



24 January 2025

*The Independent Board Committee and the Independent Shareholders of
China Shuifa Singyes New Materials Holdings Limited*

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION PROVISION OF THE LOAN

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Loan Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 24 January 2025 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As disclosed in the Letter from the Board, on 25 October 2024 (after trading hours), Zhuhai New Materials, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with Shuifa Xingye Holding, pursuant to which Zhuhai New Materials, the Lender, has conditionally agreed to provide the Loan in the principal amount not exceeding RMB30 million to Shuifa Xingye Holding, the Borrower, for the period of three years commencing from the date of drawdown of the Loan.

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

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 the highest applicable percentage ratio under Rule 19.07 of the GEM Listing Rules in respect of the Provision of the Loan is higher than 5% but lower than 25%, the Provision of the Loan constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

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

Pursuant to Rule 20.34 of the GEM Listing Rules, all resolutions will be passed by way of poll at the SGM. Any Shareholder and its associates with a material interest in the Provision of the Loan will abstain from voting on the ordinary resolutions for approving the Provision of the Loan at the SGM. As Shuifa Singyes is the controlling shareholder of the Company, Shuifa Singyes and its associates will abstain from voting at the SGM on the ordinary resolution(s) for the purpose of approving the Provision of the Loan. As at the Latest Practicable Date, so far as the Directors are aware, other than the aforesaid, no other associate of Shuifa Singyes holds shares of the Company and is required to abstain from voting on such ordinary resolution(s).

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Ms. Pan Jianli, Mr. Zhang Yumo and Dr. Li Ling, has been established to advise the Independent Shareholders on whether the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as (i) financial adviser to the Group and its respective connected persons; or (ii) independent financial adviser to independent board committee and independent shareholders of the Company in the past two years immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 17.96 of the GEM Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Provision of the Loan. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the SGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Provision of the Loan and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Provision of the Loan, 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 purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information of the parties and the Group

1. 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 film and the research, development, production, sale and installation of Smart Polymer-Dispersed Liquid Crystals products, Light Emitting Diode Display and Projection System.

The table below sets forth a summary of the consolidated financial information of the Group for FY2022, FY2023, the six months ended 30 June 2023 (“6M2023”) and the 6M2024:

	FY2022	FY2023	6M2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total revenue	78,057	85,353	33,573	54,923
(Loss)/Profit after taxation	(13,511)	(42,356)	(2,958)	5,965

	As at		
	31 December	31 December	30 June
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)
Cash and cash equivalents	59,535	44,409	20,859
Total assets	313,605	249,266	260,922
Total liabilities	109,048	87,414	92,155
Net assets	204,557	161,852	168,767

Revenue

The revenue of the Group increased from approximately RMB78 million for FY2022 to approximately RMB85 million for FY2023, which was mainly due to the increase in the sales of Smart Polymer-Dispersed Liquid Crystals products.

The revenue of the Group increased from approximately RMB34 million for 6M2023 to approximately RMB55 million for 6M2024, which was mainly due to the increase in the sales of Smart Polymer-Dispersed Liquid Crystals products.

(Loss)/Profit after taxation

The loss after taxation of the Group increased from approximately RMB14 million for FY2022 to approximately RMB42 million for FY2023, which was mainly due to the increase in the impairment loss on trade receivables.

The Group has turned around from loss after taxation of approximately RMB3 million for 6M2023 to profit after taxation of approximately RMB6 million for 6M2024, which was mainly due to the increase in revenue.

Cash and cash equivalents

The cash and cash equivalents of the Group decreased from approximately RMB60 million as at 31 December 2022 to approximately RMB44 million as at 31 December 2023, which was mainly due to the repayment of borrowings.

The cash and cash equivalents of the Group decreased from approximately RMB44 million as at 31 December 2023 to approximately RMB21 million as at 30 June 2024, which was mainly due to the increase in the cost of sales in operating activities.

Total assets

The total assets of the Group decreased from approximately RMB314 million as at 31 December 2022 to approximately RMB249 million as at 31 December 2023, which was mainly due to the decrease in trade and bills receivables.

The total assets of the Group increased from approximately RMB249 million as at 31 December 2023 to approximately RMB261 million as at 30 June 2024, which was mainly due to the increase in prepayments, deposits and other receivables.

Total liabilities

The total liabilities of the Group decreased from approximately RMB109 million as at 31 December 2022 to approximately RMB87 million as at 31 December 2023, which was mainly due to the decrease in short-term borrowings.

The total liabilities of the Group increased from approximately RMB87 million as at 31 December 2023 to approximately RMB92 million as at 30 June 2024, which was mainly due to the increase in short-term borrowings.

2. Zhuhai New Materials

As at the Latest Practicable Date, Zhuhai New Materials is an indirect wholly-owned subsidiary of the Company. 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.

The table below sets forth a summary of the consolidated financial information of Zhuhai New Materials and its subsidiaries for FY2022, FY2023, 11M2023 and 11M2024:

	FY2022	FY2023	11M2023	11M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total revenue	58,648	71,840	57,280	90,212
(Loss)/Profit after taxation	(9,125)	(32,471)	2,086	17,396

	As at		
	31 December	31 December	30 November
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)
Cash and cash equivalents	41,894	37,056	5,950
Total assets	295,298	259,174	258,564
Total liabilities	175,913	172,607	159,736
Net assets	119,385	86,567	98,828

Revenue

The revenue of Zhuhai New Materials increased from approximately RMB59 million for FY2022 to approximately RMB72 million for FY2023, which was mainly due to the increase in the sales volume of the film of new material automobile.

The revenue of Zhuhai New Materials increased from approximately RMB57 million for 11M2023 to approximately RMB90 million for 11M2024, which was mainly due to the increase in the sales volume of Smart Polymer-Dispersed Liquid Crystals products.

(Loss)/Profit after taxation

The loss after taxation of Zhuhai New Materials increased from approximately RMB9 million for FY2022 to approximately RMB32 million for FY2023, which was mainly due to the increase in the expected credit loss as a result of the increase in the default risk of accounts receivable from the customers affected by the pandemic.

The profit after taxation of Zhuhai New Materials increased from approximately RMB2 million for 11M2023 to approximately RMB17 million for 11M2024, which was mainly due to the increase in revenue.

Cash and cash equivalents

The cash and cash equivalents of Zhuhai New Materials decreased from approximately RMB42 million as at 31 December 2022 to approximately RMB37 million as at 31 December 2023, which was mainly due to the increase in the expenditure on equipment and renovation of plants.

The cash and cash equivalents of Zhuhai New Materials decreased from approximately RMB37 million as at 31 December 2023 to approximately RMB6 million as at 30 November 2024, which was mainly due to the increase in the cost of sales in operating activities.

Total assets

The total assets of Zhuhai New Materials decreased from approximately RMB295 million as at 31 December 2022 to approximately RMB259 million as at 31 December 2023, which was mainly due to the decrease in accounts receivable as a result of the increase in the allowance for expected credit losses.

The total assets of Zhuhai New Materials decreased from approximately RMB259 million as at 31 December 2023 to approximately RMB258 million as at 30 November 2024, which remains stable.

Total liabilities

The total liabilities of Zhuhai New Materials decreased from approximately RMB176 million as at 31 December 2022 to approximately RMB173 million as at 31 December 2023, which remains stable.

The total liabilities of Zhuhai New Materials decreased from approximately RMB173 million as at 31 December 2023 to approximately RMB160 million as at 30 November 2024, which was mainly due to the decrease in the other payables.

3. *Shuifa Xingye Holding*

As at the Latest Practicable Date, Shuifa Xingye Holding is an indirect wholly-owned subsidiary of Shuifa Singyes, the controlling shareholder of the Company. As such, Shuifa Xingye Holding is the connected person of the Company. 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 the undertaking of EPC projects.

The table below sets forth a summary of the consolidated financial information of Shuifa Xingye Holding for FY2022, FY2023, 11M2023 and 11M2024:

	FY2022	FY2023	11M2023	11M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total revenue	14,553	107,173	58,406	1,268,230
(Loss)/Profit after taxation	(29,318)	(26,887)	(28,528)	3,570

	As at		
	31 December	31 December	30 November
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Cash and cash equivalents	2,075	3,676	258,040
Total assets	65,254	1,993,858	4,264,907
Total liabilities	105,686	2,061,349	4,328,814
Net assets/(liabilities)	(40,432)	(67,491)	(63,907)

Revenue

The consolidated revenue of Shuifa Xingye Holding increased from approximately RMB15 million for FY2022 to approximately RMB107 million for FY2023, which was mainly due to the increase of EPC projects undertaken by the subsidiaries of Shuifa Xingye Holding in FY2023.

The consolidated revenue of Shuifa Xingye Holding increased from approximately RMB58 million for 11M2023 to approximately RMB1,268 million for 11M2024, which was mainly due to the expansion of EPC business of the subsidiaries of Shuifa Xingye Holding.

(Loss)/Profit after taxation

The consolidated loss after taxation of Shuifa Xingye Holding decreased from approximately RMB30 million for FY2022 to approximately RMB27 million for FY2023, which was mainly due to the increase in revenue for FY2023.

Shuifa Xingye Holding turned around from consolidated loss after taxation of approximately RMB29 million for 11M2023 to consolidated profit after taxation of approximately RMB4 million for 11M2024, which was mainly due to the increase in revenue for 11M2024.

Cash and cash equivalents

The consolidated cash and cash equivalents of Shuifa Xingye Holding increased from approximately RMB2 million as at 31 December 2022 to approximately RMB4 million as at 31 December 2023, which was mainly due to increase in the revenue in FY2023.

The consolidated cash and cash equivalents of Shuifa Xingye Holding increased from approximately RMB4 million as at 31 December 2023 to approximately RMB258 million as at 30 November 2024. As the business of Shuifa Xingye Holding largely expanded in 2024 with its revenue increased significantly from approximately RMB58 million for 11M2023 to approximately RMB1,268 million for 11M2024, the cash and bank balances are mainly maintained in the subsidiaries of Shuifa Xingye Holding as working capital to meet their funding needs for engineering projects. As at 31 December 2024, Shuifa Xingye Holding recorded cash and bank balance of over RMB15 million.

Total assets

The consolidated total assets of Shuifa Xingye Holding increased from approximately RMB65 million as at 31 December 2022 to approximately RMB1,994 million as at 31 December 2023, which was mainly attributable to the increase in the amounts due from other subsidiaries of Shuifa Singyes.

The consolidated total assets of Shuifa Xingye Holding increased from approximately RMB1,994 million as at 31 December 2023 to approximately RMB4,265 million as at 30 November 2024, which was mainly due to the increase in the amounts due from other subsidiaries of Shuifa Singyes.

Total liabilities

The consolidated total liabilities of Shuifa Xingye Holding increased from approximately RMB106 million as at 31 December 2022 to approximately RMB2,061 million as at 31 December 2023, which was mainly due to the increase in the amounts due to other subsidiaries of Shuifa Singyes.

The consolidated total liabilities of Shuifa Xingye Holding increased from approximately RMB2,061 million as at 31 December 2023 to approximately RMB4,329 million as at 30 November 2024, which was mainly due to the increase in the amounts due to other subsidiaries of Shuifa Singyes.

B. Provision of the Loan

1. Background

On 25 October 2024 (after trading hours), Zhuhai New Materials, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with Shuifa Xingye Holding, pursuant to which Zhuhai New Materials, the Lender, has conditionally agreed to provide the Loan in the principal amount not exceeding RMB30 million to Shuifa Xingye Holding, the Borrower, for the period of three years commencing from the date of drawdown of the Loan.

2. Reasons for and the benefits of the Provision of the Loan

The Provision of the Loan is able to generate interest income to the Group

Despite the fact that the Company has been actively seeking opportunities to enhance the utilization of the idle cash of the Group, the Company has yet to identify any other high quality, attractive and risk-manageable opportunities which could generate additional income to the Group. The Provision of the Loan, in the view of the management of the Company, will allow the Group to utilize its cash more efficiently and generate an additional stable income stream in the form of interest income.

Based on the consolidated financial statement of the Group for FY2023 and 6M2024, the Group recorded (i) cash and cash equivalents of approximately RMB21 million as at 30 June 2024; (ii) revenue of approximately RMB85 million for FY2023 and approximately RMB55 million for 6M2024; and (iii) profit after taxation of approximately RMB6 million for 6M2024. As such, the Group has sufficient financial resources and the ability to generate positive cashflow from its operating activities. We have obtained and reviewed the bank statement of Zhuhai New Materials and noted that as at 31 December 2024, the cash and cash equivalents of Zhuhai New Materials amounted to over RMB48 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.

We have reviewed the annual report of the Group for FY2023 and the interim report of the Group for 6M2024 and noted that:

- (i) the Group recorded net cash outflow of approximately RMB15.1 million in FY2023, which was mainly due to the net cash outflow of approximately RMB21.1 million used in financing activities. Such net cash outflow was mainly attributable to the repayment of borrowings of RMB29.6 million by the Group. As at 30 June 2024, the Group recorded short-term loans of RMB40.4 million, of which the remaining balance of RMB30 million is still outstanding as at the Latest Practicable Date. We have obtained and reviewed the short-term loan agreements of the Group and noted that the maturity date of the short-term loans

falls in the first half of 2025. As advised by the management of the Company, the Group intends to renew the short-term loan agreements with banks after the repayment of the outstanding balance;

- (ii) the Group recorded net cash outflow of approximately RMB24 million for 6M2024, which was mainly due to the net cash outflow of approximately RMB33.5 million used in operating activities. Such net cash outflow was mainly attributable to the one-off prepayment of approximately RMB40 million to an independent supplier for the research and development of new material to be used in photovoltaic power project of the Group during 6M2024. Due to the unsatisfactory trial test of the new material, the Group terminated the research and development of the new material and the abovementioned prepayment has been returned to the Group in the second half of 2024. As such, excluding the abovementioned prepayment, the Group is expected to record positive operating cash flow for the next three years given that the management of the Company did not expect significant change in the operating activities of the Group; and
- (iii) the Group recorded (i) net cash inflow generated from operating activities of approximately RMB2.6 million for FY2022; and (ii) net cash inflow generated from operating activities of approximately RMB5.8 million for FY2023. Besides, the Group recorded net cash inflow generated from operating activities up to the Latest Practicable Date for FY2024. We have discussed with the management of the Company and noted that the Company does not expect significant change in its daily operating activities and hence its daily working capital needs for the next three years as compared with those for FY2022, FY2023 and FY2024. As such, the Group is expected to continue to generate positive cash flow from its operating activities for the next three years and the daily operation of the Group is unlikely to be negatively affected by the Provision of the Loan.

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, Zhuhai New Materials and Shuifa Singye Holding have agreed that the Provision of the Loan under the Loan Agreement shall be subject to the following terms:

- (i) the Company will have absolute discretion to determine the drawdown under the Loan; and
- (ii) prior to the drawdown by the Borrower, the Company will review its cash position to ensure sufficient cash and cash equivalents for its short-term repayment obligations and working capital after the Provision of the Loan.

Given the Zhuhai New Materials could not provide the Loan to the Borrower under the circumstances that the Company's cash could not fulfill its repayment obligations and working capital requirement, we are of the view that the Provision of the Loan will not have any material impact on the Company's operation in the foreseeable future.

Besides, we noted from the Company that the Group implements the following internal control procedures to ensure that the Group has sufficient cash flow to support its daily business operation and working capital:

- (i) the finance department of the Group would prepare and the management would review the monthly expenditure and cash flow forecasts to assess the Group's short-term cash requirements, which allows the Group to develop detailed plan on fund allocation and future liquidity needs so as to ensure that sufficient cash reserve is available for daily business operations;
- (ii) management of the Group would conduct monthly reviews on working capital components such as receivables, payables, and inventory to optimize the usage of cash flow and maintain adequate liquidity for daily business operations;
- (iii) management of the Group would compare actual usage of cash with the budget to identify any shortfall or surplus in cash to improve the management of working capital needs; and
- (iv) the Group has in place stringent approval mechanism including but not limited to the 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.

In light of the above internal control procedures, considering that (i) there is proper segregation of duties between the finance department and the management of the Group; (ii) reviews on working capital needs and variance analysis between the actual usage of cash and budget are conducted on a regular basis; and (iii) strict approval mechanism ensures that the Company can keep track of daily cash outflow of the Group, we are of the view that appropriate internal control mechanism is in place to ensure that sufficient cash is reserved for daily operation and working capital of the Company.

Based on the above, (i) it is highly unlikely that the Provision of the Loan would affect the daily operations of the Group; and (ii) the Provision of the Loan will improve the efficiency of the utilization of idle cash in the Group, which is fair and reasonable and in the interests of the Company and its shareholders as a whole.

As Shuifa Xingye Holding, as an investment holding company, does not have substantial operating activities, it would incur high finance cost for borrowing from commercial banks. The interest rate of 6% per annum of the Loan is lower than the loan interest rate offered by commercial banks to Shuifa Xingye Holding. Meanwhile, we noted from the Company that the Group did not place any time deposit in bank as at the Latest Practicable Date. We have performed independent search and noted that the annual interest rate of time deposit offered by major banks in the PRC with the maturity of one year, two years, three years and five years are 1.1%, 1.2%, 1.5% and 1.55%, respectively, which are much lower than the annual interest rate of 6% of the Loan. Besides, as shown in the interim report

of the Company for 6M2024, the borrowing cost of the Group, as indicated by the loan interest rate, was approximately 4.0% per annum, which is lower than the annual interest rate of 6% of the Loan.

Based on the above, the Provision of the Loan will generate relatively attractive interest income to the Group as compared with placing time deposit with commercial banks by the Group. Besides, such interest return generated from the Loan is higher than the borrowing cost of the Group. As such, the interest rate of 6% of the Loan is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The credit risk in relation to the Loan is low

Prior to the Provision of the Loan, Zhuhai New Materials has conducted credit appraisal on the financial position and repayment capability of the Borrower and the respective credit risk of the Loan. The Company has formulated a comprehensive credit monitoring policies to ensure the recoverability of the Loan and to follow up on the financial position of the Borrower, including but not limited to the monitoring and assessment of the Borrower's credit history, credit profiles, and latest financial information. Based on the financial information of the Borrower for 11M2024 as set out under the section headed "Background information of the parties and the Group", the Borrower recorded (i) consolidated cash and cash equivalents of approximately RMB258 million as at 30 November 2024, which is unrestricted cash and largely exceeds the maximum principal amount of the Loan of RMB30 million; (ii) consolidated total revenue of approximately RMB1,268 million for 11M2024; and (iii) consolidated profit after taxation of approximately RMB4 million for 11M2024. Furthermore, the Board was advised by the Borrower that the Borrower has no previous record of default of payment to loans. We have (i) reviewed the financial statements of the Borrower for FY2022, FY2023 and 11M2024; and (ii) performed independent search on the Borrower and noted that the Borrower has no history of credit default or any litigation and bankruptcy record due to outstanding debt.

In addition to the above, the Borrower is a wholly-owned subsidiary of Shuifa Singyes, which is a public listed company in Hong Kong and a state-owned enterprise. 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. As set out in the consolidated financial statements in the interim report of Shuifa Singyes for 6M2024, Shuifa Singyes had (i) cash and cash equivalents of approximately RMB216 million, which is unrestricted cash and sufficient for financing the principal amount of the Loan of not exceeding RMB30 million; (ii) total current assets of approximately RMB12,091 million; and (iii) net assets of approximately RMB4,824 million as at 30 June 2024. As such, Shuifa Singyes has a strong financial position which comprised liquid assets as at 30 June 2024. Considering Shuifa Singyes will provide financial support to the Borrower as indicated in the abovementioned letter of support, the Company has taken into account the financial position of Shuifa Singyes in its credit assessment in relation to the Provision of the Loan. In light of the adequate cash reserve of Shuifa Singyes, the financial support from Shuifa Singyes would mitigate the credit risk of the Loan in the event the Borrower could not repay its liabilities.

Based on the above, despite the fact that Shuifa Xingye Holding recorded consolidated loss after tax and net liabilities since FY2022, the Company is satisfied with the liquidity of the Borrower and Shuifa Singyes which have sufficient financial resources for the repayment of the Loan. As such, the default risk in relation to the Loan is considered to be low and virtually negligible. Therefore, we are of the view that (i) the Company's credit appraisal on the repayment capability of the Borrower and Shuifa Singyes is sufficient and reasonable; and (ii) the Provision of the Loan based on such credit appraisal is fair and reasonable.

Having considered that (i) the relatively high loan interest rate offered by Shuifa Xingye Holding to Zhuhai New Materials is able to generate attractive interest income to the Group; and (ii) the credit risk in relation to the Loan is low, we consider that the entering into of the Loan Agreement and the transactions contemplated thereunder is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

3. *Principal terms of the Loan Agreement*

The following summarizes the principal terms of the Loan Agreement:

Date	:	25 October 2024
Parties	:	(i) Zhuhai New Materials, the Lender; and (ii) Shuifa Xingye Holding, 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
Purpose of the Loan	:	Use to supplement 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
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.

Comparable analysis

To further assess the fairness and reasonableness of the interest rate of the Loan, we have also conducted research of similar transactions involving the provision of loan or financial assistance (including the subsequent renewal and extension) by companies listed on the Stock Exchange during the period from 25 April 2024 to 25 October 2024 (the “**Review Period**”), being approximately six months prior to the date of the Loan Agreement, which in our view represents a sufficient period of time to reflect the prevailing market conditions for conducting such transaction. Having considered the features of the Loan and in our attempt to identify more representable samples, we have adopted the following selection criteria in our search: (i) the loan being denominated in RMB; (ii) sizes of the loan being higher than RMB10 million and lower than RMB300 million; (iii) term of the loan being not more than 36 months (i.e. three years); and (iii) the interest rate of the loan being pre-fixed as at the date of the respective agreements.

Within the Review Period, there are 14 comparable transactions (the “**Comparables**”) identified based on the abovementioned criteria. We consider that the list of the Comparables is exhaustive as far as we are aware of and is sufficient to provide a fair and representative sample to be taken as a general reference of the prevailing market practices in relation to the transactions involving the provision of loan by the listed companies.

The Shareholders should note that (i) the size, background, business, financial performance and prospects of the Zhuhai New Materials may not be the same as the listed companies of the Comparables; (ii) the background, business, financial performance and credit risks of the Borrower may not be the same as the borrowers of the Comparables, which were not fully disclosed in the relevant announcements from the listed companies; and (iii) the terms of loans may vary with different individual factors including but not limited to, the securities and/or guarantees attached to the loan, and thus the comparison of the major terms of the Loan Agreement with that of the Comparables may not represent an identical comparison. Despite of the above, we consider that the terms of the Comparables could be served as general references and indications to the fairness and reasonableness of the major terms of the Loan Agreement.

With the borrowers of the Comparables being engaged in businesses of different industries, we believe that we are provided with relatively complete and objective market information in understanding the recent trends of loan transactions. Based on our assessment,

we consider that the Comparables, being parts of our assessments, are considered fair, reasonable and comparable in helping to assess the fairness and reasonableness of the Loan Agreement.

The details of the Comparables are set out below:

No.	Date of initial announcement/ agreement	Company name (Stock code)	Principal Amount	Background of the Borrower	Annual/ Annualised interest rate (%)	Maturity (Months)	Securities/ Guarantees Attached (Yes/No)
1	13 September 2024	Hospital Corporation of China Limited (3869)	RMB150 million	A privately-funded non-enterprise entity serving as a local medical services platform offering comprehensive medical services with specialty in oncology and cancer treatments.	13.69	12	Yes
2	28 August 2024	China Everbright Limited (165)	RMB140 million	A company established under the laws of the PRC with limited liability and principally engaged in AIoT and intelligent business.	7	12	Yes
3	23 August 2024	Joy City Property Limited (207)	RMB121,411,028.72	A company incorporated in the PRC with limited liability and primarily engaged in property development and investment in the PRC.	3.63	6	No
4	21 August 2024	China New Town Development Company Limited (1278)	RMB35 million	A company incorporated in the PRC with limited liability and principally engaged in the construction and development of school projects in Nanjing.	7	3	No
5	23 July 2024	A-Living Smart City Services Co., Ltd. (3319)	RMB51,749,359.53	A company established in the PRC with limited liability and principally engaged in property development and operation.	3.45	5	Yes
6	15 July 2024	Kunming Dianchi Water Treatment Co., Ltd. (3768)	RMB200 million	A wholly state-owned company established in the PRC and principally engaged in investment in and financing of major infrastructure.	8.5	11	No
7	2 July 2024	iMotion Automotive Technology (Suzhou) Co., Ltd. (1274)	RMB11 million	An individual.	3.45	36	No
8	30 June 2024	Henan Jinyuan Hydrogenated Chemicals Co., Ltd. (2502)	RMB30 million	A company established in the PRC with limited liability and principally engaged in the production and sales of hydrogenated benzene-based chemicals and coal gas.	5	6	No
9	17 June 2024	JH Educational Technology INC. (1935)	RMB55 million	An individual.	3.1	24	No
10	13 June 2024	Kunming Dianchi Water Treatment Co., Ltd. (3768)	RMB72 million	A limited liability company incorporated in the PRC and principally engaged in investment, financing, construction and management of subsidised housing projects at the municipal level.	8.5	12	No
11	31 May 2024	PW Medtech Group Limited (1358)	RMB120 million	A limited liability company established under the laws of the PRC and principally engaged in industrial investment, investment management and investment consulting.	4.55	12	Yes

No.	Date of initial announcement/ agreement	Company name (Stock code)	Principal Amount	Background of the Borrower	Annual/ Annualised interest rate (%)	Maturity (Months)	Securities/ Guarantees Attached (Yes/No)
12	28 May 2024	Beijing North Star Company Limited (588)	RMB112.70 million	A limited company incorporated in the PRC principally engaged in development and operation of real estate.	6.5	24	No
13	28 May 2024	Beijing North Star Company Limited (588)	RMB14.70 million	A limited company incorporated in the PRC principally engaged in development and operation of real estate.	6.5	24	No
14	29 April 2024	Kunming Dianchi Water Treatment Co., Ltd. (3768)	RMB180 million	A company with limited liability incorporated in the PRC and principally engaged in land preparation and development, entrusted construction of infrastructure, real estate development.	8.5	24	Yes
					Min 3.1 Max 13.69 Average 6.38 Median 6.5		
25 October 2024		The Company (the Lender)	RMB30 million	A limited liability company incorporated under the laws of the PRC and principally engaged in investment holding.	6	36	No

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

Annual/Annualised interest rate

As shown in the above table, the annual/annualised interest rate of the Comparables range from 3.1% to 13.69%, with an average and median of approximately 6.38% and 6.5%. The interest rate of the Loan, being 6% per annum under the Loan Agreement, falls within the range of the interest rate of the Comparables and is close to the average and median of the Comparables. As such, we consider that the interest rate of the Loan is fair and reasonable.

Security

As shown in the above table, 5 Comparables had securities or guarantees attached to their respective loans while the remaining 9 Comparables did not have any securities or guarantees. It is understood that in general, having attached securities or guarantees to a loan will inevitably provide more assurances to the respective lender but the inclusion of securities or guarantees is discretionary and would normally depends on different factors such as the size of the loan, the financial position of the borrower and the credibility of the borrower, etc.

As illustrated in the section headed “Reasons for and the benefits of the Provision of the Loan” in this letter, considering that (i) the Borrower has no history of credit default; (ii) Shuifa Singyes has issued a letter of support in relation to the Loan which confirms that Shuifa Singyes will provide financial support to the Borrower as necessary when the financial obligations of the Borrower falls due; and (iii) Shuifa Singyes has sufficient cash and cash equivalents, we are of the view that the credit risk in relation to the Loan is low and securities or guarantees are not mandatory for the Loan. As such, we consider that it is reasonable and acceptable for the Lener not to request the Borrower to provide securities or guarantees for the Loan.

Our view

In light of the above, we are of the view that the major terms of the Loan Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Having taken into consideration the factors and reasons as stated above, we are of the opinion that although the entering into of the Loan Agreement is not in the ordinary and usual course of the business of the Group, (i) the terms of the Loan Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; and (ii) the Provision of the Loan is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the SGM to approve the Loan Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited

A handwritten signature in black ink, appearing to read 'Doris Sy', written in a cursive style.

Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 22 years of experience in corporate finance advisory.