

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:

$$\text{Interest payable} = \text{Outstanding principal amount} \times 3.1\% \times \text{Actual number of days elapsed} / 365$$

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