
LETTER FROM THE BOARD



China Shuifa Singyes New Materials Holdings Limited

中國水發興業新材料控股有限公司

(formerly known as China Singyes New Materials Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8073)

Executive Directors:

Mr. Du Peng (*Chairman*)

Mr. Zhang Chao

Mr. Zhu Xuping

Non-executive Director:

Mr. Zhou Qing

Independent Non-executive Directors:

Ms. Pan Jianli

Mr. Zhang Yumo

Dr. Li Ling

Registered office:

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2 Church Street

Hamilton HM11

Bermuda

Principal place of business

in Hong Kong:

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Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

24 January 2025

To the Shareholders

Dear Sir/Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
PROVISION OF THE LOAN**

INTRODUCTION

Reference is made to the announcement of the Company dated 25 October 2024 in relation to, inter alia, the Provision of the Loan.

The purpose of this circular is to provide the Shareholders with (i) details of the Provision of the Loan; (ii) the recommendation of the IBC regarding the Loan Agreement and the transactions contemplated thereunder; (iii) the advice of the IFA to the IBC and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder; and (iv) a notice of the SGM, at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, approve the Loan Agreement and the transactions contemplated thereunder.

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LOAN AGREEMENT

The principal terms of the Loan Agreement are summarised as follows:

Date	:	25 October 2024
Parties	:	(i) Zhuhai New Materials, as the Lender; and (ii) Shuifa Xingye Holding, as the Borrower
Principal amount	:	Not exceeding RMB30 million
Annual interest rate	:	6% per annum, on the basis of actual number of borrowing days and 360-day per year. The interest shall be paid on a monthly basis.
Term	:	A period of three years commencing from the date of drawdown of the Loan.
Default interest rate	:	0.05% per day
Security	:	No guarantee or security is to be given for the Loan
Purpose of the Loan	:	Use to supplement the working capital of Shuifa Xingye Holding
Repayment and prepayment	:	The Borrower shall repay the principal amount of the Loan in full upon the maturity date. The Borrower may repay the Loan early after obtaining the consent of the Lender pursuant to the Loan Agreement.
Conditions precedent	:	The Loan Agreement and the transactions contemplated thereunder shall be subject to the fulfillment of the following conditions: 1. The Loan Agreement has been sealed by the Borrower and sealed by the Lender using the enterprise's chops; and

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2. The approval of the Independent Shareholders of the Company on the entering into of the Loan Agreement and the transactions contemplated thereunder have been obtained at the SGM pursuant to the GEM Listing Rules.

As at the Latest Practicable Date, number 1 of the conditions precedent to the Loan Agreement has been fulfilled.

FUNDING OF THE LOAN

The Group will finance the Loan with its internal resources.

INFORMATION OF THE COMPANY AND THE GROUP

The Company is a company incorporated in Bermuda with limited liability. The Group is principally engaged in the sale and installation of Indium Tin Oxide (“ITO”) film, and the research and development, production, sale and installation of Smart Polymer-Dispersed Liquid Crystals (“Smart PDLC” products, Light Emitting Diode (“LED”) Display and Projection System.

INFORMATION OF THE LENDER

Zhuhai New Materials is a limited liability company incorporated under the laws of the PRC and is principally engaged in the research and development, manufacture, sale and installation of photovoltaic products. As at the Latest Practicable Date, the Company indirectly owns 100% of the entire issued share capital of Zhuhai New Materials.

INFORMATION OF THE BORROWER

Shuifa Xingye Holding is a limited liability company incorporated under the laws of the PRC and is principally engaged in investment holding. Shuifa Xingye Holding and its subsidiaries are principally engaged in investment holding and undertake EPC projects. As at the Latest Practicable Date, Shuifa Singyes, the controlling shareholder of the Company, directly owns 100% of the entire issued share capital of Shuifa Xingye Holding. Shuifa Singyes and its subsidiaries are principally engaged in the design, manufacture, supply and installation of conventional curtain walls and building integrated photovoltaic systems, as well as the manufacture and sale of solar power products. The ultimate holding company of Shuifa Singyes is Shuifa Group Co., Ltd* (水發集團有限公司), which is owned, directly and indirectly, as to 90% by the State-owned Assets Supervision and Administration Commission of the State Council of the Shandong Province of the PRC* (中國山東省國有資產監督管理委員會) and as to 10% by the Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會), which is directly under the Shandong Provincial Government.

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INFORMATION ON THE CREDIT RISK RELATING TO THE LOAN

When considering the Provision of the Loan, Zhuhai New Materials has conducted credit appraisal with respect to the financial position and repayment capability of the Borrower and Shuifa Singyes and correspondingly, the credit risks with respect to the Loan. Zhuhai New Materials has reviewed the financial information of the Borrower for FY2022, FY2023, 11M2023 and 11M2024:

- (i) the consolidated revenue of the Borrower for FY2022, FY2023, 11M2023 and 11M2024 was approximately RMB14,553,000, RMB107,173,000, RMB58,406,000 and RMB1,268,230,000, respectively;
- (ii) the consolidated net liabilities of the Borrower as at 31 December 2022, 31 December 2023 and 30 November 2024 was approximately RMB40,432,000, RMB67,491,000 and RMB63,907,000, respectively; and
- (iii) the consolidated cash and cash equivalents of the Borrower as at 31 December 2022, 31 December 2023 and 30 November 2024 was approximately RMB2,075,000, RMB3,676,000 and RMB258,040,000, respectively, which are unrestricted and liquid cash.

Zhuhai New Materials was advised by the Borrower that the Borrower has no previous record of default of payment to loans. Accordingly, the Company considers that the Borrower has and would continue to have sufficient cash reserve for the repayment of the principal amount of the Loan of not exceeding RMB30 million.

In addition, Shuifa Singyes has issued a letter of support which confirms that Shuifa Singyes will provide the Borrower with financial support as and when necessary to enable the Borrower to continue to meet its financial obligations when they fall due. Pursuant to the letter of support, Shuifa Singyes will use its best endeavours to procure and support the Borrower with adequate finance for the performance of its financial obligations, and will use reasonable endeavours to take the necessary measures to support the repayment of the Loan. In view of the listing status of Shuifa Singyes, the parent company of the Borrower, Zhuhai New Materials has reviewed the interim report of Shuifa Singyes for the six months ended 30 June 2024, and the total assets and net assets of Shuifa Singyes were approximately RMB20,689 million and RMB4,824 million, respectively, as at 30 June 2024, with cash and cash equivalents of approximately RMB216 million, which is unrestricted cash and sufficient for the repayment of the principal amount of the Loan of not exceeding RMB30 million. Therefore, the liquidity and cash generating ability of Shuifa Singyes are considered satisfactory and sufficient for the repayment of the Loan.

Taking into account (i) the adequate cash reserve of Shuifa Singyes and the Borrower; (ii) the clean record of Shuifa Singyes and the Borrower in meeting their respective payment obligations; and (iii) the financial support from Shuifa Singyes which would mitigate the credit risk of the Loan in the event the Borrower could not repay its liabilities, the Company is of the view that the risks involved in the Loan are relatively low and manageable.

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The Company has formulated the following credit monitoring policies with respect to the provision of loans:

- (i) before providing any loans, the Company will conduct a credit check to assess the borrower's credit history, including calculating its gearing ratio and reviewing the amount of outstanding debts;
- (ii) the Company monitors borrowers' credit profiles on an ongoing basis to track any changes in their credit status, such as new debts, cash balance, gearing ratio etc.;
- (iii) the Company will conduct periodic reviews and request updated financial statements from borrowers regularly to assess their financial health and overall ability to repay the loan; and
- (iv) the Company maintains open communication with borrowers to address any concerns, changes in financial circumstances, or difficulties they may be facing that could impact their ability to meet loan obligations.

REASONS FOR AND BENEFITS IN RELATION TO THE PROVISION OF THE LOAN

As disclosed in the interim report of the Company for the six months ended 30 June 2024, the Group recorded cash and cash equivalents of approximately RMB21 million as at 30 June 2024. As at the Latest Practicable Date, the cash and cash equivalents of the Group amounted to over RMB40 million, which is unrestricted cash and sufficient for financing the Loan of not exceeding RMB30 million. Given that the Group will finance the Loan with its internal resources, the Loan in full amount will only use part of the Group's cash and cash equivalents but will generate attractive interest income to the Group.

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In order to ensure that the Company will be able to fulfil its short-term repayment obligations and daily working capital requirement during the term of the Loan, it is the mutual understanding between the Lender and the Borrower that the parties will discuss in good faith in relation to the availability of drawdown. In particular:

- (i) the Company shall have absolute discretion as to whether to make available any sum for drawdown under the Loan; and
- (ii) prior to drawdown, the Company will review its cash position to assess the level of cash available for drawdown under the Loan. The Company shall first be satisfied that it will have sufficient cash and cash equivalents to fulfil its short-term repayment obligations and working capital needs after the provision of the Loan.

Therefore, the Company is of the view that the grant of the Loan will not have any material impact on the Company's operation in the foreseeable future.

Taking into account the above, the Company considers that it would have sufficient internal resources to fund the Loan and the Loan will be recorded as loan receivable of the Group.

The Group has formulated the following internal procedures to ensure that it will have sufficient cash flow to support its daily business operation and working capital prior to and during the term of the Loan:

- (i) Finance department of the Group would prepare and the management would review monthly expenditure and cash flow forecasts to assess the Group's short-term cash requirements. This will allow the management to develop detailed plan or budget for fund allocation within the Group and for future liquidity needs so as to ensure that sufficient cash reserve is available for daily business operations;
- (ii) Management of the Group will conduct monthly reviews of working capital components such as receivables, payables, and inventory to optimize cash flow and maintain adequate liquidity for daily business operations;
- (iii) Management of the Group will compare actual usage of cash to the budgeted amounts to identify any shortfalls or surplus cash that can be utilized to improve the management of working capital needs; and
- (iv) The Group has in place stringent approval mechanism (including retention of review evidence) for approval of expenditures to ensure that cash outflows are properly controlled and are in line with the Group's operational needs.

While the domestic market has begun to recover, the pace remains to be slow. The Group has been conducting its operations in a prudent and stable manner so as to maintain viability and sustainability, mitigate short term risks and fluctuations faced by the Group and derived value in investments for the Company and its Shareholders as a whole. The Provision of the Loan will allow the Group to utilise its cash assets more efficiently and generate an additional income stream in the form of interest income.

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Through utilizing internal resources, the Provision of the Loan will optimize the Group's overall cash flow management, promote the financial synergy within the enterprise structure and also enhance liquidity management capabilities throughout the organization. In particular, the Company can improve its relationship with the Shuifa Singyes group through the Provision of the Loan, leading to increased allocation of resources by Shuifa Singyes to the Company in the future, so as to form a financial synergy. The Provision of the Loan will allow the Group to diversify its income stream in the form of interest income and re-allocate cash assets more efficiently within the Group and the Shuifa Singyes Group, thus enhancing liquidity management capabilities. The Provision of the Loan will make use of the idle funds of the Group in a more efficient manner to drive further gains under limited risks.

Furthermore, the terms of the Loan Agreement (including the proposed principal amount and applicable interest rate) have been arrived at after arm's length negotiations between the Lender and the Borrower, with reference to the prevailing market interest rates, interest income payable by the Borrower on a monthly basis as well as the amount and term of the Loan.

In light of the above, the Board (including the members of the IBC) is of the view that despite the Loan Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the Loan Agreement and the transactions contemplated thereunder as a whole are on normal commercial terms, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of Directors has any material interest on the above matters and is required to abstain from voting on the board resolutions approving the Loan Agreement and the transactions contemplated thereunder.

GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Shuifa Xingye Holding is a direct wholly-owned subsidiary of Shuifa Singyes, the controlling shareholder of the Company, and a connected person of the Company. Therefore, the entering into of the Loan Agreement constitutes a connected transaction of the Company.

As the principal amount of the Loan is more than HK\$10 million, according to the GEM Listing Rules, the Loan Agreement and the transactions contemplated thereunder are subject to reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable ratios under Rule 19.07 of the GEM Listing Rules are more than 5% but less than 25%, the Loan Agreement and the transactions contemplated thereunder also constitute a disclosable transaction of the Company under Chapter 19 of the GEM Listing Rules.

Further, the principal amount of the Loan exceeds 8% under the assets ratio of the Group defined under Rule 19.07(1) of the GEM Listing Rules and therefore the Loan may also constitute advance to an entity under Rule 17.15 of the GEM Listing Rules and subject to the general disclosure obligations under Rules 17.15 and 17.17 of the GEM Listing Rules.

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The IBC comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder and on how to vote.

Donvex Capital Limited has been appointed as the IFA to advise the IBC and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder and the manner of voting by the Independent Shareholders on the relevant resolution at the SGM.

SGM

The SGM will be held to consider and, if thought fit, pass the resolution to approve, among other things, the entering into of the Loan Agreement and the transactions contemplated thereunder.

Pursuant to Rule 20.34 of the GEM Listing Rules, any Shareholder and its associates with a material interest in the transactions shall abstain from voting at the SGM for considering and approving the Loan Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Shuifa Singyes is the controlling shareholder of the Company holding 324,324,325 Shares, representing approximately 62.37% of the entire issued share capital of the Company. As such, Shuifa Singyes and its associates will abstain from voting at the SGM in respect of the resolution in relation to the Loan Agreement and the transactions contemplated thereunder.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, save and except for Shuifa Singyes and its associates, no Shareholder has a material interest in the Loan Agreement and the transactions contemplated thereunder and accordingly, no other Shareholder and its associates are therefore required to abstain from voting on the shareholders' resolution to be proposed at the SGM in respect of the Loan Agreement and the transactions contemplated thereunder.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The resolution in relation to the Loan Agreement and the transactions contemplated thereunder at the SGM will be voted on by the Independent Shareholders by way of a poll and an announcement of the poll results will be made in accordance with the GEM Listing Rules.

A notice convening the SGM to be held at the 35/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong on Wednesday, 12 March 2025 at 11:30 a.m. is set out on pages 40 to 41 of this circular. Shareholders are advised to read the notice and complete and return the form of proxy for use at the SGM enclosed with this circular in accordance with the instructions printed thereon.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the SGM or any

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adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 6 March 2025 to Wednesday, 12 March 2025 (both days inclusive), during which period the registration of transfer of Shares will be suspended. To entitle to the attendance of the SGM, all duly completed transfer forms of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 5 March 2025.

RECOMMENDATION

The Directors (including the IBC) are of the opinion that despite the Loan Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the Loan Agreement and the transactions contemplated thereunder as a whole are on normal commercial terms, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the IBC) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

Your attention is drawn to (i) the letter from the IBC set out on pages 13 to 14 of this circular containing the recommendation of the IBC to the Independent Shareholders regarding the Loan Agreement; (ii) the letter of advice from the IFA to the IBC and the Independent Shareholders set out on pages 15 to 34 of this circular; and (iii) the information set out on pages 35 to 39 of this circular.

Shareholders and potential investors should be aware that the Loan Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent as contemplated under the Loan Agreement. Accordingly, the Provision of the Loan may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Yours faithfully,
For and on behalf of
China Shuifa Singyes New Materials Holdings Limited
Du Peng
Chairman

