

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:

	FY2022 <i>RMB'000</i> (audited)	FY2023 <i>RMB'000</i> (audited)	FY2024 <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).