

31 July 2025

*To the Independent Board Committee and the Independent Shareholders of  
浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd. \*)*

Dear Sirs or Madams,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROVISION OF FINANCIAL ASSISTANCE

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Loan Agreement and the transactions contemplated thereunder, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 31 July 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Announcements in relation to, among other things, the Loan Agreement, the partial repayments of the Non-compliance Advance Payments and the repayment of interest. The Loan Agreement constitutes a major and connected transaction of the Company under the GEM Listing Rules.

As disclosed in the announcement of the Company dated 19 February 2025, the Non-compliance Advance Payments were identified during the audit of the Group’s financial results for the year ended 31 December 2024. The company secretary of the Company discovered certain transactions between the Company (as lender) and Zhejiang Yongli and Guizhou Yongli (on behalf of Zhejiang Yongli). Based on the internal review by the supervisory committee of the Company, it was found that on 31 December 2024, three payments totaling RMB111,726,664 were advanced from the Company to Guizhou Yongli, and on 2 January 2025, one payment of RMB56,000,000 was advanced from the Company to Zhejiang Yongli for working capital purposes. These transactions were executed via online banking under the authorisation of Mr. Zhan Fahui, who was then the Company’s legal representative, chairman and executive Director, but without compliance with the disclosure and approval procedures required under Chapters 19 and 20 of the GEM Listing Rules. Since then, the Company has

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been maintaining close dialogue with Zhejiang Yongli to negotiate formal terms and rectify the situation through a proper loan agreement. On 30 April 2025, the Company, as lender, entered into the Loan Agreement with Zhejiang Yongli as borrower and Zhejiang Yongli Warp as guarantor to formalise and govern the repayment terms of the Non-compliance Advance Payments.

As at the Latest Practicable Date, Zhejiang Yongli had made partial repayments of loan principal in respect of the Non-compliance Advance Payments amounting to RMB35,766,157.15 in aggregate and repayment of interest accrued up to 30 June 2025 amounting to RMB2,377,498.41.

## **GEM LISTING RULES IMPLICATIONS**

The Non-compliance Advance Payments constituted provision of financial assistance by the Company to Zhejiang Yongli. As one or more of the applicable percentage ratios calculated pursuant to Rule 19.07 of the GEM Listing Rules in respect of the Non-compliance Advance Payments exceeds 25%, the Non-compliance Advance Payments constituted a major transaction of the Company under Rule 19.06 of the GEM Listing Rules. The Loan Agreement was entered into as a remedial measure to formalise and govern the repayment terms of the Non-compliance Advance Payments. As such, the entering into of the Loan Agreement is regarded as a major transaction of the Company under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, Zhejiang Yongli holds 65% equity interest in Guizhou Yongli, which in turn owns approximately 55.29% of the total issued share capital of the Company. As a result, both Zhejiang Yongli and Guizhou Yongli are connected persons of the Company under the GEM Listing Rules. Accordingly, the Loan Agreement also constitutes connected transaction under Chapter 20 of the GEM Listing Rules.

Since one or more of the applicable percentage ratios (other than the profits ratio) calculated pursuant to Rule 19.07 of the GEM Listing Rules in respect of the Loan Agreement exceed 5%, the Loan Agreement is a non-exempt connected transaction and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder. We, Alpha Financial Group Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder.

## **OUR INDEPENDENCE**

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Group and its associates that



could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rule 17.96 of the GEM Listing Rules. Accordingly, we are considered to be eligible to give independent advice in respect of the terms of the Loan Agreement and the transaction contemplated thereunder.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); and (iv) our review of the relevant public information.

We have assumed that all the information provided, and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon and continue to be so up to the date of the EGM. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and continue to be so up to the date of the EGM and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. Independent Shareholders will be informed of any material change of information and the representations made or referred to in the Circular as soon as possible up to the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. In formulating our recommendation in relation to the Loan Agreement and pursuant to Rule 17.92(2) of the GEM Listing Rules, we have obtained and reviewed the relevant information in relation to the Loan Agreement, among others, (i) the annual report for the year ended 31 December 2023 of the Company (the “**2023 Annual Report**”); (ii) the unaudited annual results for the year ended 31 December 2024 of the Company (the “**2024 Annual Results**”); (iii) the Loan Agreement; (iv) the recent announcements of the Company; and (v) the information set out in the Circular.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made, or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Loan Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.



## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

### 1 BACKGROUND AND FINANCIAL INFORMATION

#### A. Information on the Group

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

#### B. Financial Information of the Group

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2022 and 2023 (“FY2022” and “FY2023”, respectively) and unaudited consolidated financial results of the Group for the year ended 31 December 2024 (“FY2024”), as extracted from the 2023 Annual Report and the 2024 Annual Results:

	<b>FY2022</b> <i>RMB'000</i> (audited)	<b>FY2023</b> <i>RMB'000</i> (audited)	<b>FY2024</b> <i>RMB'000</i> (unaudited)
Revenue	78,998	55,107	34,775
Cost of sales	(91,067)	(61,293)	(33,668)
Gross profit/(loss)	(12,069)	(6,186)	1,107
Other income, gains and losses, net	2,960	2,206	58,244
Selling and distribution costs	(3,327)	(3,041)	(1,039)
Administrative expenses	(15,131)	(14,816)	(15,219)
Share of result of an associate	(2,086)	(5,916)	(1,382)
Impairment loss (recognised)/ reversed in respect of trade receivables	7,224	1,045	(51)
Impairment loss recognised in respect of interest in an associate	(5,491)	—	—
Finance costs	(2,273)	—	(1,013)
Income tax expense	(5,383)	(28)	(6,215)
Profit/(loss) for the year	(35,576)	(26,736)	34,432

	As at 31 December 2022 RMB'000 (audited)	As at 31 December 2023 RMB'000 (audited)	As at 31 December 2024 RMB'000 (unaudited)
Non-current assets	144,962	26,402	21,629
Current assets	100,929	413,956	197,530
Total assets	245,891	440,358	219,159
Non-current liabilities	29,563	62,238	195,758
Current liabilities	43,295	276,972	14,227
Total liabilities	72,858	339,210	209,986
Bank balances and cash	46,981	103,746	56,472
Net current assets	57,634	136,984	183,303
Equity attributable to owners of the Company	173,033	101,148	195,758

#### *FY2022 vs FY2023*

For FY2023, the Group recorded a total revenue of approximately RMB55.1 million, representing a decrease of approximately RMB23.9 million, or approximately 30.2%, as compared to the total revenue of approximately RMB79.0 million for FY2022, which was mainly due to the decrease of domestic sales of woven fabrics, especially in the PRC and in Europe, and the drop in subcontracting fee income. For FY2023, the Group recorded gross loss of approximately RMB6.2 million, representing a decrease of approximately RMB5.9 million, or approximately 48.7%, as compared to a gross loss of approximately RMB12.1 million for FY2022, which mainly due to decrease of cost of raw materials and wages.

During FY2023, the other income, gains and losses, net decreased to approximately RMB2.2 million, by approximately RMB0.8 million, or approximately 25.5%, when compared to FY2022, mainly due to gain from change in fair value of financial asset at FVTPL incurred in FY2022. For FY2023, the selling and distribution costs of approximately RMB3.0 million and administrative expenses of approximately RMB14.8 million remained generally the same as compared to the figures of approximately RMB3.3 million and approximately RMB15.1 million for FY2022, respectively.

During FY2023, the share of results of an associate of approximately RMB5.9 million represents the share of loss from the consolidated result of an associate, 北京太比雅科技股份有限公司 (Beijing Tepia Technology Co., Ltd.\*) (“**Tepia**”) and its subsidiary (“**Tepia Group**”), which increased by approximately RMB3.8 million or approximately 183.6%, from approximately RMB2.1 million during FY2022.

The impairment loss reversed in respect of trade receivables decreased from approximately RMB7.2 million during FY2022 to approximately RMB1.0 million during FY2023. There was no impairment loss recognised in respect of interest in an associate in FY2023, as compared to approximately RMB5.5 million recognised in FY2022.

During FY2023, no finance cost was recognised for the interest free loan due to immediate holding company, as compared to approximately RMB2.3 million recognised during FY2022.

As at 31 December 2023, the Group's total asset amounted to approximately RMB440.4 million (31 December 2022: approximately RMB245.9 million) and the Group's total liabilities amounted to approximately RMB339.2 million (31 December 2022: approximately RMB72.9 million). The increase in total asset and total liabilities during the year was mainly due to the assets classified as held for sale and the receipt in advance for disposal transaction. For further details, please refer to the announcement of the Company dated 3 January 2024 and the circular of the Company dated 5 February 2024.

As at 31 December 2023, the Group recorded bank balances and cash amounting to approximately RMB103.7 million (31 December 2022: approximately RMB47.0 million), whereas the net current assets value amounting to approximately RMB137.0 million (31 December 2022: approximately RMB57.6 million).

As at 31 December 2023, the liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 1.5 (31 December 2022: approximately 2.3) and the Group's gearing ratio, represented by the ratio of the interest free loan due to immediate holding company over shareholders' equity, was approximately 80.6% (31 December 2022: approximately 19.5%).

#### *FY2023 vs FY2024*

For FY2024, the Group recorded a total revenue of approximately RMB34.8 million, representing a decrease of approximately RMB20.3 million, or approximately 36.9%, as compared to the total revenue of approximately RMB55.1 million for FY2023, which was mainly due to the decrease of domestic sales of woven fabrics, especially in the PRC and in Europe. For FY2024, the Group recorded gross profit of approximately RMB1.1 million, as compared to a gross loss of approximately RMB6.2 million for FY2023, which mainly due to the decrease of depreciation, cost of raw materials, wages and water and electricity during FY2024.

During FY2024, the other income, gains and losses, net increased to approximately RMB58.2 million, by approximately RMB56.0 million when compared to FY2023, mainly due to (i) gain on disposal of assets classified as held for sale which represents the transactions of land resumption and disposal of a subsidiary; and (ii) gain on disposal of property, plant and equipment during FY2024. For FY2024, the selling and distribution costs of approximately RMB1.0 million was decreased by approximately RMB2.0 million, or approximately 65.8%,



mainly due to decrease of salary and sales commission which was in line with decrease of sales revenue. The administrative expenses of approximately RMB15.2 million remained generally the same as compared to the figure of approximately RMB14.8 million for FY2023.

During FY2024, the share of results of an associate of approximately RMB1.4 million represents the share of loss from the consolidated result of an associate up to the date before the disposal of the Group's interest which was completed during FY2024, as compared to approximately RMB5.9 million during FY2023.

The impairment loss recognised in respect of trade receivables amounted to approximately RMB51,000 during FY2024, as compared to a reversal amount of approximately RMB1.0 million during FY2023. During FY2024, finance cost of approximately RMB1.0 million represents interest expenses on lease liabilities, whereas no finance cost was recognised for the interest free loan due to immediate holding company during FY2023.

As at 31 December 2024, the Group's total asset amounted to approximately RMB219.2 million (31 December 2023: approximately RMB440.4 million) and the Group's total liabilities amounted to approximately RMB210.0 million (31 December 2023: approximately RMB339.2 million).

As at 31 December 2024, the Group recorded bank balances and cash amounting to approximately RMB56.5 million (31 December 2023: approximately RMB103.7 million) which was decreased mainly due to the Non-Compliance Advance Payments, whereas the net current assets value amounted to approximately RMB183.3 million (31 December 2022: approximately RMB137.0 million).

As at 31 December 2024, the liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 13.9 (31 December 2023: approximately 1.5) and the Group's gearing ratio, represented by the ratio of the interest free loan due to immediate holding company over shareholders' equity, was approximately 0.9% (31 December 2023: approximately 80.6%).

### **C. Zhengjiang Yongli (as borrower)**

Zhejiang Yongli was established in 1993 and has a registered share capital of RMB5,800 million. The majority ownership of the company is held by Mr. Zhou Yongli, who owns approximately 85.89% of the shares, while Ms. Xia Wanmei, his spouse, owns approximately 3.89%. As at the Latest Practicable Date, Zhejiang Yongli holds 65% interests in Guizhou Yongli. The company's business includes industrial trade (textiles, printing and dyeing, thermal power, catering, and commerce), real estate (construction, building materials, and properties), and financial industry (investment in banking, insurance, leasing, and investment funds).

As at 31 December 2024, Zhejiang Yongli had total assets of approximately RMB14.5 billion and net assets amounted to approximately RMB7.6 billion. For details of assets and liabilities of Zhejiang Yongli, please refer to paragraphs headed “(II) Information on the Parties — Zhejiang Yongli” in the Letter from the Board.

#### **D. Zhejiang Yongli Warp (as guarantor)**

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

As at 31 December 2024, Zhejiang Yongli Warp had total assets of approximately RMB1.9 billion and net assets amounted to approximately RMB1.2 billion, which includes land and buildings with a site area of approximately 96,392 square metres and gross floor area of approximately 61,591.82 square metres. For details of assets and liabilities of Zhejiang Yongli Warp, please refer to paragraphs headed “(II) Information on the Parties — Zhejiang Yongli Warp” in the Letter from the Board. For details regarding the valuation of the land and buildings, please refer to the paragraphs headed “3 REASONS FOR AND BENEFITS OF THE LOAN AGREEMENT — Valuation of the Properties” of this letter.

## **2 THE LOAN AGREEMENT**

On 30 April 2025, the Company entered into the Loan Agreement with Zhejiang Yongli and Zhejiang Yongli Warp, the principal terms of which are as follows.

#### **The Loan Agreement**

The principal terms and conditions of the Loan Agreement are set out below:

Date : 30 April 2025

Parties : (i) The Company (as lender)  
(ii) Zhejiang Yongli (as borrower)  
(iii) Zhejiang Yongli Warp (as guarantor)

Total principal amount : The aggregate principal amount of the loan is RMB167,726,664, including:

— on 31 December 2024, the Company advanced three tranches of funds in the aggregate amount of RMB111,726,664 to Guizhou Yongli, a subsidiary of Zhejiang Yongli, for and on behalf of Zhejiang Yongli; and

— on 2 January 2025, the Company further advanced RMB56,000,000 directly to Zhejiang Yongli.

As at the date of the Loan Agreement, Zhejiang Yongli had repaid RMB10,000,000 and RMB10,726,664 to the Company on 24 March 2025 and 31 March 2025 respectively.

On 30 May 2025, Zhejiang Yongli further repaid RMB15,000,000 to the Company. On 30 June 2025, Zhejiang Yongli repaid RMB2,416,991.56, including interest and partial principal repayment.

Accordingly, the total principal repaid under the Loan Agreement is RMB35,766,157.15 and the outstanding balance for the principal amount of the Non-compliance Advance Payments amounted to RMB131,960,506.85 as at the Latest Practicable Date.

Loan term : The loan term shall commence from the respective dates of the advances and will be mature on 30 December 2025 (the “**Maturity Date**”). In the event that Zhejiang Yongli requests an extension of the loan upon maturity, the Company may only grant such extension subject to compliance with the applicable requirements under the GEM Listing Rules, including, where necessary, disclosure by way of announcement and circular, and approval by the independent shareholders of the Company at general meeting.

Interest and Repayment Terms : Zhejiang Yongli shall pay interest to the Company at an annual rate of 3.1%, which was determined with reference to the Loan Prime Rate published by the People’s Bank of China. Interest shall be calculated on a 365-day year basis based on the actual number of days elapsed.

Interest shall be payable in two instalments, with the first payment due on 30 June 2025 and the remaining interest together with the outstanding principal shall be repaid in full on or before the Maturity Date. Interest accrues up to and including the day of repayment.



As at the date of the Loan Agreement, the total interest payable was estimated to be approximately RMB4.7 million. This was based on the total outstanding loan principal of approximately RMB147.0 million, the interest rate of 3.1% per annum, and assuming full repayment would be made on the Maturity Date with no early repayment.

Subsequently, Zhejiang Yongli made partial repayments of the principal in the amounts of RMB15 million and RMB39,493.15 on 30 May 2025 and 30 June 2025, respectively. On 30 June 2025, an interest payment of approximately RMB2.38 million was also made. After taking these early repayments into account, the outstanding loan principal as at 1 July 2025 was RMB131,960,057. Assuming this amount remains outstanding until maturity and using the same interest rate, the estimated remaining interest payable is approximately RMB2.1 million.

Early repayment : Zhejiang Yongli shall have the right to repay the principal and any accrued interest in whole or in part at any time prior to the Maturity Date. For early repayment, the interest payable by Zhejiang Yongli shall be calculated using the following formula:

Interest payable = Outstanding principal amount × 3.1% × Actual number of days elapsed/365

Default interest : If Zhejiang Yongli fails to repay any principal or interest when due, the Company shall be entitled to charge default interest on the overdue amount at an additional rate of 3.1% per annum (on top of the standard interest rate of 3.1%), calculated on a simple interest basis and on a daily basis from the due date to the actual date of repayment based on the actual number of days elapsed.

The Company shall also be entitled to demand Zhejiang Yongli Warp to fulfil its joint liability guarantee for the repayment of the outstanding principal, interest accrued therein and penalty interest. For the avoidance of doubt, such penalty interest is compensatory in nature and shall not exempt Zhejiang Yongli from their obligation to pay regular interest.

Guarantee : Zhejiang Yongli Warp has agreed to provide a joint liability guarantee in favour of the Company for the repayment obligations of Zhejiang Yongli under the Loan Agreement, including all outstanding principal, interest and any applicable penalty interest. The guarantee shall remain effective until all such amounts have been fully repaid.

Pledged security : The entire 62.88% of equity interest of Zhejiang Yongli Warp legally and beneficially owned by Zhejiang Yongli, the value of which is more than sufficient to cover the outstanding principal amount of the loan and interest amount to be incurred.

According to the audited financial statements of Zhejiang Yongli Warp for the year ended 31 December 2024, Zhejiang Yongli Warp had net assets of approximately RMB1,200.58 million, including land and buildings with a site area of approximately 96,392 square metres and gross floor area of approximately 61,591.82 square metres. Based on a valuation report prepared by an independent PRC valuer, adopting the market approach for the land use rights and the replacement cost approach for the buildings, the market value of such land and buildings was assessed to be approximately RMB340.98 million as at 8 April 2025. For details of assets and liabilities of Zhejiang Yongli Warp, please refer to paragraphs headed “(II) Information on the Parties — Zhejiang Yongli Warp” in the Letter from the Board.

According to the announcement of the Company dated 3 January 2024, the Company has leased 8,672.57 square metres of such property held by Zhejiang Yongli Warp for a lease term of 10 years.

Apart from the land and buildings, other assets of Zhejiang Yongli Warp include approximately RMB170 million in bank wealth management products and approximately RMB86.74 million in long-term equity investments.

During the term of the loan, Zhejiang Yongli is obliged not to sell, transfer, pledge or otherwise dispose of the pledged 62.88% equity interest in Zhejiang Yongli Warp. In addition, both Zhejiang Yongli and Zhejiang Yongli Warp have undertaken not to dispose of or transfer the above-mentioned assets of Zhejiang Yongli Warp, or cause any material impairment in their value.

Representation and  
undertaking

: If Zhejiang Yongli fails to pay the interest due on 30 June 2025, or fails to repay the outstanding principal and accrued interest on or before the Maturity Date, the Company or its nominee shall have the right, at its discretion, to take one or more of the following enforcement actions:

- (i) demand immediate repayment of all outstanding amounts, interest and penalty interest from Zhejiang Yongli;
- (ii) require Zhejiang Yongli Warp to perform its joint liability guarantee;
- (iii) enforce the pledged 62.88% equity interest in Zhejiang Yongli Warp; and/or
- (iv) apply for execution against Zhejiang Yongli Warp's assets through legal proceedings due to its joint liability guarantee.

Any proceeds recovered from enforcement actions shall be applied towards repayment of all outstanding principal, interest accrued therein and penalty interest. The Company reserves the right to pursue further recovery if the proceeds are insufficient to cover the total outstanding liabilities.

Zhejiang Yongli Warp has represented that, as at the date of the Loan Agreement, it has no undisclosed liabilities or contingent obligations (save as below) that may have a material adverse impact on its ability to perform its joint liability guarantee obligations. Further, Zhejiang Yongli Warp confirmed that the equity interest pledged in favour of the Company under the Loan Agreement was free from any prior encumbrance.



Zhejiang Yongli Warp has also represented that, as at 31 December 2024, it had no overdue bank borrowings or trade liabilities. In addition, the Company was informed that Zhejiang Yongli Warp and Zhejiang Yongli jointly provided guarantees between 2017 and 2019 for debts of a third-party company, which was later taken over by a state-owned distress asset management company in the PRC. Based on a court judgment, the total guaranteed amount and all other fees payable is approximately RMB85.2 million. As at the Latest Practicable Date, the judgment sum remains unpaid pending the outcome of appeal proceedings and ongoing negotiations with the creditor. Based on the available information, the Company is of the view that this contingent liability does not have a material adverse impact on Zhejiang Yongli Warp's ability to perform its joint guarantee obligations under the Loan Agreement.

Zhejiang Yongli Warp has also undertaken that, during the term of the loan, it shall promptly notify the Company if it incurs or proposes to incur any additional liabilities or contingent obligations that may affect its ability to fulfil the joint liability guarantee, and shall, upon the Company's reasonable request, provide supplemental information or additional security arrangements.

Others : The Loan Agreement is subject to the approval by the Independent Shareholders at the EGM. If such approval is not obtained, Zhejiang Yongli shall immediately repay all outstanding amount of the Non-compliance Advance Payments.

For further details in relation to the Loan Agreement, please refer to the section headed "(I) THE LOAN AGREEMENT" in the Letter from the Board.

### 3 REASONS FOR AND BENEFITS OF THE LOAN AGREEMENT

According to the Letter from the Board, the Loan Agreement was entered into for the purpose of documenting and regulating the advance payments previously made to the controlling shareholders of the Company, which were not in compliance with the disclosure and approval requirements under the GEM Listing Rules. It also represents part of the Company's remedial actions to regularise the arrangement and to ensure that the terms governing the financial assistance are properly formalised.

We noted from the Letter of the Board that given the current liquidity position of Zhejiang Yongli, they are unable to repay the entire outstanding sum of the Non-compliance Advance Payments immediately. The Company also considers it more prudent to provide Zhejiang Yongli with a one-year repayment period to recover the outstanding loan amount under a formalised agreement, rather than forcing immediate repayment which may otherwise result in default and legal proceedings. The Company also considers that it would be costly and time consuming to initiate legal proceedings against Zhejiang Yongli and such costs would be substantial and would have immediate adverse effect on the cashflow position of the Group. In addition, it would not be reasonable or commercially justifiable for the Company to initiate legal proceedings at present given that the Company has secured a formalised loan arrangement under which:

- (i) Zhejiang Yongli agreed to provide a pledge of 62.88% equity interest in Zhejiang Yongli Warp as security;
- (ii) Zhejiang Yongli Warp has provided a joint liability guarantee in favour of the Company for the repayment obligations of Zhejiang Yongli; and
- (iii) the Loan Agreement would formalise other principal terms of the loan including a defined repayment schedule and an interest of 3.1% per annum, which provides interest income to the Group during the loan period.

According to the audited financial statements of Zhejiang Yongli Warp for the year ended 31 December 2024, Zhejiang Yongli Warp had net assets of approximately RMB1,200.58 million, including land and buildings with a site area of approximately 96,392 square metres and gross floor area of approximately 61,591.82 square metres. In addition to the land and buildings as mentioned above, the assets of Zhejiang Yongli Warp mainly includes other receivables of approximately RMB517.3 million, accounts receivables of approximately RMB325.8 million, inventory of approximately RMB283.4 million, bills receivables of approximately RMB244.5 million, available-for-sale financial instruments of approximately RMB170.0 million and cash and cash equivalents of approximately RMB169.3 million as at 31 December 2024. For details of assets and liabilities of Zhejiang Yongli Warp, please refer to paragraphs headed "Information on the Parties — Zhejiang Yongli Warp" in the Letter from the Board.



We understand that, although Zhejiang Yongli and its subsidiaries (including Zhejiang Yongli Warp) held substantial assets as at 31 December 2024, Zhejiang Yongli was unable to arrange immediate repayment of an unrenewed loan due at the time due to the illiquid nature of its key assets, such as equity investments and other receivables, as well as existing operational funding requirements and ongoing debt obligations across the group.

### **Valuation of the Properties**

Based on a valuation report prepared by an independent valuer in the PRC (the “**Valuation**”), adopting the market approach for the land use rights and the replacement cost approach for the buildings, the market value of such land and buildings was assessed to be approximately RMB340.98 million as at 8 April 2025. Part of these buildings are currently leased by the Group for operational use. The Directors consider that the net asset value of Zhejiang Yongli Warp is more than sufficient to cover the outstanding loan amount and the interest payable under the Loan Agreement (including the interest income to be generated for the Group), and that the provision of such security, together with the commercial terms of the Loan Agreement, is fair and reasonable and in the interests of the Company and its shareholders as a whole.

For our due diligence on the Valuation, we have discussed with the independent valuer the basis of the Valuation and raised questions on areas where we require further explanation. We noted that the Valuation has been carried out using the market approach for the land use rights and the replacement cost approach to arrive at the market value of the properties. The use of this approach was based on an estimate of the market value of the land use rights for its existing use, and an estimate of the replacement cost of the buildings and other site works from which adjustments are then made regarding to factors such as age and condition of the properties. The market value of the land use rights of the properties has been determined from market-based evidences by analysing similar sales or offerings of comparable properties. The independent valuer noted that such approach is a common valuation methodology in valuing similar properties and we have also reviewed similar property valuations conducted by other listed companies on the Stock Exchange and noted that such approach is commonly adopted valuation methodology in valuing similar properties in the PRC. We concurred with the independent valuer in adopting such market approach for the purposes of the Valuation.

We have reviewed the methodology and calculations by the independent valuer in arriving at the Valuation. We have reviewed the summary information of the comparables properties adopted and the calculations in arriving at the market value of the land use rights which properties of similar properties nearby were adopted. We have also reviewed the calculations for the estimate of the replacement cost of the buildings and other site works which formed part of the Valuation. We understand that the Valuer has taken into various account of factors such as estimated construction cost, tax, management cost in Zhejiang province based on the latest market information as quoted from local government publications, and has arrived at a discount of approximately 20% based on factors such as the estimated remaining useful life of the buildings and other site works and the condition of the properties during their site visit. During the course of the aforesaid review and discussions with the independent valuer, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted. As stated above, comparable transactions were considered



by the independent valuer in arriving the market value of the properties. Based on our review of the work done by the independent valuer, we are of the view that the basis and assumptions in arriving at the Valuation is fair and reasonable.

The independent valuer has confirmed its independence from the Group and its core connected persons. In addition, we also understand that the independent valuer has reviewed the extracts of the title documents relating to the properties where they noted no irregularities during their review and carried out a site visit to inspect the properties where they noted no irregularities during their visit. We also confirmed the relevant licenses of the independent valuer, reviewed the registration certificates and qualifications of the personnel-in-charge of the Valuation as registered under China Appraisal Society (中國資產評估協會). We noted that the independent valuer has been registered under China Appraisal Society since 2005 and that the personnel-in-charge of the Valuation are Full Practicing Members\* (正式執業會員) of China Appraisal Society. We have also reviewed the independent valuer's terms of engagement and we were not aware of any irregularities during our discussion with the independent valuer or in our review of its qualification and works.

Although the Non-compliance Advance Payments were made without proper disclosure and approval under the GEM Listing Rules, the Company has since demonstrated its intention to rectify the non-compliance by entering into a formal agreement and subjecting it to independent shareholders' scrutiny. The Loan Agreement formalises key terms (such as interest rate, maturity, and security) and provides a contractual framework to govern repayment.

We have reviewed the audited financial statements of Zhejiang Yongli and Zhejiang Yongli Warp, which were prepared in accordance with accounting principles generally accepted in the PRC, demonstrating net assets of approximately RMB1,200.58 million as at 31 December 2024. We have also reviewed extracts of the land use rights certificates of the said land and buildings owned by Zhejiang Yongli Warp with a total site area of approximately 96,392 square metres and a total gross floor area of approximately 61,591.82 square metres. Taking into account of the above and together with the valuation report prepared by the independent valuer, we concur with the Directors that net asset value of Zhejiang Yongli Warp is more than sufficient to cover the outstanding loan amount and the interest payable under the Loan Agreement.

The Loan Agreement will be put forward to the Independent Shareholders for approval at the EGM. We understand that should the relevant resolution be voted down at the EGM, the Company will take immediate steps to demand full repayment. For further details, please refer to the section headed "5. Implications of the Vote" of this letter.

Mr. Zhan Fahui, the chairman and executive director of the Company, was not entitled to vote on the relevant Board resolutions as his duties have been suspended due to his involvement in the approval and execution of the Non-compliance Advance Payments. Ms. Zhou Youqin, an executive Director, is the legal representative, shareholder and director of Zhejiang Yongli Warp and the sister of Mr. Zhou Yongli, the controlling shareholder of Zhejiang Yongli and director of Zhejiang Yongli. Accordingly, Ms. Zhou is considered to have a material interest in the Loan Agreement and has abstained from voting on the resolutions in relation to the Loan Agreement proposed to the Board.

The Board meeting at which the above resolutions were considered was held on 30 April 2025. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Loan Agreement. All the remaining Directors, namely Mr. Jin Lei, Mr. Xia Zhenbo, Mr. Yu Weidong (resigned on 29 July 2025), Mr. Zhang Jianyong and Mr. Yuan Lingfeng, voted in favour of the relevant Board resolutions.

The Loan Agreement formalises the key terms and provides a contractual framework to govern repayment, which allows the Company to be provided with a pledge of 62.88% equity interest in Zhejiang Yongli Warp as security and shall be entitled to an estimated interest income of approximately RMB4.4 million pursuant to the Loan Agreement, assuming no further repayment shall be made by Zhejiang Yongli before the Maturity Date and based on the outstanding principal amount of RMB131,960,506.85 as at the Latest Practicable Date. Accordingly, we are of the view that the Loan Agreement is fair and reasonable and in the interests of the Company and its shareholders as a whole.

#### 4 OUR ANALYSIS ON THE LOAN AGREEMENT

In order to assess the fairness and reasonableness of the terms of the Loan Agreement, in view that the provision of financial assistance stipulated under the Loan Agreement is in effect a loan provided by the subsidiary of the Company to its connected persons, we therefore reviewed similar transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s) during the period from 1 November 2024 to and up to 30 April 2025 (the “**Review Period**”), being approximately six months from the date of the Loan Agreement, which we consider to be sufficient for the purpose of our analysis set out hereunder as we are of the view that the transactions to be representative of similar recent transactions. We believe the transactions which met the said criteria serve as an accurate reflection on how companies listed on the Stock Exchange or their subsidiaries provided loan or financial assistance to connected person(s).

On a best effort basis and to the best of our knowledge, we have identified 11 transactions on an exhaustive basis (the “**Market Comparables**”) which meet the aforementioned criteria. We are of the view that the Market Comparables based on such Review Period and criteria set out above are meaningful references to the Independent Shareholders on the general market practice in connection with recent similar transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s). The Independent Shareholders should note that the size, business nature, scale of operations and prospects of the Company may not be exactly the same as the Market Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Market Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s), we consider that our comparable analysis on the terms of the Loan Agreement without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable for the Independent Shareholders’ reference.



The following table sets out the details of the Market Comparables:

Classification	Date of announcement	Name (Stock code)	Loan size	Interest rate	Term to maturity (months)	Collateral/ Guarantee
Discloseable	9 Apr 2025	Asian Citrus Holdings Limited (73)	Equivalent to approximately HK\$3.7 million <sup>(2)</sup>	5.0%	9	Yes <sup>(8)</sup>
Discloseable	7 Feb 2025	China Suntien Green Energy Corporation Limited (956)	Equivalent to approximately HK\$2,625.0 million <sup>(2)</sup>	Expected 2.0–3.0% <sup>(4)</sup>	60	No
Major	9 Jan 2025	GCL New Energy Holdings Limited (451)	Equivalent to approximately HK\$190.1 million <sup>(2)(5)</sup>	Up to 3.85% <sup>(5)</sup>	36	No
N/A <sup>(12)</sup>	30 Dec 2024	Readboy Education Holding Company Limited (2385)	Equivalent to approximately HK\$3.2 million <sup>(2)</sup>	3.95%	12	No
N/A <sup>(12)</sup>	29 Nov 2024	Tianjin Capital Environmental Protection Group Company Limited (1065)	Equivalent to approximately HK\$42.0 million <sup>(2)(6)</sup>	5.0%	12 to 36 months <sup>(6)</sup>	No
N/A <sup>(12)</sup>	29 Nov 2024	Uni-Bio Science Group Limited (690)	Equivalent to approximately HK\$8.9 million <sup>(2)</sup>	3.65%	24	Yes <sup>(9)</sup>
Major	19 Nov 2024	SCE Intelligent Commercial Management Holdings Limited (606)	Equivalent to approximately HK\$945.0 million <sup>(2)</sup>	5.5%	24	Yes <sup>(10)</sup>
N/A <sup>(12)</sup>	17 Nov 2024	Baiwang Co., Ltd. (6657)	Equivalent to approximately HK\$36.8 million <sup>(2)</sup>	8.0%	12	No
Discloseable	11 Nov 2024	Zhong Ji Longevity Science Group Limited (767)	HK\$30 million	10.0%	36	Yes <sup>(11)</sup>
Discloseable	11 Nov 2024	Furniweb Holdings Limited (8480)	Equivalent to approximately HK\$8.9 million <sup>(3)</sup>	6.0%	24	No
Major	1 Nov 2024	Jilin Province Chunheng Heating Company Limited (1853)	Equivalent to approximately HK\$315.0 million <sup>(2)</sup>	4.5%	60	No
	Average	HK\$382.6 million	5.3%	30		
	Median	HK\$36.8 million	5.0%	24		
	Maximum	HK\$2,625.0 million	10.0%	60		
	Minimum	HK\$3.2 million	2.5%	9		
Major	30 Apr 2025	The Company (8211)	Equivalent to approximately HK\$176.1 million	3.1%	12 <sup>(7)</sup>	Yes

Source: hkexnews.hk



*Notes:*

- (1) Information has been extracted from the relevant announcements of the respective comparables.
- (2) For illustration purpose only, RMB has been translated at RMB1 to HK\$1.05.
- (3) For illustration purpose only, RM has been translated at RM1 to HK\$1.77.
- (4) As disclosed in the announcement of China Suntien Green Energy Corporation Limited dated 7 Feb 2025, the interest rate of the loan shall be a fixed rate and be determined based on the interest rate of the issuance of the Medium-term Notes, which shall be determined through a centralized bookbuilding process and is expected to be in the range of 2.0% to 3.0%.
- (5) As disclosed in the announcement of GCL New Energy Holdings Limited dated 9 Jan 2025, the loan consist of (i) principal amount of RMB111 million, which shall bear an interest rate of up to 3.85% p.a., and (ii) principal amount of RMB70 million, which shall bear an interest rate of up to 3% p.a..
- (6) As disclosed in the announcement of Tianjin Capital Environmental Protection Group Company Limited dated 29 Nov 2024, the term of the loan is three years in the amount of RMB24,350,000 and one year in the amount of RMB15,650,000.
- (7) Pursuant to the Loan Agreement, the loan shall mature on 30 December 2025, which is approximately 12 months from the first advancement of the Non-compliance Advance Payments on 31 December 2024.
- (8) The 49% equity holder of the borrower provided corporate guarantee in the amount equivalent to approximately HK\$1.8 million.
- (9) Two invention patents pledged as security.
- (10) Charged asset with the real estate portion appraised market value equivalent to approximately HK\$2.1 billion as security.
- (11) The sole owner or majority owner of the borrowers provided personal guarantee.
- (12) The highest applicable percentage ratio of the market comparable is greater than 0.1% but less than 5%.

**(a) Interest rate**

As illustrated by the above table, the interest rate of the Market Comparables ranges from 2.5% to 10.0%, with an average of approximately 5.3% and a median of approximately 5.0%.

We note that the interest rate of 3.1% under the Loan Agreement is lower than the average and the median, but within the range of the interest rate of the Market Comparables. We further noted that (i) ten out of 11 Market Comparables carried fixed interest rates; and (ii) one out of 11 Market Comparable carried floating interest rate.

Considering (i) majority of the Market Comparables carried fixed interest rates; and (ii) floating interest rates may increase or decrease resulting in the potential fluctuation on the interest income, we are of the view that the fixed interest rate stipulated under the Loan Agreement is a normal and common market practice and provide the Group with a fixed interest income in a prudent basis. Accordingly, we consider that adopting a fixed interest rate and also the interest rate of 3.1% p.a. is fair and reasonable.

**(b) Term to maturity**

As illustrated by the above table, the term of maturity of the Market Comparables ranges from 9 months to 60 months with an average of approximately 30 months and a median of 24 months. The duration of the Loan Agreement of approximately 12 months is in line with the aforesaid range of Market Comparables, with three out of 11 Market Comparables carrying a term to maturity of the same or shorter. Accordingly, we consider the term of maturity pursuant to the Loan Agreement to be fair and reasonable.

**(c) Collateral/Guarantee**

As illustrated by the above table, seven out of 11 Market Comparables were not secured by collateral or guarantee or no information in relation to the collateral or the guarantee was noted in the announcements. As such, it is not uncommon in the market for provision of a loan to a connected person by the listed companies in Hong Kong without collateral or guarantee.

Despite the interest rate of 3.1% p.a. is lower than the average and the median of the Market Comparables, the Loan Agreement provides a pledge with net asset which is expected to be sufficient to cover the principal amount of the loan. Based on the above, on balance, we are of the view that the terms of the Loan Agreement are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

**5 IMPLICATIONS OF THE VOTE**

In the case that the relevant resolution is voted down at the EGM of the Company, in order to recover the outstanding sum of the Non-Compliance Advance Payments, the Company may need to initiate legal proceedings against Zhejiang Yongli, which may be costly and time consuming as such costs would be substantial and would have immediately adverse effect on the cash flow position of the Group from our understanding with the Directors. Accordingly, the Loan Agreement formalises the key terms and provides a contractual framework to govern repayment, which allows the Company to be provided with a pledge of 62.88% equity interest in Zhejiang Yongli Warp as security and shall be entitled to an estimated interest income of approximately RMB4.4 million pursuant to the Loan Agreement, assuming no further repayment shall be made by Zhejiang Yongli before the Maturity Date and based on the outstanding principal amount of RMB131,960,506.85 as at the Latest Practicable Date.

Accordingly, as compared to a costly and time consuming process to recover the outstanding sum of the Non-Compliance Advance Payments, it is more reasonable and commercially justifiable to enter into the Loan Agreement which regularises and ensures the formalisation of the terms of the financial assistance. Taking into account of the above and with the proposed Maturity Date of 30 December 2025 is closing in with less than 6 months from the Latest Practicable Date, we are of the view that the terms of the Loan Agreement is fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **6 POSSIBLE FINANCIAL EFFECTS**

### **(a) Effect on total assets**

According to the 2024 Annual Results, the total assets of the Group was approximately RMB219.2 million. As at the Latest Practicable Date, RMB131,960,506.85 remains outstanding under the Loan Agreement and is recorded as a loan receivable in the Group's financial statements, which represents approximately 60.2% of the total assets of the Group as at 31 December 2024. As the entering into of the Loan Agreement is to formalise and govern the repayment terms of the Non-compliance Advance Payments, no additional capital is expected to be required from the Group. Accordingly, it is expected that the total assets of the Group would remain unchanged as a result of the entering into of the Loan Agreement.

### **(b) Effect on revenue**

Based on the agreed annual interest rate of 3.1% stipulated in the Loan Agreement, the outstanding principal amount of RMB131,960,506.85 as at the Latest Practicable Date and the assumption that no further repayment shall be made by Zhejiang Yongli before the Maturity Date, the Group shall be entitled to an estimated interest income of approximately RMB4.4 million pursuant to the Loan Agreement, entering into of the Loan Agreement is expected to have a positive impact on the earnings of the Group during the term of the loan pursuant to the Loan Agreement.

### **(c) Effect on liquidity and gearing ratio**

As the entering into of the Loan Agreement is to formalise and govern the repayment terms of the Non-compliance Advance Payments, no additional capital is expected to be required from the Group. Accordingly, it is expected that the Group's gearing ratio (defined as the Group's total interest-bearing borrowings divided by the Group's total equity) and current assets would remain unchanged as a result of entering into of the Loan Agreement.



## OPINION AND RECOMMENDATION


Taking into consideration of the above principal factors and reasons, even though entering into of the Loan Agreement is not in the ordinary and usual course of business of the Company, we are of the opinion that the terms of the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution proposed at the EGM thereby approving the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Alpha Financial Group Limited**



**Cheng Chi Ming, Andrew**  
Managing Director

Yours faithfully,  
For and on behalf of  
**Alpha Financial Group Limited**



**Irene Ho**  
Vice President

*Mr. Cheng Chi Ming, Andrew is the Managing Director of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheng has over 21 years of experience in the corporate finance industry in Hong Kong.*

*Ms. Irene Ho is the Vice President of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Ms. Ho has over 11 years of experience in the corporate finance industry in Hong Kong.*