sole director of Ever Thrive Global Limited.

2. Ms. Chen Fangqin is the spouse of Mr. Li. Therefore, Ms. Chen Fangqin was deemed, or taken to be interested in all the Shares in which Mr. Li had interest for the purposes of the SFO.

Save for disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interest or short position owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2018, being the date to which the latest audited consolidated accounts of the Company have been made up) or who had options in respect of such capital.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Interests in assets

Save for the subject assets under the Acquisition, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2017 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

Interest in contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group.

5. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group (excluding contracts expiring or determinable by the Company or any member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).)

7. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinions, letters or advices included in this circular:

Name	Qualifications
Elstone Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
ZHONGHUI ANDA CPA Limited	Certified Public Accountants
Weisi Limited	Independent professional valuer

Each of the above experts had given and had not withdrawn its written consent to the issue of this circular with copies of its letter and/or reports and the references to its name included in this circular in the forms and contexts in which they are respectively included. Each of the above experts confirmed that as at the Latest Practicable Date:

(i) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(ii) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up.

9. MATERIAL CONTRACTS

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

(i) an entrusted loan agreement dated 9 January 2017 entered into between Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited*(杭州滙維仕永盛染整有限公司)("the **Yongsheng Dyeing**") (as the entrusting party) and China Merchants Bank Hangzhou Xiaoshan Branch*(招商銀行杭州蕭山支行)(the "**China Merchants Xiaoshan**") (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to the Saintyear Holding Co., Ltd (being an independent third party);

(ii) the asset management agreements dated 15 February 2017 entered into among Yongsheng Dyeing (as asset entrustor), LJZ Wealth Management (Shanghai) Co., Limited*(陸家嘴財富管理(上海)有限公司)(the "**LJZ Wealth Management**") (as asset manager) and China Merchant Bank Co., Limited, Shanghai Branch*(招商銀行股份有限公司上海分行)(the "**China Merchant Shanghai**") (as asset custodian) in relation to an aggregate investment amount of RMB30,000,000 with expected rate of return of 5.7% per annum matured in eight months from the date of depositing the investment amount into the designated account with China Merchant Bank Co., Limited, Shanghai Branch;

(iii) an asset management agreement dated 24 March 2017 entered into among Yongsheng Dyeing (as asset entrustor), LJZ Wealth Management (as asset manager) and China Merchant Shanghai (as asset custodian) in relation to an investment amount of RMB30,000,000 with expected rate of return of 5.5% per annum matured in nine months from the date of depositing the investment amount into the designated account with China Merchant Bank Shanghai Branch;

(iv) a trust agreement dated 24 March 2017 entered into among Yongsheng Dyeing (as asset entrustor) and Shanghai International Trust Co., Limited*(上海國際信託有限公司)(the "**Shanghai International**") (as trustee) in relation to an investment amount of RMB75,000,000 in total with expected rate of return of 5.0% per annum with maturity day ranging from 58 days to 177 days from the date of depositing the investment amount into the designated account with Shanghai Pudong Development Bank Co. Limited Shanghai Branch*(上海浦東發展銀行股份有限公司上海分行)(the "**Shanghai Pudong Development Bank**") Branch;

(v) a trust agreement dated 28 June 2017 entered into among Yongsheng Dyeing (as asset entrustor) and Shanghai International (as trustee) in relation to an investment amount of RMB30,000,000 in total with expected rate of return of 5.4% per annum with maturity day of 146th days from the date of depositing the investment amount into the designated account with Shanghai Pudong Development Bank Branch;

(vi) an entrusted loan agreement dated 10 July 2017 entered into between Yongsheng Dyeing (as the entrusting party) and China Merchants Xiaoshan (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to Saintyear Holding Co., Ltd (being an independent third party), for a period of 6 months;

(vii) an asset management agreement dated 31 October 2017 entered into between Yongsheng Dyeing (as asset entrustor), Shenzhen Sidaoke Investment Limited*（深圳市思道科投資有限公司）(the "**Shenzhen Sidaoke Investment**") (as asset manager) and Ping An Bank Co, Limited, Shenzhen Branch*（平安銀行股份有限公司深圳分行）(the "**Ping An Bank Shenzhen**") (as asset custodian), pursuant to which Yongsheng Dyeing agreed to participate in the asset management plan operated by Shenzhen Sidaoke Investment Limited and to deposit an investment amount of RMB45,000,000 into the designated custodian account with Ping An Bank, Shenzhen;

(viii) an asset management agreement dated 9 January 2018 entered into between Yongsheng Dyeing (as asset entrustor), Shenzhen Sidaoke Investment (as asset manager) and Ping An Bank, Shenzhen (as asset custodian), pursuant to which Yongsheng Dyeing agreed to participate in the asset management plan operated by Shenzhen Sidaoke Investment and to deposit an investment amount of RMB60,000,000 into the designated custodian account with Ping An Bank, Shenzhen;

(ix) an entrusted loan agreement dated 11 January 2018 and entered into between Yongsheng Dyeing (as the entrusted party) and China Merchants Xiaoshan (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to the Saintyear Holding Co., Ltd. (being an independent third party);

(x) an asset management agreement dated 15 March 2018 entered into among Yongsheng Dyeing (as asset entrustor), China Foreign Economy and Trade Trust Co., Ltd. (the "**FOTIC**") (as asset manager) and The Beijing Chaowai Street Sub-Branch of China Merchant Bank Co., Ltd (the "**CMB BJ CW Sub-branch**") (as asset custodian), pursuant to which Yongsheng Dyeing agreed to participate in the asset management plan operated by FOTIC and to deposit an investment amount of RMB40,000,000 into the designated account with CMB BJ CW Sub-branch;

(xi) an entrusted loan agreement dated 12 July 2018 entered into between Yongsheng Dyeing (as the entrusted party) and China Merchants Xiaoshan (as the entrusted party and the lender) in relation to the granting of the entrusted loan in the amount of RMB50,000,000 to the Saintyear Holding Co., Ltd, being an independent third party, for a period of 6 months;

(xii) an asset management agreement dated 17 July 2018 entered into among Yongsheng Dyeing (as asset entrustor), FOTIC (as asset manager) and CMB BJ CW Sub-branch (as asset custodian), pursuant to which Yongsheng Dyeing agreed to participate in the asset management plan operated by FOTIC and to deposit an investment amount of RMB46,150,000 into the designated account with CMB BJ CW Sub-branch;

(xiii) the asset management agreement dated 17 July 2018 entered into among Yongsheng Dyeing (as asset entrustor), Minsheng Wealth Management Co., Ltd (as asset manager) and China Merchants Securities Co., Ltd. (as asset custodian), pursuant to which Yongsheng Dyeing agreed to participate in the asset management plan operated by Minsheng Wealth Management Co., Ltd and to deposit an investment amount of RMB20,000,000 into the designated account with China Merchants Securities Co., Ltd; and

(xiv) the Share Purchase Agreement.

10. GENERAL

(i) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

(ii) The company secretary of the Company is Ms. Lo Lok Ting Teresa, who is a practicing solicitor in Hong Kong in the field of commercial and corporate finance.

(iii) The registered office of the Company is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and the head office and principal place of business of the Company is located at Unit C2, 29th Floor, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong.

(iv) The Company's Hong Kong branch share registrar is Tricor Investor Services Limited at Level 22, Hopewell Centre 183 Queen's Road East Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's head office and principal place of business at Unit C2, 29th Floor, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong for a period of 14 days from the date of this circular:

(i) the memorandum and articles of association of the Company;

(ii) the Share Purchase Agreement;

(iii) the letter from the Board, the text of which is set out on pages 6 to 28 of this circular;

(iv) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;

(v) the letter of advice from Elstone Capital, the text of which is set out on pages 31 to 58 of this circular;

(vi) the annual reports of the Company for each of the three years ended 31 December 2015, 2016 and 2017 and the interim report of the Company for the six months ended 30 June 2018;

(vii) the accountant's report of the Target Group, the text of which is set out in Appendix II to this circular;

(viii) the accountant's report of the Project Company, the text of which is set out in Appendix III to this circular;

(ix) the report from ZHONGHUI ANDA CPA Limited on the unaudited pro forma financial information of the Enlarged Group upon Completion, the text of which is set out in Appendix V to this circular;

(x) the property valuation report on the Target Assets, the text of which is as set out in Appendix VI to this circular;

(xi) the written consents referred to in the paragraph headed "7. EXPERTS AND CONSENTS" in this Appendix;

(xii) the material contracts referred to in the paragraph headed "8. MATERIAL CONTRACTS" in this Appendix; and

(xiii) this circular.

永盛新材料
YS Advanced Materials

Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Yongsheng Advanced Materials Company Limited (the "**Company**") will be held at Admiralty Conference Centre, 1804B, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 31 December 2018 at 10:30 a.m. for considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, pass with or without modification the following resolution as an ordinary resolution:

   "**THAT**:

   (A) the Share Purchase Agreement (as defined in the circular of the Company dated 7 December 2018 of which this notice forms part (the "**Circular**")) (a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified; and

   (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Share Purchase Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon; and

(C) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in 272,661,290 shares of the Company (the "**Consideration Shares**") at the issue price of HK$2.48 per Consideration Share (the "**Issue Price**"), the directors of the Company be and are hereby granted a Specific Mandate (as defined in the Circular) to allot and issue the Consideration Shares at the Issue Price pursuant to the terms and conditions of the Share Purchase Agreement and the articles of association of the Company, provided that this Specific Mandate shall be in addition to, and shall not prejudice or revoke any existing or such other general or specific mandates which may from time to time be granted to the directors of the Company prior to the passing of this resolution."

By Order of the Board
Yongsheng Advanced Materials Company Limited
Li Cheng
Chairman and Executive Director

Hong Kong, 7 December 2018

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (no later than 10:30 a.m. on Saturday, 29 December 2018 (Hong Kong time)) or any adjournment thereof.

4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or any adjournment thereof in cases where the Meeting was originally held within 12 months from such date.

5. Where there are joint holders of any shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting if the member so wish, and in such event the instrument appointing a proxy should be deemed to be revoked.

7. The transfer books and register of members of the Company will be closed from Friday, 21 December 2018 to Monday, 31 December 2018, both days inclusive. During such period, no share transfers will be affected. In order to qualify for attending the Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 20 December 2018.

8. A form of proxy for use at the Meeting is enclosed with the circular of the Company dated 7 December 2018.