

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 ⁽²⁾	5.0%	9	Yes ⁽⁸⁾
Discloseable	7 Feb 2025	China Suntien Green Energy Corporation Limited (956)	Equivalent to approximately HK\$2,625.0 million ⁽²⁾	Expected 2.0–3.0% ⁽⁴⁾	60	No
Major	9 Jan 2025	GCL New Energy Holdings Limited (451)	Equivalent to approximately HK\$190.1 million ⁽²⁾⁽³⁾	Up to 3.85% ⁽⁵⁾	36	No
N/A ⁽¹²⁾	30 Dec 2024	Readboy Education Holding Company Limited (2385)	Equivalent to approximately HK\$3.2 million ⁽²⁾	3.95%	12	No
N/A ⁽¹²⁾	29 Nov 2024	Tianjin Capital Environmental Protection Group Company Limited (1065)	Equivalent to approximately HK\$42.0 million ⁽²⁾⁽⁶⁾	5.0%	12 to 36 months ⁽⁶⁾	No
N/A ⁽¹²⁾	29 Nov 2024	Uni-Bio Science Group Limited (690)	Equivalent to approximately HK\$8.9 million ⁽²⁾	3.65%	24	Yes ⁽⁹⁾
Major	19 Nov 2024	SCE Intelligent Commercial Management Holdings Limited (606)	Equivalent to approximately HK\$945.0 million ⁽²⁾	5.5%	24	Yes ⁽¹⁰⁾
N/A ⁽¹²⁾	17 Nov 2024	Baiwang Co., Ltd. (6657)	Equivalent to approximately HK\$36.8 million ⁽²⁾	8.0%	12	No
Discloseable	11 Nov 2024	Zhong Ji Longevity Science Group Limited (767)	HK\$30 million	10.0%	36	Yes ⁽¹¹⁾
Discloseable	11 Nov 2024	Furniweb Holdings Limited (8480)	Equivalent to approximately HK\$8.9 million ⁽³⁾	6.0%	24	No
Major	1 Nov 2024	Jilin Province Chun Cheng Heating Company Limited (1853)	Equivalent to approximately HK\$315.0 million ⁽²⁾	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 ⁽⁷⁾	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.