THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xinjiang Tianye Water Saving Irrigation System Company Limited*, you should at once hand this circular, together with the enclosed forms of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

新疆天業節水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 840)

MAJOR TRANSACTION
CAPITAL INCREASE AGREEMENT

Unless the context otherwise requires, all capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 4 to 20 of this circular.

* *For identification purpose only*

22 June 2021

TABLE OF CONTENTS

Page

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"Board"	the board of directors of the Company;
"Business Day(s)"	any day(s) on which the banks in Hong Kong and the PRC are open for general commercial business (other than Saturday, Sunday or public holidays);
"Capital Increase"	the injection of capital contribution of RMB3,100,000 into the capital of the Target Company and the injection of capital contribution of RMB1,481,200 into the capital reserve of the Target Company by the Company pursuant to the terms of the Capital Increase Agreement;
"Capital Increase Agreement"	the capital increase agreement dated 26 May 2021 entered into among the Company, the Target Company, Ms. Deng, and Mr. Li, in respect of the Capital Increase;
"Company"	Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司), a joint stock company established in the PRC with limited liability on 18 December 2003, and the H Shares of which are listed and traded on the Main Board of the Stock Exchange;
"Completion"	completion of the Capital Increase;
"Conditions Precedent"	conditions precedent of the Completion as set out in the section headed "Conditions Precedent to Completion" in the letter from the Board of this circular;
"Connected Person(s)"	has the meaning as defined under the Listing Rules;
"Director(s)"	the director(s) of the Company；
"Domestic Share(s)"	domestic share(s) with nominal value of RMB1.00 each in the registered capital of the Company which are subscribed for in RMB;
"Enlarged Group"	the Group as enlarged by the Target Group immediately upon Completion;
"Group"	the Company and its subsidiaries;
"Hongrui AIC Agreement"	the acting in concert agreement dated 27 May 2021 entered into between the Company and Ms. Deng in respect of the shareholders' general meeting of the Target Company;

"H Share(s)"	the overseas listed foreign invested share(s) with nominal value of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock Exchange and subscribed for and traded in HK$;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Third Party(ies)"	persons(s) or company(ies) which is(are) independent of the Directors, supervisors, substantial shareholders and chief executive (as defined under the Listing Rules) of the Group;
"Latest Practicable Date"	16 June 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	30 September 2021, or such other date as may be agreed in writing by the Parties;
"Mr. Li"	Mr. Li Yang (李陽), holding 10% equity interest in the Target Company as at the Latest Practicable Date;
"Ms. Deng"	Ms. Deng Hongwen (鄧紅文), holding 90% equity interest in the Target Company as at the Latest Practicable Date;
"Parties"	the parties to the Capital Increase Agreement, namely, the Company, the Target Company, Ms. Deng, and Mr. Li, and each "Party" shall mean any of them;
"PRC"	the People's Republic of China, and for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
"Relevant Shareholders"	Tianye Company and Tianye Group, a closely allied group of Shareholders which control in aggregate 313,886,921 Shares, representing approximately 60.42% of the issued share capital of the Company as at the Latest Practicable Date;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

"Share(s)"	H Share(s), the Domestic Share(s) and all shares of other class(es) resulting from any sub-division, consolidation or reclassification thereof from time to time in the share capital of the Company;
"Shareholder(s)"	the holder(s) of H Share(s) and Domestic Share(s) from time to time;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Substantial Shareholder(s)"	has the meaning as defined under the Listing Rules;
"Supervisor(s)"	the supervisor(s) of the Company;
"Target Company"	Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司), a company incorporated in the PRC with limited liability;
"Tianye Company"	Xinjiang Tianye Company Limited* (新疆天業股份有限公司), a company established in the PRC with limited liability on 9 June 1997, the A shares of which are listed on the Shanghai Stock Exchange. It holds 202,164,995 Domestic Shares, representing approximately 38.91% of the registered capital of the Company, and is the controlling shareholder of the Company as at the Latest Practicable Date;
"Tianye Group"	Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司), a company established in the PRC with limited liability on 28 June 1996, which is wholly owned by State-owned Assets Supervision and Administration Commission of the XPCC Eighth Agricultural Division. It holds 111,721,926 Domestic Shares, representing approximately 21.51% of the registered capital of the Company, and is interested in 51.3% equity interest in Tianye Company as at the Latest Practicable Date;
"Tongzhi Xinde"	Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd.* (同致信德(北京)資產評估有限公司), an independent valuer; and
"%"	per cent.

* *For identification purpose only*

新疆天業節水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 840)

Executive Directors:
Mr. Chen Lin *(Chairman)*
Mr. Huang Dong
Mr. Tan Xinmin

Independent non-executive Directors:
Mr. Yin Feihu
Mr. Qin Ming
Ms. Gu Li
Mr. Hung Ee Tek

Supervisors:
Mr. Chen Cailai
Mr. Xie Xinghui
Ms. Chen Jun

Registered office:
No. 36, Bei San Dong Road,
Shihezi Economic and Technological
Development Zone,
Shihezi, Xinjiang, PRC

Principal place of business in Hong Kong:
Unit A, 27/F,
Billion Plaza II,
10 Cheung Yue Street,
Cheung Sha Wan, Kowloon,
Hong Kong

22 June 2021

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
CAPITAL INCREASE AGREEMENT

1. INTRODUCTION

Reference is made to the announcement of the Company dated 26 May 2021 in relation to the Capital Increase.

On 26 May 2021, the Company, the Target Company, Ms. Deng, and Mr. Li entered into the Capital Increase Agreement, pursuant to which, the Company agreed to inject additional capital of RMB4,581,200 into the Target Company, of which RMB3,100,000 will be the registered capital of the Target Company and RMB1,481,200 will be treated as

* *For identification purposes only*

capital reserve. Upon Completion, the Company will hold approximately 34.06% equity interest in the Target Company. Major terms of the Capital Increase Agreement are set forth as follows.

2. CAPITAL INCREASE AGREEMENT

Date: On 26 May 2021

Parties:
(i) the Company;
(ii) the Target Company;
(iii) Ms. Deng; and
(iv) Mr. Li.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Target Company, Ms. Deng, and Mr. Li are Independent Third Parties independent from the Company and its Connected Persons.

Capital Increase

In accordance with the Capital Increase Agreement, the Company agreed to increase the registered capital of the Target Company by cash contribution. According to the asset valuation report issued by Tongzhi Xinde, as at 31 December 2020, the valuation of the entire equity interest in the Target Company was approximately RMB8,866,900, and thus, the valuation of each share of the Target Company was approximately RMB1.4778. The Company agreed to subscribe for 3,100,000 shares of the Target Company at the price of RMB1.4778 per share. Pursuant to the requirements under the China Accounting Standards, the par value of 3,100,000 shares of the Target Company in the amount of RMB3,100,000 (being RMB1 per share) shall be injected into the registered capital of the Target Company, whereas the premium of 3,100,000 shares of the Target Company in the amount of RMB1,481,200 (being RMB0.4778 per share) shall be classified as capital reserve of the Target Company. Hence, the Company agreed to inject additional capital of RMB4,581,200 into the Target Company, of which RMB3,100,000 will be the registered capital of the Target Company and the premium of RMB1,481,200 will be treated as capital reserve. Upon Completion, the registered capital of the Target Company will increase from RMB6 million to RMB9.1 million.

As at the Latest Practicable Date, Ms. Deng and Mr. Li held 90% and 10% equity interest in the Target Company, respectively. Upon Completion, the shareholding structure of the Target Company is set out as follows:

Parties	**Capital contribution** *(RMB)*	**Percentage of equity interest in Target Company**
The Company	3,100,000	34.06%
Ms. Deng	5,400,000	59.34%
Mr. Li	600,000	6.59%

The Company shall pay the amount of capital contribution of RMB4,581,200 in cash to the bank account designated by the Target Company within 10 Business Days upon satisfaction of the Conditions Precedent. The Target Company shall issue and deliver to the Company a receipt for the capital increase amount affixed with the seal specialized for financial purposes of the Target Company within 3 Business Days upon receiving the amount of capital contribution from the Company.

The amount of capital contribution payable under the Capital Increase Agreement was determined after arm's length negotiations between the Parties taking into account the expected operational requirements of the Target Company at the current stage and the valuation of the entire equity interest in the Target Company of approximately RMB8,866,900 as at 31 December 2020 as assessed by Tongzhi Xinde, the valuer appointed by the Company, using the income approach (i.e. corporate free cash flow model), and after taking into account the following factors: (1) the asset-based method fails to illustrate an objective determination of the intangible asset values of the customer relationship and human resources of the Target Company created under market competition; (2) the Target Company has since its incorporation experienced steady growth in sales revenue in the midst of expanding its market share. Through market competition, the Target Company has established collaborative relationships with various large domestic central state-owned producers of raw materials and other upstream companies, in particular, the Target Company is a 3A strategic customer of Northwest Chemical Products Sales Branch of PetroChina Company Limited (中國石油天然氣股份有限公司西北化工銷售分公司). The Capital Increase will further improve the bargaining power and cost control ability of the Company; (3) the Target Company has stable cooperation with its downstream customers while constantly expanding its sales network, which will help to expand the sales network of agricultural plastic water saving irrigation equipment and plastic pipelines of the Company; (4) the income approach is based on the future profitability of the business and takes into full consideration the intangible assets including customer relationships, sales network and human resources developed by the business under market competition, which can objectively reflect the value of the business; and (5) the Target Company is a trading company that adopts an asset-light business model and its assets are mainly liquid assets to facilitate easy deployment of working capital. The Target Company has an estimated daily operation need of RMB20 million as working capital, which shall be injected by its shareholders in the form of personal loans to facilitate easy deployment. Taking into account the expected operational requirements and working capital needs of the Target Company, the Company will provide borrowing amounting to RMB6,800,000 (representing the loan contribution calculated based on the daily operation need of RMB20 million multiplied by the Company's corresponding shareholding in the Target Company upon Completion) to the Target Company at an interest rate equivalent to banks' loan interest rate available to the Target Company during the relevant period. It is contemplated that the amount of capital contribution payable by the Company will be financed by internal resources of the Group.

The Directors reviewed, assessed and discussed with Tongzhi Xinde the basis of computation, assumptions, selected comparables, limitations, qualification and valuation methodologies on which the valuation of the entire equity interest of the Target Company was based. To the best of the knowledge, information and belief of the Directors having made reasonable enquiries, based on the specific analysis of the historical operating data, operating environment, macroeconomics and industry of the Target Company, (i) Tongzhi Xinde had fully and comprehensively considered the assumptions and premises of the valuation; (ii) the scope of the selected comparables and assumptions adopted were fair and reasonable, followed the prevailing market practices and guidelines, conformed to the actual situation of the Target Company; and (iii) the valuation conclusion is fair and reasonable.

The income approach of the valuation uses the weighted average cost of capital assets model (WACC) to determine the discount rate of 12.95%. Based on the Target Company's operating performance in the previous years, Tongzhi Xinde analysed the income, cost and financial structure, business development trends and growth changes to estimate the future operation and profit status of the Target Company. The expected operating income and the net cash flow of the Target Company in each of the following years are set out below:

Period *(Year)*	**Operating income** *(RMB '000)*	**Net cash flow** *(RMB '000)*
2021	69,748.51	-401.16
2022	75,321.14	51.70
2023	77,611.44	108.04
2024	77,661.11	158.12
2025	77,680.46	169.42
Perpetual year	77,680.46	165.59

The valuation of the entire equity interest of the Target Company of was RMB8,866,900 as at 31 December 2020 as assessed by Tongzhi Xinde using the income approach represents an estimated increase of RMB1,445,500 from the book value of the entire equity interest of the Target Company, representing an appreciation rate of 16.30%. The main reason for the appreciation is that the sales revenue of the Target Company has grown steadily and its market share and sales network have continued to expand.

The Directors also carried out independent and sufficient investigation and due diligence to understand the nature of the assets of the Target Company. The Company engaged its auditors, Pan-China Certified Public Accountants LLP, to conduct due diligence on the financial situation of the Target Company from 1 January 2018 to 31 December 2020 and issue a financial due diligence report which concludes that the Target Company has no significant financial risks. The Company also engaged PRC legal advisers, Xinjiang Y&S Law Firm, to carry out legal due diligence on the Target Company and issue a legal due diligence report on the appointment and credit of directors, supervisors and senior personnel, operating conditions, creditors' rights and debts, contract execution, labour and employment, litigation, arbitration and administrative punishment of the Target Company, which does not reveal any material legal risks. The Directors reviewed and assessed the above financial due diligence report and the legal due diligence report and to the best of the knowledge, information and belief of the Directors having made reasonable enquiries, the reports were fair and objective and consistent with the actual situation of the Target Company's assets.

Conditions Precedent to Completion

Under the Capital Increase Agreement, Completion is conditional upon the satisfaction of the Conditions Precedent, which are summarised as follows:

(a) the Capital Increase having been approved by the Shareholders at an extraordinary general meeting of the Company or, if permitted under applicable laws (including but not limited to the Listing Rules), by the controlling Shareholders of the Company in writing;

(b) the Target Company having provided the Company with (i) the written shareholders' resolution and written board resolution approving the Capital Increase; and (ii) a written confirmation from Ms. Deng and Mr. Li in relation to waiving their pre-emptive rights in respect of the Capital Increase;

(c) the Target Company, Ms. Deng and Mr. Li having undertaken that the information disclosed to the Company in relation to the assets, liabilities, interests, external guarantees of the Target Company and in relation to the Capital Increase Agreement is true; that the undertakings and warranties given by the Target Company, Ms. Deng and Mr. Li are true and accurate without concealment, fraud or omission; and

(d) the Parties having completed the signing of all documents required for the Capital Increase, and there having been no other material matters that would impede Completion.

Completion

Completion shall take place on the tenth Business Day immediately following the satisfaction of the last item of the Conditions Precedent (in any event not later than the Long Stop Date), or such other date as may be agreed by the Parties.

Upon the execution of the Capital Increase Agreement, Ms. Deng and Mr. Li undertake to take all necessary actions to assist the Target Company in obtaining all the approvals and completing the change of registration under the Capital Increase Agreement.

Equity transfers or pledges

Ms. Deng and Mr. Li undertake that from the signing of the Capital Increase Agreement to the date of Completion, except with the prior written consent of the Company, Ms. Deng and Mr. Li shall not transfer or pledge the equity interest in the Target Company or transfer the material assets of the Target Company to a third party other than the Company. The Target Company undertakes that from the signing of the Capital Increase Agreement to the date of Completion, except with the prior written consent of the Company, the Target Company shall not provide guarantee to any person, enterprise or other entity other than the Target Company or its subsidiaries.

Termination

The Capital Increase Agreement may be terminated under any of the following circumstances:

(a) if any of the Conditions precedent is not satisfied prior to the Long Stop Date or the Target Company, Ms. Deng and Mr. Li are in breach of the representations, warranties or undertakings under the Capital Increase Agreement, the Company may terminate the Capital Increase Agreement by giving a notice in writing to the Parties; and

(b) if Ms. Deng and Mr. Li have not completed the registration of industrial and commercial changes within 10 Business Days from the date of payment of the entire capital contribution made by the Company, the Company shall have the right to terminate the Capital Increase Agreement, in which case Ms. Deng and Mr. Li shall be responsible for returning to the Company all the funds paid by the Company together with interest (calculated based on the lending interest rate as published by the bank prevailing over the same period and same type) and shall be jointly and severally liable for such obligation of repayment.

Capital contribution after the Completion and operation of the Target Company

The Parties have agreed that the Company and Ms. Deng will provide borrowings in a total amount of RMB20,000,000 to the Target Company as liquidity after Completion, of which the Company will provide borrowing amounting to RMB6,800,000 and Ms. Deng will provide borrowing amounting to RMB13,200,000. The Target Company, the Company and Ms. Deng will enter into separate agreements in relation to the borrowing obligations after Completion.

The Company has agreed that the Target Company will continue to retain its existing management, technical officers and general employees.

The Capital Increase will be used for the overall development of the Target Company. The proceeds from the Capital Increase will be invested in the development and comprehensive growth of the business of the Target Company in accordance with the future business development requirements of the Target Company. The specific authority to use the Target Company's capital shall be delegated by the shareholders' general meeting of the Target Company after the registration of the industrial and commercial changes to the board of directors or by the board of directors to the management who will proceed in accordance with the articles of association and other relevant policies.

Income Guarantee and Equity Transfer

The Company agrees that the Target Company continues to employ its existing management, technical officers and general employees. Upon Completion, the Target Company is required to guarantee that its subsequent annual (i) operating revenue after tax will not be less than the amount as audited in the previous accounting year and (ii) the return on net assets (i.e. net profit/net assets) will not be less than 12%. Where the auditor of the Company determines on or around 31 March of each calendar year based on the audited figures of the Target Company in the preceding financial year ended 31 December that the results of the Target Company fail to meet the above criteria, the Company shall be entitled to (i) request for the transfer of its 34.06% equity interest in the Target Company to either Ms. Deng or Mr. Li, while Ms. Deng and Mr. Li shall unconditionally accept the entire equity interest transferred by the Company; or (ii) require Ms. Deng and Mr. Li to undertake the obligation to reimburse the Company in cash an amount not lower than the amount of the Capital Increase of RMB4,581,200 multiplied by the bank loan interest rate for the same period of the Capital Increase. In the event that the Company transfers its 34.06% equity interest in the Target Company to Ms. Deng and Mr. Li, the transfer price of the equity interest shall be calculated based on the higher of (i) the transfer price = the valuation of the transferred equity interest in the new valuation report published on or around 30 April of each calendar year (with the valuation date being 31 December of the preceding year) to be issued by an independent valuer appointed by the Company × (1 + 10%); or (ii) the transfer price = the valuation of the transferred equity interest in the new valuation report published on or around 30 April of each calendar year (with the valuation date being 31 December of the preceding year) to be issued by an independent valuer appointed by the Company + 10% of the proceeds from the capital contribution by the Company (representing the sum of the Capital Increase amount of RMB4,581,200 and the borrowings to the Target Company in the amount of RMB6,800,000). In the event that the Company requires Ms. Deng and Mr. Li to fulfill their obligation to reimburse the Company in cash an amount not lower than the amount of the Capital Increase of RMB4,581,200 multiplied by the bank loan interest rate for the same period of the Capital Increase, reference to the valuation of the transferred equity interest is not required.

Shareholders' General Meeting, Board of Directors and Board of Supervisors of the Target Company

The shareholders' general meeting of the Target Company have the authority to make decisions on all material matters of the Target Company. The material matters decided by the shareholders' general meeting of the Target Company shall be subject to the approval by the shareholders holding at least two-thirds of the equity interest in the Target Company, and such material matters shall be stipulated in the articles of association of the Target Company.

Upon Completion, the board of directors of the Target Company will comprise three directors, of which two directors will be appointed by the Company and one director will be appointed by Ms. Deng. The chairman and the chief financial officer of the Target Company will be appointed by the Company. Matters decided by the board of directors of the Target Company shall be subject to the approval by a majority of all Directors. In addition, on 27 May 2021, the Company and Ms. Deng entered into the Hongrui AIC Agreement, pursuant to which Ms. Deng agreed to act in concert with the Company, make decisions based on the Company's opinions and strictly implement such decisions when exercising the right to propose proposals to the shareholders' general meeting of the Target Company on material matters related to the Target Company's business development and when exercising her voting rights at the shareholders' general meeting of the Target Company. Hence, upon Completion, (i) the Company will control the board of directors of the Target Company; and (ii) the Company will have voting control over the shareholders' general meeting of the Target Company through the Hongrui AIC Agreement. As confirmed by the auditors of the Company, the Target Company will become a subsidiary of the Company, as a result of which the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Company.

Upon Completion, the Target Company will not establish any board of supervisors. Only one supervisor will be appointed by the board of directors of the Target Company upon the recommendation by Ms. Deng.

3. PROFIT FORECAST IN RELATION TO THE VALUATION METHOD

As the valuation conclusion of the asset valuation report issued by Tongzhi Xinde is based on the valuation results adopting the income approach (i.e. corporate free cash flow model), the valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

According to Rule 14.62 of the Listing Rules, the major assumptions for preparing such valuation (including commercial assumptions on which the profit forecast is based) are set out as follows:

General assumptions:

(1) All the documents and materials provided by the Company and the Target Company are true, valid and accurate.

(2) There are no significant changes in the PRC's macroeconomic policies and the social and economic environment of the region where the Target Company is located.

(3) The tax policy, loan interest rate and currency exchange rate which the business operation and valuation relied on have no significant change that will affect the conclusion of valuation.

(4) The effect of natural forces and other force majeure events and the impact that a particular trading method may have on the valuation results are not taken into consideration.

(5) Apart from known and disclosed matters, there is no uninformed off-balance assets and liabilities, securities or guarantees, material subsequent matters, and the Target Company has legal ownership of the assets included in the scope of valuation.

Specific assumptions for valuation under the income approach:

(1) The operation of the Target Company will remain in its current model without taking into consideration the expansion of the scale of operation, in which case, the net profits earned each year will not be retained in the Target Company for additional investments, and the existing operating capacity and operation of the Target Company will remain unchanged.

(2) The depreciation of the Target Company's fixed assets is fully used for the maintenance and renewal of the original fixed assets in order to maintain the Target Company's operating capacity.

(3) The impact of inflation on the Target Company's operations and the impact of future investment plans on the cash flow are not taken into consideration.

(4) There will be no new changes in the macroeconomic environment facing the Target Company. For instance, various national policies in favour of the Target Company will remain at the current levels.

(5) The calculation of the Target Company's income is based on the accounting year while the income and expenses are evenly spread over the year.

(6) The forecast only focuses on the operating income, costs and expenses of the Target Company for the next five years, and the above indicators for each year after the fifth year are assumed to remain at the same level of the fifth year in the future (i.e. 2025).

(7) On a going concern basis, the Target Company's operations may have perpetual existence under the proper management of the operator, and therefore its operating period is presumed to be indefinite under the valuation convention.

(8) The creditable value-added tax of the Target Company at the beginning of the period is set off at a certain percentage during the forecast period.

Pan-China Certified Public Accountants LLP, the reporting accountant of the Company, has reviewed and reported to the Directors on the arithmetic accuracy of the calculations of corporate free cash flow model on which the asset valuation report was based. The preparation of the asset valuation report based on the corporate free cash flow model does not involve the adoption of accounting policies.

The Directors confirmed that the total equity value of Target Company in the asset valuation report was determined after their due and prudent enquiry. The following are the qualifications of Tongzhi Xinde and Pan-China Certified Public Accountants LLP:

Name	**Qualification**
Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd.* (同致信德(北京)資產評估有限公司)	professional valuer
Pan-China Certified Public Accountants LLP	PRC certified public accountants

To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, each of Pan-China Certified Public Accountants LLP and Tongzhi Xinde is an Independent Third Party. As at the Latest Practicable Date, neither Pan-China Certified Public Accountants LLP nor Tongzhi Xinde has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group. Each of Pan-China Certified Public Accountants LLP and Tongzhi Xinde has given and has not withdrawn its consent to the publication of this circular with inclusion of its opinion and advice and all references to its name in the form and context in which it appears in this circular.

4. INFORMATION ON THE TARGET COMPANY

The Target Company was established on 19 March 2015 with a registered capital of RMB6,000,000. As at the Latest Practicable Date, the Target Company is owned as to 90% by Ms. Deng and as to 10% by Mr. Li, respectively. The Target Company is principally engaged in the sales of plastic raw materials and products in the PRC, which mainly include polyethylene and polypropylene.

As at 31 December 2020 (being the valuation date of the valuation report disclosed in Appendix V of this circular), the shareholding structure of the Target Company was as follows:

Parties	Capital contribution *(RMB)*	Percentage of equity interest in Target Company
Ms. Deng	4,800,000	80%
Mr. Li	600,000	10%
Mr. Deng Liming (鄧力明)	600,000	10%

On 13 April 2021, Mr. Deng Liming transferred his entire equity interest in the Target Company to Ms. Deng. After the transfer and as at the Latest Practicable Date, the shareholding structure of the Target Company is as follows:

Parties	Capital contribution *(RMB)*	Percentage of equity interest in Target Company
Ms. Deng	5,400,000	90%
Mr. Li	600,000	10%

Changes to the shareholding of the Target Company before and after the Capital Increase are as follow:

Shareholders	Percentage of the existing shareholding *(%)*	Percentage of the shareholding immediately upon Completion *(%)*
The Company	0	34.06
Ms. Deng	90	59.34
Mr. Li	10	6.59
Total	100	100

The financial results of the Target Company for each of the two years ended 31 December 2019 and 2020 are as follows:

	For the year ended 31 December	
	2019	**2020**
	(audited)	**(audited)**
	RMB'0,000	*RMB'0,000*
Profit before tax	13.65	53.56
Profit after tax	12.50	50.33

The audited net asset value of the Target Company as at 31 December 2020 was RMB7,421,400.

According to the asset valuation report issued by Tongzhi Xinde, as at 31 December 2020 (being the valuation date), the appraised value of the net assets of the Target Company amounted to RMB8,866,900 using the income approach.

Upon Completion, the Target Company will become a subsidiary of the Company, and its financial results, assets, liabilities and cash flows will be consolidated in the consolidated financial statements of the Company.

5. INFORMATION ON THE PARTIES

The Company

The Company is mainly engaged in the development, processing, production and marketing of agricultural plastic water saving irrigation equipment and plastic pipelines, and the construction and installation of water saving irrigation systems.

The Target Company

The Target Company is a private company with limited liability established on 19 March 2015 with its business address at No. 1607, Unit 1, Building 4, No. 802 Anju South Road, Urumqi, with a registered capital of RMB6 million. The Target Company was jointly established by the shareholders Ms. Deng and Mr. Li, who contributed the paid-up capital in the amounts of RMB5.4 million and RMB0.6 million, representing 90% and 10% of its equity interest, respectively. The Target Company is currently principally engaged in the sales of plastic raw materials and products, lubricants, metal materials, machinery and equipment, agricultural and livestock products, electronic products, instruments and apparatus, agricultural films, mulch and building materials. The Target Company has over 200 stable end customers and has become a Class A distributor of PetroChina Northwest Sales Branch (中石油西北銷售公司), with an annual trading volume of nearly 100,000 tonnes and a trading value of approximately RMB550 million. According to the public information of the distributor list of Sinopec Northwest Oilfield Company (西北石油化工公司), the Target Company's sales volume of plastic chemical materials in Xinjiang ranks in the top three. Through strong alliances and complementary advantages, the Target Company plans to cooperate with the Company at a deeper level on achieving broader business development utilizing the platform of a state-owned listed company.

Ms. Deng

Ms. Deng is a citizen of the PRC, who holds 90% equity interest in the Target Company as at the Latest Practicable Date.

Mr. Li

Mr. Li is a citizen of the PRC, who holds 10% equity interest in the Target Company as at the Latest Practicable Date.

6. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE CAPITAL INCREASE AGREEMENT

Upon Completion, the Target Company will become a subsidiary of the Company. Through the Capital Increase, the Group will tap into the stable supply of and huge market demand for plastic products of the Target Company, so as to capture the opportunities and momentum of the rapid development of the plastic products industry in the PRC. The Group will also benefit from the powerful sales network of the Target Company, which will provide a stable sales channel for the Group's production capacity and help strengthen the Group's business and market position in the midst of meeting the requirements of future business development.

Since its establishment, the Target Company is mainly engaged in the wholesale business of chemical raw materials, namely polyethylene and polypropylene, in Xinjiang. From its establishment to 2020, the wholesale volume of the Target Company's core product, polyethylene, has increased substantially and its market share has continued to increase. In 2020, the demand for polyethylene in the Xinjiang market was about 510,000 tonnes, whereas the Target Company's wholesale volume of polyethylene was 77,600 tonnes, accounting for approximately 15% of the market share in the Xinjiang polyethylene market. Meanwhile, the Xinjiang polypropylene market demand is relatively small and the Target Company's wholesale volume of polypropylene in 2020 was 2,200 tonnes. According to historical sales data for each year, the Target Company's market share in Xinjiang has increased rapidly and it has become a leading plastic products enterprise in Xinjiang.

With the efforts of all staff, the Target Company has established collaborative relationship with many petrochemical enterprises and large petrochemical trading enterprises. The Target Company was at first an individual customer of Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司), and then became a 1A-class customer in 2017 before further evolving as a 3A-class strategic customer in 2019. Currently, there are only six 3A-class strategic customers in Xinjiang, basically accounting for more than 80% of the market shares in Xinjiang. As a 3A-class strategic customer, the Target Company enjoys a stable supply of resources to offer the best prices for its supply pipeline, while tapping into the brand advantage of large enterprises such as Dushanzi Petrochemical General Factory and

Urumqi Petrochemical. As a result, its products are highly recognized by the market without quality disputes. In 2020, the Target Company ranked first among the distributors of Northwest Chemical Products Sales Branch of PetroChina Company Limited in the Xinjiang market.

The Target Company also has an experienced sales team and management. The sales team has rich experience and outstanding market development capabilities. Through continuous effort of the sales team and management, sales and shipments of the Target Company have soared every year and its market share in the Xinjiang plastic products market has continued to increase. The Target Company's product shipments have increased, its downstream customer base is relatively stable and its customer groups involve all parts of the north and south of Xinjiang. There are no economic disputes or product quality issues involving the Target Company's products. From 2017 to 2020, the average annual growth rate of the sales revenue for polyethylene was 36.39%, the average annual growth rate of sales volume was 32.66% and the average annual growth rate of total revenue was 24.42%.

In line with the development goal of combining production and trade, the Company relies on brand effect and capital advantage to enter the trading industry by investing in the Target Company to achieve business synergy by utilizing the Target Company's raw materials and sales channels for the Company's PE pipes and other products. The strategic advantages of the Capital Increase are set out below:

(1) The Capital Increase accelerates the implementation of the development strategy, allowing the Company to further develop and actively carry out capital operations, explore new sources of revenue and promote business synergy, enhance the overall strength and competitive advantage and overall operating capability of the Company.

(2) The polyethylene and polypropylene petrochemical products sold by the Target Company are raw materials for the Company's PE pipes and other products, which can effectively complement the water-saving products produced by the Company. The Company can also utilize the strong trading team of the Target Company, grasp the price trend of raw materials, thereby reducing the production cost of the Company by an amount of RMB5 million to RMB10 million each year.

(3) Upon Completion, the Company will form an industrial chain structure integrating production, research and development, trade, engineering and digital agricultural services, effectively strengthening its control over the water-saving industry market and enhancing vertical expansion.

Given that the Capital Increase and the transactions contemplated under the Capital Increase Agreement were made after arm's length negotiations, the Directors (including the independent non-executive Directors) are of the view that the Capital Increase Agreement was entered into on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. FINANCIAL EFFECT OF THE CAPITAL INCREASE

Upon Completion, the Target Company will become a subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Company.

Please refer to the pro forma effect of the Capital Increase on the assets and liabilities of the Group as if such Capital Increase had been completed on 31 December 2020, as illustrated by way of the unaudited pro forma balance sheet of the Enlarged Group prepared based on the basis and assumptions set out in Appendix IV to this circular. The unaudited pro forma balance sheet is for illustrative purposes only (the auditors of the Company have also issued a report regarding its preparation) and, because of its hypothetical nature, it may not give a true picture of the assets and liabilities or other property information of the Enlarged Group as if the Capital Increase had been completed on the stated date or at any future date. The unaudited pro forma financial information should be read in conjunction with the other financial information in this circular.

8. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Capital Increase exceeds 25% but all are less than 100%, the Capital Increase and the transactions contemplated under the Capital Increase Agreement constitute a major transaction of the Company and are therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is materially interested in the Capital Increase. As such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Capital Increase and transactions under the Capital Increase Agreement.

9. WRITTEN APPROVAL PURSUANT TO RULE 14.44 OF THE LISTING RULES

Pursuant to Rule 14.44 of the Listing Rules, if (i) no shareholder is required to abstain from voting if the listed company were to convene a general meeting for the approval of the transaction; and (2) the written shareholders' approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the voting rights at that general meeting to approve the transaction, written shareholders' approval for a major transaction may be accepted in lieu of holding a general meeting.

No Shareholders or any of their respective associates are interested in the Capital Increase and the transactions contemplated under the Capital Increase Agreement, and no Shareholders would be required to abstain from voting at the general meeting convened for the approval of the Capital Increase. As at the Latest Practicable Date, the Relevant Shareholders, being a closely allied group of Shareholders controlling a total of 313,886,921 Shares, representing approximately 60.42% of the Company's issued share capital, have approved the Capital Increase by way of a written approval pursuant to Rule 14.44 of the

Listing Rules. Accordingly, no general meeting of the Company shall be convened to approve the Capital Increase and the transactions contemplated under the Capital Increase Agreement.

The respective interests of the Relevant Shareholders in the Shares and relationship among the Relevant Shareholders are summarised in the table below:

Name of the Relevant Shareholders (place of incorporation)	**Number and percentage of Shares held** *(Note 1)*	**The beneficial owner(s) of the Relevant Shareholders**
Tianye Company (Incorporated in the PRC)	202,164,995 (38.91%)	51.3% equity interest directly held by Tianye Group
Tianye Group (Incorporated in the PRC)	111,721,926 (21.51%)	wholly owned by State-owned Assets Supervision and Administration Commission of the XPCC Eighth Agricultural Division, which is the administrative management authority of XPCC Eighth Agricultural Division

Note:

1. The percentage was calculated based on the total number of issued Shares (being 519,521,560) as at the Latest Practicable Date.

10. OTHERS

The Board is of the view that the Capital Increase Agreement and the transactions contemplated thereunder were entered into on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

11. ADDITIONAL INFORMATION

Your attention is drawn to other information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Chen Lin
Chairman

1. THE FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

The financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020 is disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and can be accessed at the website addresses below:

For the annual report of the Company for the year ended 31 December 2018, please see:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0423/ltn201904231607.pdf

For the annual report of the Company for the year ended 31 December 2019, please see:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0514/2020051402189.pdf

For the annual report of the Company for the year ended 31 December 2020, please see:
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902975.pdf

2. INDEBTEDNESS STATEMENT

As at the Latest Practicable Date, the Group had outstanding bank loans of RMB36,580,000 (all of which are unguaranteed and unsecured) and capital commitments contracted for but not provided in the consolidated financial statements of RMB0.

Save as disclosed above and as otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the Latest Practicable Date, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, loans or liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, available facilities from banks and the net proceeds from the Capital Increase, the Directors are of the opinion that the Group has sufficient working capital for its requirements for at least 12 months from the date of this circular.

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there are no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

5. CHARGES ON GROUP'S ASSETS

As at 31 December 2018, 2019 and 2020, no assets of the Group were pledged as a security for bank borrowings or any other financing facilities.

6. CONTINGENT LIABILITIES

As at 31 December 2018, 2019 and 2020, the Group did not have any significant contingent liabilities.

7. FINANCIAL AND BUSINESS PROSPECT OF THE GROUP

Agriculture serves as an engine to power the economy of the country and is also a highly water-intensive industry, but traditional and backward flood irrigation technique have for a long time been used due to various factors, including way of thinking, capital, and technologies, thereby resulting in a great waste of human and material resources. The gradual promotion of water saving irrigation equipment across a vast area of villages in China has become a mainstream in modern agriculture.

According to the general requirements for water-saving agriculture under the National Agricultural Water Saving Outline, it is proposed that the development of water-saving agriculture should be aimed to improve and safeguard the livelihood with the goal of enhancing the comprehensive productivity, while centering on highly efficient utilization of water resources. To this end, water resources shall be managed in a stringent manner by optimising agricultural production patterns, changing the ways of water consumption, and improving water-saving mechanisms. Furthermore, more efforts shall be made to strengthen the comprehensive water-saving measures and technical support, innovate the management system for water-saving engineering projects, and improve the basic water conservancy services and technological promotion systems. Only when water resources become sustainable for use, will the sustainability of agriculture, economy, and society be guaranteed. In 2021, the PRC plans to further develop 100 million mu of high-standard farmland, and to coordinate the development of highly efficient water-saving irrigation on 15 million mu of land. The high-standard farmland projects shall be strategically optimized across various areas with the permanent basic farmland and the "functional and protected areas" as priority, and shall concentrate on accelerating the construction of high-standard farmland in functional areas for wheat and grain production, so that the absolute security of staple food could be enhanced. The Group is mainly engaged in the development, processing, production and marketing of agricultural plastic water saving irrigation equipment and plastic pipelines, and the construction and installation of water saving irrigation systems. The tremendous market capacity and broad market prospect will bring good development opportunities to the Group's fast development. The Group will continue to look forward to the future to meet new opportunities and challenges, and hold on well to the current situation to lay a good foundation for the future development of the Group.

By closely seizing the opportunities arising from the increasingly deepened reforms of state capital and state-owned enterprises, the Group will pursue the development strategy focused on the business operations featuring "product, construction, agricultural services and trade", while expanding and strengthening our profit-oriented and advantageous product line. In the meantime, the Group will vigorously explore the construction business in the Southern area of Xinjiang and inland areas to strategically establish our operation of agricultural services across the country, and proactively promote the development of the incremental trade business. In close pursuit of the 14th five-year strategic development and planning goals, the Group considers the market expansion as the major driver and the strategic implementation as the lead, and adopts the measures of making structural and concentrating on efficiency and effectiveness to achieve our stable development, and enhance our overall strengths and competitiveness, thereby improving our overall operating capacity.

The following sets out the text of report prepared by the Company's reporting accountants, Pan-China Certified Public Accountants LLP, Certified Public Accountants in the PRC, for the purpose of incorporation in this circular.

天健会计师事务所
Pan-China Certified Public Accountants

Address: No.128, Xixi Road, Hangzhou City
Postal Code: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

Auditor's Report
Tian Jian Shen [2021] No. 14-7

To the shareholders of Xinjiang Tianye Water Saving Irrigation System Company Limited:

I. AUDIT OPINION

We have audited the financial statements of Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) (hereinafter referred to as "Hongrui Plastic Company"), which comprise the balance sheets as at 31 December 2018, 31 December 2019 and 31 December 2020, the income statement, the statement of cash flows, the statement of changes in owners' equity for the years 2018, 2019 and 2020, as well as the related notes to the financial statements.

In our opinion, the accompanying financial statements were prepared in accordance with the Accounting Standards for Business Enterprises (ASBE) in all material aspects, and give a true and fair view of the financial position of Hongrui Plastic Company as at 31 December 2018, 31 December 2019 and 31 December 2020 and of its operating results and cash flows for 2018, 2019 and 2020.

II. BASIS OF OPINION

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the section headed "The Responsibilities of Certified Public Accountants for the Audit of the Financial Statements" as contained in the Auditors' Report. We are independent of Hongrui Plastic Company in accordance with the Ethical Codes of Chinese Certified Public Accountants, and we have fulfilled our other responsibilities under the Ethical Codes. We believe that the audit evidence obtained from the audit process is sufficient and appropriate to provide a basis for our opinion.

III. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE FINANCIAL STATEMENTS

The management of Hongrui Plastic Company (hereinafter referred to the "Management") is responsible for the preparation of the financial statements that give a true and fair view in accordance with the ASBE, as well as designing, implementing and maintaining such necessary internal control that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Hongrui Plastic Company's ability to continue as a going concern, disclosing the matters related to the going concern basis and using the going concern basis of accounting unless the Management either intends to liquidate Hongrui Plastic Company or to cease operations, or have no realistic alternative but to do so.

The governing bodies of Hongrui Plastic Company (hereinafter referred to the "Governing Bodies") are responsible for overseeing the financial reporting process of Hongrui Plastic Company.

IV. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also performed the following work:

(I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing efficient opinions on the effectiveness of the internal control.

(III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(IV) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Hongrui Plastic Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Hongrui Plastic Company to cease to continue as a going concern.

(V) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with the Governing Bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

V. REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the underlying financial statements have been made.

Pan-China Certified Public Accountants LLP

PRC Certified Public Accountant: Zhang Enhu

PRC Certified Public Accountant: Zhang Yunhong

Hangzhou, the People's Republic of China

18 May 2021

BALANCE SHEET

AC01

Prepared by: Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) Expressed in RMB

Assets	*Notes*	31 December 2020	31 December 2019	31 December 2018
Current assets:				
Cash	*1*	62,085,691.39	27,936,252.99	4,072,324.95
Financial assets at FVTPL for the current period	*2*	13,000,000.00	5,580,000.00	2,440,000.00
Derivative financial assets and bill receivables	*3*		200,000.00	200,000.00
Trade receivables	*4*	4,067,259.98	6,060,928.75	1,833,290.82
Prepayments	*5*	5,286,630.91	4,288,449.90	48,069,324.48
Other receivables	*6*			100,000.00
Inventories	*7*	1,729,804.08	1,557,304.87	25,210.65
Assets held-for-trading				
Non-current assets due within one year				
Other current assets	*8*	852,435.05	832,614.26	411,994.29
Total current assets		87,021,821.41	46,455,550.77	57,152,145.19
Non-current assets:				
Available-for-sale financial assets				
Held-to-maturity investment				
Long-term receivables				
Long-term equity investments				
Investment properties				
Fixed assets	*9*	78,525.95	107,952.41	131,954.03
Construction in progress				
Biological assets for production				
Oil and gas assets				
Intangible assets	*10*		538.46	1,461.54
Development expenses				
Goodwill				
Long-term deferred expenses				
Deferred income tax assets	*11*	10,098.51	12,895.89	4,647.15
Other non-current assets				
Total non-current assets		88,624.46	121,386.76	138,062.72
Total assets		87,110,445.87	46,576,937.53	57,290,207.91

BALANCE SHEET

AC01
Expressed in RMB

Liabilities and owners' equity	Notes	31 December 2020	31 December 2019	31 December 2018
Current liabilities:				
Short-term borrowings				
Financial liabilities at FVTPL for the current period				
Derivative financial liabilities				
Bill payables	12	60,000,000.00	27,590,000.00	4,000,000.00
Trade payables	13			148,918.00
Receipts in advance	14	8,429,224.50	9,123,995.90	1,915,035.29
Employee remuneration payables	15	2,217.00	1,695.00	1,824.00
Tax and levy payables	16	257,252.41	129,162.28	130,882.72
Other payables	17	11,000,333.00	2,814,008.52	44,300,474.22
Liabilities held-for-trading				
Non-current liabilities due within one year				
Other current liabilities				
Total current liabilities		79,689,026.91	39,658,861.70	50,497,134.23
Non-current liabilities:				
Long-term borrowings				
Bond payables				
Including: Preference shares				
Perpetual bonds				
Long-term payables				
Long-term employee remuneration payables				
Provisions				
Deferred income				
Deferred income tax liabilities				
Other non-current liabilities				
Total non-current liabilities				
Total liabilities		79,689,026.91	39,658,861.70	50,497,134.23
Owners' equity (or shareholders' equity):				
Paid-in capital (or share capital)	18	6,000,000.00	6,000,000.00	6,000,000.00
Other equity instruments				
Including: Preference shares				
Perpetual bonds				
Capital reserve				
Less: treasury shares				
Other comprehensive income				
Special reserve				
Surplus reserve	19	142,141.90	91,807.59	79,307.37
Undistributed profit	20	1,279,277.06	826,268.24	713,766.31
Total owners' equity		7,421,418.96	6,918,075.83	6,793,073.68
Total liabilities and owners' equity		87,110,445.87	46,576,937.53	57,290,207.91

INCOME STATEMENT

AC02

Prepared by: Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) Expressed in RMB

Item	Notes	2020	2019	2018
I. Total operating income	1	546,062,612.14	489,059,913.39	392,770,761.84
Less: Operating costs	1	544,759,164.53	487,458,910.75	391,015,215.24
Business taxes and surcharges	2	127,411.61	77,490.12	98,187.63
Distribution costs	3	822,594.76	1,173,392.25	786,101.43
Administrative expenses	4	224,363.73	215,020.10	241,978.62
Research and development expenses and finance costs	5	–75,946.44	47,348.59	15,052.58
Including: Interest expenses				
Interest income				
Add: Other income	6	2,529.12	556.54	
Investment income (loss is denoted as "–")	7	272,073.13	213,280.03	111,149.88
Including: Investment income from associates and joint venture				
Net exposure to hedging gains (loss is denoted as "–")				
Gain on changes in fair value (loss is denoted as "–")				
Impairment loss on assets (loss is denoted as "–")	8	55,947.70	–164,974.89	–67,743.52
Gain on disposal of assets (loss is denoted as "–")				
II. Operating profits (loss is denoted as "–")		535,573.90	136,613.26	657,632.70
Add: Non-operating income	9			
Less: Non-operating expenses	10	1.83	67.80	
III. Total profits (total losses are denoted as "–")		535,572.07	136,545.46	657,632.70
Less: Income tax expenses	11	32,228.94	11,543.31	78,960.92
IV. Net profits (net loss is denoted as "–")		503,343.13	125,002.15	578,671.78
(I) Net profits from continuing operation (net loss is denoted as "–")		503,343.13	125,002.15	578,671.78
(II) Net profits from discontinued operation (net loss is denoted as "–")				
V. Net other comprehensive income after tax				
(I) Other comprehensive income that will not be reclassified to profit or loss				
1. Re-measurement of changes under defined benefit schemes				
2. Other comprehensive income from non-transferable gains and losses under equity method				
3. Others				

Item	*Notes*	2020	2019	2018
(II) Other comprehensive income that will be reclassified to profit or loss				
1. Other comprehensive income from transferable gains and losses under equity method				
2. Gain or loss on changes in fair value of available-for-sale financial assets				
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets				
4. Effective hedging portion of gains (losses) arising from cash flow hedging instruments				
5. Exchange differences arising from translation of foreign currency denominated financial statements				
6. Others				
VI. Total comprehensive income		503,343.13	125,002.15	578,671.78
VII. Earnings per share:				
(I) Basic earnings per share				
(II) Diluted earnings per share				

CASH FLOWS STATEMENT

AC03

Prepared by: Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) Expressed in RMB

Item	Notes	2020	2019	2018
I. Cash flow generated from operating activities:				
Cash received from sale of goods and rendering of services		618,605,596.77	559,508,539.13	457,659,738.50
Refund of taxes and levies received				
Other cash received relating to operating activities		8,491,406.67	170,879.42	40,160,102.64
Sub-total of cash inflow from operating activities		627,097,003.44	559,679,418.55	497,819,841.14
Cash paid for purchase of goods and services received		584,507,984.31	489,601,926.55	499,314,497.44
Cash paid to and on behalf of employees		519,675.63	483,560.77	462,182.15
Payments of all types of taxes and levies		228,753.04	101,597.60	136,969.01
Other cash paid relating to operating activities		537,836.19	42,612,035.80	530,967.63
Sub-total of cash outflow from operating activities		585,794,249.17	532,799,120.72	500,444,616.23
Net cash flow generated from operating activities		41,302,754.27	26,880,297.83	–2,624,775.09
II. Cash flow generated from investment activities:				
Cash received from recovery of investments		346,137,000.00	279,553,000.00	
Cash received from returns on investments		272,073.13	213,280.03	111,149.88
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets				
Net cash received from disposal of subsidiaries and other business units				
Other cash received relating to investment activities				
Sub-total of cash inflow from investment activities		346,409,073.13	279,766,280.03	111,149.88
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		5,389.00	9,200.00	1,400.00
Cash paid for investments		385,967,000.00	306,283,000.00	2,440,000.00
Net cash paid for acquiring subsidiaries and other business units				
Other cash paid relating to investment activities				
Sub-total of cash outflow from investment activities		385,972,389.00	306,292,200.00	2,441,400.00
Net cash flow generated from investment activities		–39,563,315.87	–26,525,919.97	–2,330,250.12

Item	*Notes*	2020	2019	2018
III. Cash flow generated from financing activities:				
Cash received from capital contribution				3,000,000.00
Cash received from loans obtained			3,000,000.00	9,400,000.00
Other cash received relating to financing activities				
Sub-total of cash inflow from financing activities			3,000,000.00	12,400,000.00
Cash paid for debt services			3,000,000.00	9,400,000.00
Cash paid for distribution of dividends, profit or interest expenses			80,449.82	9,866.67
Other cash paid relating to financing activities				
Sub-total of cash outflow from financing activities			3,080,449.82	9,409,866.67
Net cash flow generated from financing activities			-80,449.82	2,990,133.33
IV. Effect of changes in foreign exchange rate on cash and cash equivalents				
V. Net increase in cash and cash equivalents		1,739,438.40	273,928.04	-1,964,891.88
Add: balance of cash and cash equivalents at the beginning of the period		346,252.99	72,324.95	2,037,216.83
VI. Balance of cash and cash equivalents at the end of the period		2,085,691.39	346,252.99	72,324.95

Statement of Changes in Owners' Equity

Prepared by: Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司)

AC04

Expressed in RMB

2020

Items	Paid-in capital (or share capital)	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Closing balance of previous year	6,000,000.00								91,807.59	826,268.24	6,918,075.83
Add: Changes in accounting policies											
Correction of errors of previous periods											
Others											
II. Opening balance of the year	6,000,000.00								91,807.59	826,268.24	6,918,075.83
III. Increase (decrease) in the current period (decrease is denoted as "–")									50,334.31	453,008.82	503,343.13
(I) Total comprehensive income										503,343.13	503,343.13
(II) Capital contribution and reduction by owners											
1. Ordinary shares from owners											
2. Capital contribution by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Others											
(III) Profit appropriation									50,334.31	–50,334.31	
1. Transfer to surplus reserve									50,334.31	–50,334.31	
2. Appropriation to owners (or shareholders)											
3. Others											
(IV) Internal transfer of owners' equity											
1. Capitalization of capital reserve to capital (or share capital)											
2. Capitalization of surplus reserve to capital (or share capital)											
3. Surplus reserve for making up losses											
4. Transfer of change amount of defined benefit schemes to retained earnings											
5. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
IV. Closing balance for the period	6,000,000.00								142,141.90	1,279,277.06	7,421,418.96

2019

Items	Paid-in capital (or share capital)	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Closing balance of previous year	6,000,000.00								79,307.37	713,766.31	6,793,073.68
Add: Changes in accounting policies											
Correction of errors of previous periods											
Others											
II. Opening balance of the year	6,000,000.00								79,307.37	713,766.31	6,793,073.68
III. Increase (decrease) in the current period (decrease is denoted as "–")									12,500.22	112,501.93	125,002.15
(I) Total comprehensive income										125,002.15	125,002.15
(II) Capital contribution and reduction by owners											
1. Ordinary shares from owners											
2. Capital contribution by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Others											
(III) Profit appropriation									–12,500.22	12,500.22	
1. Transfer to surplus reserve									–12,500.22	12,500.22	
2. Appropriation to owners (or shareholders)											
3. Others											
(IV) Internal transfer of owners' equity											
1. Capitalization of capital reserve to capital (or share capital)											
2. Capitalization of surplus reserve to capital (or share capital)											
3. Surplus reserve for making up losses											
4. Transfer of change amount of defined benefit schemes to retained earnings											
5. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
IV. Closing balance for the period	6,000,000.00								91,807.59	826,268.24	6,918,075.83

Statement of Changes in Owners' Equity

AC04

Prepared by: Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司)

Expressed in RMB

Items	2018											2017										
	Paid-in capital (or share capital)	Other equity instruments Preference shares	Other equity instruments Perpetual bonds	Other equity instruments Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity	Paid-in capital (or share capital)	Other equity instruments Preference shares	Other equity instruments Perpetual bonds	Other equity instruments Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Closing balance of previous year	3,000,000.00								21,440.19	192,961.71	3,214,401.90											
Add: Changes in accounting policies																						
Correction of errors of previous periods																						
Others																						
II. Opening balance of the year	3,000,000.00								21,440.19	192,961.71	3,214,401.90											
III. Increase/decrease in the current period (decrease is denoted as "–")	3,000,000.00								57,867.18	520,804.60	3,578,671.78											
(I) Total comprehensive income										578,671.78	578,671.78											
(II) Capital contribution and reduction by owners	3,000,000.00										3,000,000.00											
1. Ordinary shares from owners	3,000,000.00										3,000,000.00											
2. Capital contribution by holders of other equity instruments																						
3. Amount of share-based payment included in owners' equity																						
4. Others																						
(III) Profit appropriation									57,867.18	–57,867.18												
1. Transfer to surplus reserve									57,867.18	–57,867.18												
2. Appropriation to owners (or shareholders)																						
3. Others																						
(IV) Internal transfer of owners' equity																						
1. Capitalization of capital reserve to capital (or share capital)																						
2. Capitalization of surplus reserve to capital (or share capital)																						
3. Surplus reserve for making up losses																						
4. Transfer of change amount of defined benefit schemes to retained earnings																						
5. Others																						
(V) Special reserve																						
1. Transfer for the period																						
2. Utilized during the period																						
(VI) Others																						
IV. Closing balance for the period	6,000,000.00								79,307.37	713,766.31	6,793,073.68											

URUMUQI HONGRUI PLASTIC TRADE LIMITED*

NOTES TO FINANCIAL STATEMENTS
From 1 January 2018 to 31 December 2020

Expressed in RMB

I. BASIC INFORMATION ON THE COMPANY

Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) (hereinafter referred to as the "Company") was invested and established by Deng Hongwen (鄧紅文), Deng Liming (鄧立明) and Li Yang (李陽). It was registered with the Administration for Market Regulation of Shuimogou District, Urumqi (烏魯木齊市水磨溝區市場監督管理局) on 19 March 2015. The creditability code of its Business License of Enterprise Legal Person is 91650105333097197M and its registered capital is RMB6 million.

The Company operates in the wholesales industry. Its principal activities involve sales of plastic raw materials and products, mainly including polyethylene and polypropylene.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

The Company's financial statements have been prepared on a going concern basis.

(II) Ability to continue as a going concern

There is no event or circumstance of the Company which casts material doubts to its ability to continue as a going concern for the 12 months from the end of the reporting period.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Company are in accordance with the requirements of the Accounting Standards for Business Enterprises ("ASBE"), and gives a true and complete view on information including the financial position, the operating results and cash flows of the Company.

(II) Accounting Period

An accounting year runs with the Gregorian calendar which lasts from 1 January to 31 December. The accounting period for the financial information contained in these financial statements is from 1 January 2018 to 31 December 2020.

(III) Operating Cycle

The Company operates on a relatively short operating cycle, which classifies the liquidity of assets and liabilities by a 12-months standard.

(IV) Functional Currency

Renminbi is being adopted as the functional currency.

(V) Recognition Criteria of Cash and Cash Equivalents

Cash presented in the Statement of Cash Flows refers to cash on hand and deposits readily available for payments. Cash equivalents represent short-term, highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

(VI) Financial Instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following four categories at initial recognition: financial assets at FVTPL for the current period (including financial assets held for trading and financial assets designated as at FVTPL for the current period at initial recognition), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

Financial liabilities are classified into the following two categories at initial recognition: financial liabilities at FVTPL for the current period (including financial liabilities held for trading and financial liabilities designated as at FVTPL for the current period at initial recognition) and other financial liabilities.

2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities

The Company recognizes a financial asset or a financial liability when it becomes a party to a financial instrument contract. Financial assets or financial liabilities are measured at fair value upon initial recognition. For financial assets or financial liabilities at FVTPL for the current period, the relevant transaction costs are directly included in profit or loss for the current period; for other categories of financial assets or financial liabilities, the relevant transaction costs are included in their initial recognition amount.

Financial assets are subsequently measured at fair value without deducting the transaction costs that may incur by the disposal thereof in the future, except the following circumstances: (1) held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method;

and (2) equity instrument investments that are not quoted in an active market and for which fair value cannot be measured reliably and derivative financial assets linked to and settled by delivery of such equity instruments are measured at cost.

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except the following circumstances: (1) financial liabilities at FVTPL for the current period are measured at fair value, without deducting the transaction costs that may incur by the settlement thereof in the future; (2) derivative financial liabilities linked to and settled by delivery of equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably are measured at cost; and (3) a financial guarantee contract that is not a financial liability designated as at FVTPL for the current period or a loan commitment for loans to be extended at a below market interest rate which is not designated as at FVTPL for the current period, after initial recognition, are subsequently measured at the higher of: 1) the amount determined under ASBE No. 13 — Contingencies; and 2) the balance of initial recognized amount less accumulated amortization determined according to the principals under ASBE No. 14 — Revenue.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset have been terminated, or substantially all the risks and rewards associated with the ownership of the financial asset have been transferred. A financial liability is derecognized in whole or in part accordingly when the present obligations of such financial liability are discharged in whole or in part.

3. Determination of fair value of financial assets and financial liabilities

The Company adopts valuation techniques that are appropriate under the circumstances and supported by sufficient data and other information available to determine the fair value of the relevant financial assets and financial liabilities. The Company classifies the inputs used by the valuation techniques into the following hierarchies, and applies in the following sequence:

(1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the date of measurement;

(2) Level 2 inputs are direct or indirect observable inputs for the relevant asset or liability other than Level 1 inputs;

(3) Level 3 inputs are unobservable inputs for the relevant asset or liability.

4. Impairment test and provision for impairment for financial assets

(1) The carrying amount of a financial asset, other than financial assets at FVTPL for the current period, is reviewed at the balance sheet dates. Provision for impairment is made when there is objective evidence indicating that such financial asset is impaired.

(2) For a held-to-maturity investment or loan and receivable that is individually significant, the financial asset is separated at first and tested individually for impairment; for a financial asset that is individually insignificant, the asset is tested individually for impairment or includes in a group of financial assets with similar credit risk characteristics and collectively tested for impairment. Where a financial asset (including financial assets individually significant or insignificant) is determined to be not impaired in an individual impairment test, it will be included in a group of financial assets with similar credit risk characteristics and reassessed for impairment. If the result of the impairment test indicates that the financial asset is impaired, an impairment loss is recognized as the excess of its carrying amount over the present value of estimated future cash flows.

(3) Available-for-sale financial assets

If an available-for-sale financial asset measured at fair value is impaired, the cumulative losses arising from the decline in fair value that had been included directly in other comprehensive income are transferred out into impairment loss. For an available-for-sale debt instrument investment for which impairment losses have been recognized, if its fair value subsequently increases and the increase can be objectively related to an event subsequent to the recognition of the previous impairment losses, the previously recognized impairment losses are released and included into profit or loss for the current period. For an available for-sale equity instrument investment on which impairment losses have been recognized, the subsequent increase in its fair value is recognized directly in other comprehensive income.

If an equity instrument investment measured at cost is impaired, an impairment loss is recognized as the excess of the carrying amount of such instrument investment over the present value of future cash flows discounted at the prevailing market yield for similar financial assets, and included in profit or loss for the current period; the recognized impairment loss shall not be reversed.

(VII) Receivables

The Company determines the percentage of provision for bad debts for each portfolio in the reporting period based on the actual loss rate of the same aged receivables portfolio (trade receivables and other receivables), taking into account the current situation. The specific percentage of provision were determined as follows:

Aging	**Percentage of provision of trade receivables** *(%)*	**Percentage of provision of trade receivables** *(%)*
Within 1 year (inclusive, same rule applies below)	3%	3%
1–2 years	15%	15%
2–3 years	20%	20%
3–4 years	50%	50%
4–5 years	50%	50%
Over 5 years	100%	100%

Receivables for which well-established evidence indicates that there exists significant differences in recoverability shall be individually assessed for impairment, and bad-debt provisions are made for the difference between the present value of its estimated future cash flows and its carrying amount.

For other receivables including bank acceptance receivables, trade acceptance receivables and interest receivables, bad-debt provisions are made for the difference between the present value of its future cash flows and its carrying amount.

(VIII) Inventories

1. Classifications of inventories

Inventories include goods held for sale during the ordinary course of business, and materials or supplies consumed in the process of rendering of services.

2. Cost of inventories transferred out

Cost of inventories transferred out is determined using the weighted average method at the end of each month.

3. Basis for determination of net realizable value of inventories

At the balance sheet date, the Company's inventories are measured at the lower of cost and net realizable value. Provision for impairment is made for the excess of the cost over the net realizable value of an individual inventory. For inventories for immediate sale, net realizable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realizable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realizable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or reversed.

4. Inventory-taking system

Our inventory-taking system is a perpetual inventory-taking system.

(IX) Fixed Assets

1. Recognition conditions for fixed assets

Fixed assets represent the tangible assets held for production of goods or supply of services, lease or operation and administrative purposes with useful lives over one accounting year. Fixed assets are recognized when they simultaneously satisfy the conditions that it is probable that its economic benefits may flow to the Company and the cost can be measured reliably.

2. Depreciation methods of different categories of fixed assets

Category	**Depreciation method**	**Depreciation period**	**Residual value rate**	**Annual depreciation rate**
		(years)	*(%)*	*(%)*
Motor vehicles	Straight-line-method	5	5	19.00
General-purpose equipment	Straight-line-method	3	5	31.67

3. At the balance sheet date, an impairment is provided for the excess of the carrying amount over the recoverable amount when there is evidence incidicating that the fixed assets are impaired.

(X) Intangible Assets

1. Intangible assets, including software, are initially measured at cost.

2. Intangible assets with definite useful lives are systematically and reasonably amortized over their useful lives based on the pattern of expected realization of the economic benefits relating to the intangible assets, or otherwise are

amortized on a straight-line basis over the following specific amortization period if the pattern of the expected realization cannot be reliably determined:

Item	Amortization period *(years)*
Financial software	5

3. For intangible assets with definite useful lives, provision for impairment is made for the excess of the carrying amount over the recoverable amount when there is evidence indicating that the intangible assets are impaired at the balance sheet date. For intangible assets with indefinite useful lives and those not ready for use, an impairment test is performed each year, irrespective of whether there is evidence of impairment.

(XI) Long-term deferred expenses

Long-term deferred expenses are accounted for in respect of various expenses which have been incurred but with an amortization period of more than one year (excluding one year). Long-term deferred expenses are measured at actual amount and amortized evenly over the beneficial or required period. If the long-term deferred expenses are no longer beneficial to the subsequent accounting periods, the full unamortized balance is then transferred to profit or loss for the current period.

(XII) Employee Remuneration

1. Employee remuneration consists of short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

2. Accounting treatment for short-term remuneration

Short-term remuneration actually incurred is recognized as liabilities and included in profit or loss for the current period or cost of related assets during the accounting period in which an employee renders services to the Company.

3. Accounting treatment for post-employment benefits

Post-employment benefits are classified into a defined contribution scheme and a defined benefit scheme.

(1) The contributions payable as calculated according to the defined contribution scheme are recognized during the accounting period in which the employee renders services to the Company as liabilities and are included in profit or loss for the current period or cost of relevant assets.

(2) Accounting treatment for the defined benefit scheme normally includes the following steps:

1) The obligations arising from the defined benefit scheme are measured using the projected unit credit method to estimate the relevant demographic statistical variables and financial variables with unbiased and consistent actuarial assumptions, and the period in which the obligations incurred is determined accordingly. Whereas the obligations arising from the defined benefit scheme are discounted to determine the present value and service costs for the defined benefit scheme;

2) For the defined benefit scheme which has assets, the deficits or surplus arrived by netting off the fair value of assets of the defined benefit scheme from the present value of the defined benefit scheme are recognized as a net liability or net asset of a defined benefit scheme. Where the defined benefit scheme has surplus, the net asset of the defined benefit scheme is measured at the lower of the surplus or maximum assets limit of the defined benefit scheme;

3) At the end of the period, employee remuneration costs arising from the defined benefit scheme are recognized as three elements, namely, service costs, net interest of net liabilities or net assets of the defined benefit scheme, and changes arising from re-measurement of net liabilities or net assets of the defined benefit scheme. In particular, the service costs and net interest of net liabilities or net assets of the defined benefit scheme are included in profit or loss for the current period or costs of relevant assets, changes arising from re-measurement of net liabilities or net assets of the defined benefit scheme are included in other comprehensive income. These amounts recognized in other comprehensive income are irreversible to profit or loss in subsequent accounting period, but are transferrable within equity.

4. Accounting treatment for termination benefits

For termination benefits provided to employees, employee remuneration liabilities incurred by termination benefits are recognized at the earlier date of the following and charged from profit or loss for the current period: (1) when the Company may not unilaterally revoke the termination benefits provided pursuant to a labour relationship dismissal scheme or redundancy proposal; and (2) the Company recognizes the costs or expenses related to a reorganization involving the payment of termination benefit.

5. Accounting treatment for other long-term employee benefits

Where other long-term benefits provided to employees satisfy the conditions of the defined contribution scheme, the accounting treatment is applied for such benefits according to the relevant requirements of the defined contribution scheme. Other long-term benefits other than this are treated according to the relevant requirements of the defined benefit scheme. In order to simplify the related accounting treatments, the Company recognizes the costs of employee remuneration arising thereof as service costs, the total net amount including net interest of net liabilities or net assets of other long-term employee benefits and changes arising from re-measurement of net liabilities or net assets of other long-term employee benefits is charged from profit or loss for the current period or cost of related assets.

(XIII) Revenue

1. Revenue recognition principles

(1) Sale of goods

Revenue from sale of goods is recognized when the following conditions are met (1) substantial risks and rewards of ownership have been transferred to the buyer; (2) the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) the relevant economic benefits are likely to flow into the Company; and (5) related costs incurred or to be incurred can be measured reliably.

(2) Transfer of assets use rights

Revenue from transfer of assets use rights is recognised when the relevant economic benefits will probably flow to the Company, and the amount of revenue can be measured reliably. Interest income is recognised according to the length of time for which the Company's monetary funds are used by others and the effective interest rate. Income from usage fee is recognised according to timing and method as agreed under relevant contracts or agreements.

2. Methods of revenue recognition

The Company is mainly engaged in the sales of polyethylene and polypropylene. Revenue of products for domestic sales are recognised when the following conditions are satisfied: the Company has delivered the goods to buyers according to contracts, the sales amounts are certain, the payment or payment receipts have been collected, the future economic benefits associated with the items will probably flow to the Company and the costs of the relevant products can be measured reliably.

(XIV) Government grants

1. Government grants are recognized when both of the following conditions are met: (1) the Company has fulfilled all the conditions attached to them; and (2) the Company has received the government grants. The monetary grant from the government is measured at the amounts received or receivable. The non-monetary grant from the government is measured at its fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount.

2. The basis for determining government grants relating to assets and accounting treatments

The government grants obtained by the Company for purchasing or constructing or otherwise originating long-term assets are classified as government grants relating to assets. Government grants relating to assets are offset against the carrying amount of the relevant assets, or are recognized as deferred income. Where government grants relating to assets are recognized as deferred income, they are included in profit or loss over the expected useful life of the relevant assets in accordance with the reasonable and systematic methods. Nevertheless, government grants measured at notional value are directly included in profit or loss for the current period. Where the relevant assets are sold, transferred, decommissioned or damaged prior to the end of their useful lives, the unallocated balance of the relevant deferred income shall be treated as profit or loss of the asset disposal for the current period.

3. The basis for determining government grants relating to income and accounting treatments

Government grants other than government grants relating to assets are classified as government grants relating to income. Where government grants concurrently include the portion related to assets and the portion related to income, which is difficult to differentiate these portions, such government grants shall be classified as the portion related to income. Government grants relating to income applied in compensating related costs and expenses or losses in subsequent periods are recognized as deferred income and included in profit or loss or offset against the relevant costs for the current period in which the related costs and expenses or losses are recognized. Government grants, applied in compensating related costs or losses already incurred, are directly recognized in profit or loss or offset against the relevant costs for the current period.

4. Where government grants involve the daily business operations of the Company, such grants shall be included to other gains or offset against the relevant costs and expenses based on the economic business nature. Government grants irrelevant to the daily business operations of the Company shall be included to non-operating income and expenses.

(XV) Deferred income tax assets and deferred income tax liabilities

1. Deferred income tax assets or deferred income tax liabilities are recognized on the basis of the difference between the carrying amounts of the assets or liabilities and their tax bases (for an item not recognized as asset or liability but for which tax base can be determined under tax laws, the difference between its tax base and its carrying amount), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled.

2. Deferred income tax assets are recognized for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred income tax assets unrecognized in prior accounting periods are recognized to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilized.

3. The carrying amount of deferred income tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred income tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

4. The Company's current and deferred income taxes are recognized in profit or loss for the current period as tax expense or profit, excluding income tax arising from (1) business combination; and (2) transactions or issues directly recognized in owners' equity.

(XVI) Operating Leases

If the Company is the lessee, rental expenses are included in relevant asset costs or recognized in profit or loss for the current period on straight-line basis over each period in the lease term, with any initial direct cost incurred directly charged to profit or loss for the current period. Contingent rental is credited to current profit or loss when incurred.

If the Company is the lessor, rental expenses are included in profit or loss for the current period on straight-line basis over each period in the lease term, with any initial direct cost incurred (other than those larger amounts are capitalized and charged to profit or loss by phases) directly charged to profit or loss for the current period. Contingent rental is credited to current profit or loss when incurred.

IV. TAXATION

(I) Principal tax types and tax rates

Tax types	Tax types	Tax rate
VAT	The output tax is calculated on the income from the sale of goods that calculated in accordance with the provisions of the tax law. The value added tax payable is the difference between the output tax and the input tax allowed to be deducted for the period	17%、16%、13%
City maintenance and construction tax	Turnover tax paid	7%
Education surcharge	Turnover tax paid	3%
Local education surcharge	Turnover tax paid	2%
EIT	Taxable profit	25%

(II) Tax concession

Pursuant to the Notice of the Ministry of Finance and the State Taxation Administration on implementation on Inclusive Tax Relief Policy of Small-scaled Minimal Profit Enterprise (Cai Shui [2019] No. 13) (《財政部稅務總局關於實施小微企業普惠性稅收減免政策的通知》(財稅[2019]13號)), "II. the small-scaled minimal profit enterprise with an annual taxable income below RMB1,000,000 (RMB1,000,000 included) is entitled to a preferential tax treatment of 25% exemption of taxable income and application of income tax rate as 20%; the small-scaled minimal profit enterprise with an annual taxable income between RMB1,000,000 and RMB3,000,000 (RMB3,000,000 included) is entitled to a preferential tax treatment of 50% exemption of taxable income and application of income tax rate as 20%."

Pursuant to the Notice of the Ministry of Finance and the State Taxation Administration on implementation on Inclusive Tax Relief Policy of Small-scaled Minimal Profit Enterprise (Cai Shui [2019] No. 13) (《財政部稅務總局關於實施小微企業普惠性稅收減免政策的通知》(財稅[2019]13號)), "II. the small-scaled minimal profit enterprise with an annual taxable income below RMB1,000,000 (RMB1,000,000 included) is entitled to a preferential tax treatment of 25% exemption of taxable income and application of income tax rate as 20%; the Small-scaled minimal profit enterprise with an annual taxable income between RMB1,000,000 and RMB3,000,000 (RMB3,000,000 included) is entitled to a preferential tax treatment of 50% exemption of taxable income and application of income tax rate as 20%. VI. The notice shall be executed from 1 January 2019 to 31 December 2021."

Since the Company meets the above-mentioned criteria for small-scaled minimal profit enterprises and satisfies the conditions to enjoy the preferential tax policies, the Company was subject to the enterprise income tax at the rates specified in the above preferential policies in 2018, 2019 and 2020.

V. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

(I) Notes to items in the Balance Sheet

1. Cash

(1) Breakdown

Item	31 December 2020	31 December 2019	31 December 2018
Bank deposit	2,085,691.39	346,252.99	72,324.95
Other cash	60,000,000.00	27,590,000.00	4,000,000.00
Total	62,085,691.39	27,936,252.99	4,072,324.95

(2) Other information

Other cash at the end of each reporting period represented margin deposits for bank acceptance bills, the use of which was restricted.

2. Financial assets at FVTPL for the current period

Item	31 December 2020	31 December 2019	31 December 2018
Financial assets at FVTPL for the current period	13,000,000.00	5,580,000.00	2,440,000.00
Total	13,000,000.00	5,580,000.00	2,440,000.00

3. Bill receivables

Category	31 December 2020	31 December 2019	31 December 2018
Bank acceptance bills		200,000.00	200,000.00
Total		200,000.00	200,000.00

4. *Trade receivables*

(1) Aging analysis

Aging	31 December 2020			
	Book balance	Percentage *(%)*	Bad-debt provision	Carrying amount
Within 1 year	3,834,564.10	89.82	115,036.92	3,719,527.18
2–3 years	434,666.00	10.18	86,933.20	347,732.80
Total	4,269,230.10	100.00	201,970.12	4,067,259.98

(continued from the previous table)

Aging	31 December 2019			
	Book balance	Percentage *(%)*	Bad-debt provision	Carrying amount
Within 1 year	5,788,930.57	91.61	173,667.92	5,615,262.65
1–2 years	434,666.00	6.88	65,199.90	369,466.10
2–3 years	95,250.00	1.51	19,050.00	76,200.00
Total	6,318,846.57	100.00	257,917.82	6,060,928.75

(continued from the previous table)

Aging	31 December 2018			
	Book balance	Percentage *(%)*	Bad-debt provision	Carrying amount
Within 1 year	1,633,267.75	84.79	48,998.03	1,584,269.72
1–2 years	292,966.00	15.21	43,944.90	249,021.10
Total	1,926,233.75	100.00	92,942.93	1,833,290.82

(5) Top 5 trade receivables

① 31 December 2020

Name of entity	Book balance	Percentage to trade receivables balance (%)
Akesu Tianye Water Saving Co., Ltd*	1,097,600.00	25.71
Xinjiang Zhongsu Lianhe Water Saving Technology Co., Ltd.* (新疆中塑聯合節水科技有限公司)	854,400.00	20.01
Yili Zhicheng Xingxing Material Co., Ltd.* (伊犁志成興型材有限公司)	818,208.00	19.17
Xinjiang Xilong Geotechnical New Material Co., Ltd.* (新疆西龍土工新材料股份有限公司)	434,666.00	10.18
Xinjiang Juncheng Haoxin Plastic Industry Co., Ltd.* (新疆君誠灝欣塑業有限公司)	418,140.00	9.79
Sub-total	3,623,014.00	84.86

② 31 December 2019

Name of entity	Book balance	Percentage to trade receivables balance (%)
Xinjiang Lvsai Water Saving Technology Development Co., Ltd.* (新疆綠賽節水科技開發有限公司)	3,888,152.00	61.53
Xinjiang Xilong Geotechnical New Material Co., Ltd.* (新疆西龍土工新材料股份有限公司)	434,666.00	6.88
Xinjiang Xinhui Tengda Wire & Cable Manufacturing Co., Ltd.* (新疆新輝騰達線纜製造有限公司)	369,610.00	5.85
Xinjiang Sanying Plastic R&D Manufacturing Co., Ltd.* (新疆三鷹塑業研發製造有限公司)	300,000.00	4.75
Urumqi Xicheng Lego Plastic Products Co., Ltd.* (烏魯木齊喜誠樂高塑料製品有限公司)	277,300.00	4.39
Sub-total	5,269,728.00	83.40

③ 31 December 2018

Name of entity	Book balance	Percentage to trade receivables balance (%)
Xinjiang Xilong Geotechnical New Material Co., Ltd.* (新疆西龍土工新材料股份有限公司)	634,666.00	32.95
Shihezi Huaxing Plastic Co., Ltd.* (石河子華星塑料有限責任公司)	247,500.00	12.85
Urumqi Hengshunda Packing Products Co., Ltd.* (烏魯木齊恒順達包裝製品有限公司)	203,430.00	10.56
Changji Xiangyu Plastic Products Co., Ltd.* (昌吉市祥宇塑料製品有限公司)	178,217.75	9.25
Xinjiang Xinjiamei Plastic Co., Ltd.* (新疆新佳美塑膠有限公司)	154,450.00	8.02
Sub-total	1,418,263.75	73.63

5. *Prepayments*

(1) Aging analysis

1) Breakdown

Aging	31 December 2020 Book balance	Percentage (%)	Carrying amount	31 December 2019 Book balance	Percentage (%)	Carrying amount
Within 1 year	5,286,630.91	100.00	5,286,630.91	4,288,449.90	100.00	4,288,449.90
Total	5,286,630.91	100.00	5,286,630.91	4,288,449.90	100.00	4,288,449.90

(continued from the previous table)

Aging	31 December 2018 Book balance	Percentage (%)	Carrying amount
Within 1 year	48,069,324.48	100.00	48,069,324.48
Total	48,069,324.48	100.00	48,069,324.48

(2) Top 5 prepayments

1) 31 December 2020

Name of entity	Book balance	Percentage to prepayments balance (%)
Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司)	4,475,312.15	84.65
Shaanxi Mingjia Plastic Industry Co., Ltd.* (陝西銘嘉塑業有限公司)	771,318.75	14.59
China Shenhua Coal-to-Liquid and Chemical Co., Ltd. Sales Branch	40,000.00	0.76
Sub-total	5,286,630.91	100.00

2) 31 December 2019

Name of entity	Book balance	Percentage to prepayments balance (%)
Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司)	4,288,449.90	100.00
Sub-total	4,288,449.90	100.00

3) 31 December 2018

Name of entity	Book balance	Percentage to prepayments balance (%)
Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司)	47,794,096.73	99.43
Xinjiang Hongding Plastic Industry Co., Ltd.* (新疆泓鼎塑業有限公司)	245,490.00	0.51
Xinjiang Xinfeng Co., Ltd.* (新疆新峰股份有限公司)	11,999.95	0.02
Rental charges	8,887.80	0.02
Xinjiang Huijuneng Petrochemical Co., Ltd.* (新疆匯巨能石油化工有限公司)	5,300.00	0.01
Sub-total	48,056,886.68	99.97

6. *Other receivables*

	31 December 2018			
Aging	Book balance	Percentage (%)	Bad-debt provision	Carrying amount
Within 1 year	100,000.00	100.00		100,000.00
Sub-total	100,000.00	100.00		100,000.00

7. *Inventories*

	31 December 2020			31 December 2019		
Item	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Finished goods	1,729,804.08		1,729,804.08	1,557,304.87		1,557,304.87
Total	1,729,804.08		1,729,804.08	1,557,304.87		1,557,304.87

(continued from the previous table)

	31 December 2018		
Item	Book balance	Provision for impairment	Carrying amount
Finished goods	25,210.65		25,210.65
Total	25,210.65		25,210.65

8. *Others current assets*

	31 December 2020		31 December 2019	
Item	Book balance	Carrying amount	Book balance	Carrying amount
Pending deduct VAT on purchase	852,435.05	852,435.05	812,835.37	812,835.37
EIT overpaid			19,778.89	19,778.89
Total	852,435.05	852,435.05	832,614.26	832,614.26

(continued from the previous table)

	31 December 2018	
Item	Book balance	Carrying amount
Pending deduct VAT on purchase	411,994.29	411,994.29
Total	411,994.29	411,994.29

9. *Fixed assets*

(1) *Breakdown*

Item	31 December 2020	31 December 2019	31 December 2018
Fixed assets	78,525.95	107,952.41	131,954.03
Total	78,525.95	107,952.41	131,954.03

(2) *Fixed assets*

Breakdown

① 2020

Item	General-purpose equipment	Motor vehicles	Total
Initial carrying amount			
Opening balance	34,955.00	165,572.65	200,527.65
Increase during the period	5,389.00		5,389.00
1) Additions	5,389.00		5,389.00
Closing balance	40,344.00	165,572.65	205,916.65
Accumulated depreciation			
Opening balance	27,036.02	65,539.22	92,575.24
Increase during the period	3,356.66	31,485.80	34,815.46
1) Provision	3,356.66	31,458.80	34,815.46
Closing balance	30,392.68	96,998.02	127,390.70
Carrying amount			
Carrying amount at the end of the period	9,951.32	68,574.63	78,525.95
Carrying amount at the beginning of the period	7,918.98	100,033.43	107,952.41

② 2019

Item	General-purpose equipment	Motor vehicles	Total
Initial carrying amount			
Opening balance	25,755.00	165,572.65	191,327.65
Increase during the period	9,200.00		9,200.00
1) Additions	9,200.00		9,200.00
Closing balance	34,955.00	165,572.65	200,527.65
Accumulated depreciation			
Opening balance	25,293.23	34,080.39	59,373.62
Increase during the period	1,742.79	31,458.83	33,201.62
1) Provision	1,742.79	31,458.83	33,201.62
Closing balance	27,036.02	65,539.22	92,575.24
Carrying amount			
Carrying amount at the end of the period	7,918.98	100,033.43	107,952.41
Carrying amount at the beginning of the period	461.77	131,492.26	131,954.03

③ 2018

Item	General-purpose equipment	Motor vehicles	Total
Initial carrying amount			
Opening balance	24,355.00	165,572.65	189,927.65
Increase during the period	1,400.00		1,400.00
1) Additions	1,400.00		1,400.00
Closing balance	25,755.00	165,572.65	191,327.65
Accumulated depreciation			
Opening balance	17,908.60	2,621.57	20,530.17
Increase during the period	7,384.63	31,458.82	38,843.45
1) Provision	7,384.63	31,458.82	38,843.45
Closing balance	25,293.23	34,080.39	59,373.62
Carrying amount			
Carrying amount at the end of the period	461.77	131,492.26	131,954.03
Carrying amount at the beginning of the period	6,446.40	162,951.08	169,397.48

10. *Intangible assets*

(1) Breakdown

1) 2020

Item	ERP software	Total
Initial carrying amount		
Opening balance	4,615.38	4,615.38
Closing balance	4,615.38	4,615.38
Accumulated amortization		
Opening balance	4,076.92	4,076.92
Increase during the period	538.46	538.46
1) Provision	538.46	538.46
Closing balance	4,615.38	4,615.38
Carrying amount		
Carrying amount at the end of the period		
Carrying amount at the beginning of the period	538.46	538.46

2) 2019

Item	ERP software	Total
Initial carrying amount		
Opening balance	4,615.38	4,615.38
Closing balance	4,615.38	4,615.38
Accumulated amortization		
Opening balance	3,153.84	3,153.84
Increase during the period	923.08	923.08
1) Provision	923.08	923.08
Closing balance	4,076.92	4,076.92
Carrying amount		
Carrying amount at the end of the period	538.46	538.46
Carrying amount at the beginning of the period	1,461.54	1,461.54

3) 2018

Item	ERP software	Total
Initial carrying amount		
Opening balance	4,615.38	4,615.38
Closing balance	4,615.38	4,615.38
Accumulated amortization		
Opening balance	2,230.76	2,230.76
Increase during the period	923.08	923.08
1) Provision	923.08	923.08
Closing balance	3,153.84	3,153.84
Carrying amount		
Carrying amount at the end of the period	1,461.54	1,461.54
Carrying amount at the beginning of the period	2,384.62	2,384.62

11. *Deferred income tax assets*

Deferred income tax assets un-eliminated

	31 December 2020		31 December 2019	
Item	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	201,970.12	10,098.51	257,917.82	12,895.89
Total	201,970.12	10,098.51	257,917.82	12,895.89

(continued from the previous table)

	31 December 2018	
Item	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	92,942.93	4,647.15
Total	92,942.93	4,647.15

12. *Bill payables*

Item	31 December 2020	31 December 2019	31 December 2018
Bank acceptance bills	60,000,000.00	27,590,000.00	4,000,000.00
Total	60,000,000.00	27,590,000.00	4,000,000.00

13. *Trade payables*

Breakdown

Item	31 December 2020	31 December 2019	31 December 2018
Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司)			148,918.00
Total			148,918.00

14. *Receipts in advance*

Item	31 December 2020	31 December 2019	31 December 2018
Sale of goods	8,429,224.50	9,123,995.90	1,915,035.29
Total	8,429,224.50	9,123,995.90	1,915,035.29

15. *Employee remuneration payables*

(1) Breakdown

1) 2020

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	1,695.00	517,178.13	516,656.13	2,217.00
The defined contribution scheme		3,019.50	3,019.50	
Total	1,695.00	520,197.63	519,675.63	2,217.00

2) 2019

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	1,824.00	442,755.05	442,884.05	1,695.00
The defined contribution scheme		41,044.39	41,044.39	
Total	1,824.00	483,799.44	483,928.44	1,695.00

3) 2018

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	1,712.60	372,375.47	1,712.60	372,375.47
The defined contribution scheme		43,663.26	43,663.26	
Total	1,712.60	416,038.73	45,375.86	1,824.00

(2) Breakdown of short-term remuneration

1) 2020

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus, allowance and subsidy		439,984.18	439,984.18	
Employee benefits		49,281.99	49,281.99	
Basical medical insurance		14,599.40	14,599.40	
Work injury insurance		4,321.68	4,321.68	
Maternity insurance contributions		188.80	188.80	
Union and education funds	1,695.00	8,802.08	8,280.08	2,217.00
Sub-total	1,695.00	517,178.13	516,656.13	2,217.00

2) 2019

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus, allowance and subsidy		393,000.00	393,000.00	
Employee benefits		18,621.73	18,621.73	
Basical medical insurance		21,231.86	21,231.86	
Work injury insurance		408.57	408.57	
Maternity insurance contributions		1,632.89	1,632.89	
Union and education funds	1,824.00	7,860.00	7,989.00	1,695.00
Sub-total	1,824.00	442,755.05	442,884.05	1,695.00

3) 2018

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus, allowance and subsidy		342,190.00	342,190.00	
Basical medical insurance		20,407.67	20,407.67	
Work injury insurance		453.70	453.70	
Maternity insurance contributions		1,814.30	1,814.30	
Union and education funds	1,712.60	7,509.80	7,398.40	1,824.00
Sub-total	1,712.60	372,375.47	372,264.07	1,824.00

(3) Breakdown of defined contribution schemes

1) 2020

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic endowment insurance contributions		2,928.00	2,928.00	
Unemployment insurance contributions		91.50	91.50	
Sub-total		3,019.50	3,019.50	

2) 2019

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic endowment insurance contributions		39,877.76	39,877.76	
Unemployment insurance contributions		1,166.63	1,166.63	
Sub-total		41,044.39	41,044.39	

3) 2018

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic endowment insurance contributions		42,529.16	42,529.16	
Unemployment insurance contributions		1,134.10	1,134.10	
Sub-total		43,663.26	43,663.26	

16. *Tax and levy payables*

Breakdown

Item	31 December 2020	31 December 2019	31 December 2018
EIT	29,431.56		50,286.66
Individual income tax withheld	60.00	15.00	
Stamp duty	227,760.85	129,147.28	80,596.06
Total	257,252.41	129,162.28	130,882.72

17. *Other payables*

(1) Breakdown

Item	31 December 2020	31 December 2019	31 December 2018
Other payables	11,000,333.00	2,814,008.52	44,300,474.22
Total	11,000,333.00	2,814,008.52	44,300,474.22

(2) Other payables

Breakdown

Item	31 December 2020	31 December 2019	31 December 2018
Call loans	11,000,333.00	2,814,008.52	44,300,474.22
Total	11,000,333.00	2,814,008.52	44,300,474.22

18. *Paid-in capital*

Type of shareholders	31 December 2020	31 December 2019	31 December 2018
Deng Hongwen (鄧紅文)	4,800,000.00	4,800,000.00	4,800,000.00
Deng Liming (鄧立明)	600,000.00	600,000.00	600,000.00
Li Yang (李陽)	600,000.00	600,000.00	600,000.00
Total	6,000,000.00	6,000,000.00	6,000,000.00

19. *Surplus reserves*

Item	31 December 2020	31 December 2019	31 December 2018
Statutory surplus reserve	142,141.90	91,807.59	79,307.37
Total	142,141.90	91,807.59	79,307.37

20. *Undistributed profits*

Item	2020	2019	2018
Opening balance of undistributed profits	826,268.24	713,766.31	192,961.71
Add: net profit for the period	503,343.13	125,002.15	578,671.78
Less: Transfer to statutory surplus reserve	50,334.31	12,500.22	57,867.18
Closing balance of undistributed profits	1,279,277.06	826,268.24	713,766.31

(II) Notes to the Statement of Income

1. *Operating income/operating cost*

(1) Breakdown

Item	2020 Income	2020 Cost	2019 Income	2019 Cost
Income form principal businesses	546,062,612.14	544,759,164.53	489,059,913.39	487,458,910.75
Total	546,062,612.14	544,759,164.53	489,059,913.39	487,458,910.75

(continued from the previous table)

Item	2018 Income	2018 Cost
Income form principal businesses	392,770,761.84	391,015,215.24
Total	392,770,761.84	391,015,215.24

(2) Operating income of top five customers of the Company

1) 2020

Customer name	Operating income	Percentage of the total operating income of the Company (%)
Xinjiang Wanjianghong Pipeline Industry Co., Ltd.* (新疆萬疆宏管業有限公司)	35,467,440.00	6.50
Xinjiang Juncheng Haoxin Plastic Industry Co., Ltd.* (新疆君誠灝欣塑業有限公司)	27,830,095.00	5.10
Kashi Xinqin Pipeline Industry Co., Ltd.* (喀什市新秦管業有限責任公司)	26,631,570.25	4.88
Xinjiang Jinjiang Gaoke Plastic Pipeline Industry Co., Ltd.* (新疆進疆高科塑膠管業有限公司)	22,282,903.75	4.08
Xinjiang Xinhui Tengda Wire & Cable Manufacturing Co., Ltd.* (新疆新輝騰達線纜製造有限公司)	22,005,427.50	4.03
Sub-total	134,217,436.50	24.59

2) 2019

Customer name	Operating income	Percentage of the total operating income of the Company (%)
Xinjiang Juncheng Haoxin Plastic Industry Co., Ltd.* (新疆君誠灝欣塑業有限公司)	80,474,084.50	16.45
Lanzhou Juxiang Chemical Co., Ltd.* (蘭州聚祥化工有限公司)	36,762,165.75	7.52
Xinjiang Xinhui Tengda Wire & Cable Manufacturing Co., Ltd.* (新疆新輝騰達線纜製造有限公司)	31,804,063.00	6.50
Xinjiang Lvsai Water Saving Technology Development Co., Ltd.* (新疆綠賽節水科技開發有限公司)	26,067,152.00	5.33
Xinjiang Shuguang Hi-Tech Pipe Industry Co., Ltd.* (新疆曙光高科管業有限公司)	17,010,595.50	3.48
Sub-total	192,118,060.75	39.28

3) 2018

Customer name	Operating income	Percentage of the total operating income of the Company (%)
Xinjiang Jinjiang Gaoke Plastic Pipeline Industry Co., Ltd.* (新疆進疆高科塑膠管業有限公司)	74,009,789.50	18.84
Shanghai Zhongchen Electronic Commerce Co., Ltd.* (上海中晨電子商務股份有限公司)	22,125,914.25	5.63
Xinjiang Juncheng Haoxin Plastic Industry Co., Ltd.* (新疆君誠灝欣塑業有限公司)	19,884,120.00	5.06
Lanzhou Juxiang Chemical Co., Ltd.* (蘭州聚祥化工有限公司)	18,071,045.00	4.60
Xinjiang Xinhui Tengda Wire & Cable Manufacturing Co., Ltd.* (新疆新輝騰達線纜製造有限公司)	17,214,678.00	4.38
Sub-total	151,305,546.75	38.51

2. *Taxes and surcharges*

Item	2020	2019	2018
City maintenance and construction tax	13,535.10	14,016.86	20,736.79
Education surcharge	5,800.76	6,631.21	8,887.21
Stamp duty tax	103,788.57	53,461.22	62,638.83
Local education surcharge	3,867.18	3,380.83	5,924.80
Vehicle and vessel use tax	420.00		
Total	127,411.61	77,490.12	98,187.63

3. *Distribution costs*

Item	2020	2019	2018
Salaries	439,984.18	393,000.00	375,490.00
Social security contribution	22,129.38	64,317.71	64,740.06
Benefits	49,281.99	18,621.73	14,553.69
Union funds	8,802.08	7,860.00	7,509.80
Business expenditure	1,093.00	15,926.00	
Transportation costs	148,297.45	480,454.80	114,556.79
Warehousing fees	153,006.68	193,212.01	209,251.09
Total	822,594.76	1,173,392.25	786,101.43

4. *Administrative expenses*

Item	2020	2019	2018
Entertainment expenses	78,622.90	88,350.24	96,322.25
Office costs	36,894.85	23,483.85	44,596.35
Travel expenses	10,802.86	27,919.90	11,585.84
Depreciation expenses	34,815.46	33,201.62	38,843.45
Heat supply fees	5,291.90	8,887.80	17,279.12
Amortization of intangible assets	538.46	923.08	923.08
Car expenses	14,134.89	19,300.63	28,548.53
Postage fee	7,262.41	4,963.98	
Rental charges	36,000.00		
Employment Security Payments for the Disabled		7,989.00	3,880.00
Total	224,363.73	215,020.10	241,978.62

5. *Finance costs*

Item	2020	2019	2018
Interest expenses		80,449.82	9,866.67
Add: Commission and other expenses	46,427.42	37,221.65	14,814.33
Less: Interest income	122,373.86	70,322.88	9,628.42
Total	–75,946.44	47,348.59	15,052.58

6. *Other gains*

Item	2020	2019	2018
Subsidy for stabilizing employment	2,249.12	556.54	
VAT input tax	280.00		
Total	2,529.12	556.54	

7. *Investment income*

Item	2020	2019	2018
Returns on investment acquired from disposal of financial assets at FVTPL for the current period	272,073.13	213,280.03	111,149.88
Total	272,073.13	213,280.03	111,149.88

8. *Asset impairment loss*

Item	2020	2019	2018
Bad debt loss	55,947.70	–164,974.89	–67,743.52
Total	55,947.70	–164,974.89	–67,743.52

9. *Non-operating expenses*

Item	2020	2019	2018
Fines expenses	1.83	67.80	
Total	1.83	67.80	

10. *Income tax charges*

(1) Breakdown

Item	2020	2019	2018
Current income tax charges	29,431.56	19,792.05	82,348.10
Deferred income tax charges	2,797.38	–8,248.74	–3,387.18
Total	32,228.94	11,543.31	78,960.92

(2) Reconciliation between accounting profits and income tax expenses

Item	2020	2019	2018
Total profits	535,572.07	136,545.46	657,632.70
Income tax charges at the applicable tax rate	26,778.60	6,827.27	65,763.27
Effect of prior period income tax adjustment			
Effect of non-taxable income			
Tax effect of costs, expenses and losses not deductible	2,652.96	12,964.78	16,584.83
Effect of deductible losses that have not recognized for deferred income tax assets during the prior period			
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax assets during the period	2,797.38	–8,248.74	–3,387.18
Income tax expenses	32,228.94	11,543.31	78,960.92

(III) Notes to the Cash Flows Statement

1. Supplemental information to Cash Flows Statement

Further information	2020	2019	2018
(1) Adjusting net profits to cash flow for operating activities:			
Net profits	503,343.13	125,002.15	578,671.78
Add: provision for asset impairment	–55,947.70	164,974.89	67,743.52
Fixed assets depreciation, oil/gas asset depreciation and productive biological asset depreciation	34,815.46	33,201.62	38,843.45
Amortization of intangible assets	538.46	923.08	923.08
Amortization of long-term deferred expenses			
Loss on disposal of fixed, intangible and other long-term assets (gain is denoted as "–")			
Loss on retirement of fixed assets (gain is denoted as "–")			
Loss on changes in fair value (gain is denoted as "–")			
Finance cost (gain is denoted as "–")		80,449.82	9,866.67
Investment loss (gain is denoted as "–")	–272,073.13	–213,280.03	–111,149.88
Decrease in deferred income tax assets (increase is denoted as "–")	2,797.38	–8,248.74	–3,387.18
Increase in deferred income tax liabilities (decrease is denoted as "–")			
Decrease in inventories (increase is denoted as "–")	–172,499.21	–1,532,094.22	549,198.58
Decrease in operating receivables (increase is denoted as "–")	1,251,435.46	39,488,261.76	–48,365,016.83
Increase in operating payables (decrease is denoted as "–")	40,010,344.42	–11,258,892.50	44,609,531.72
Others			
Net cash flow generated from operating activities	41,302,754.27	26,880,297.83	–2,624,775.09
(2)Material investing and financing activities without cash payment or receipt:			
Conversion of debt to capital			
Convertible corporate bonds due within 1 year			
Fixed assets under finance leases			
(3) Net change in cash and cash equivalents:			
Closing cash balance	2,085,691.39	346,252.99	72,324.95
Less: opening cash balance	346,252.99	724,324.95	2,037,216.83
Add: closing cash equivalents balance			
Less: opening cash equivalents balance			
Net increase in cash and cash equivalents	1,739,438.40	273,928.04	–1,964,891.88

2. Cash and cash equivalents

Item	31 December 2020	31 December 2019	31 December 2018
(1) Cash	2,085,691.39	346,252.99	72,324.95
Including: Cash on hand			
Bank deposits readily available for payment	2,085,691.39	346,252.99	72,324.95
Other cash readily available for payment			
(2) Cash equivalents			
Including: Bond investment due within 3 months			
(3) Closing balance of cash and cash Equivalents	2,085,691.39	346,252.99	72,324.95

VI. RELATED PARTIES AND RELATED TRANSACTIONS

(I) Related parties

1. The Company has no parent company and the actual controller of the Company is Deng Hongwen (鄧紅文).

2. Other related parties of the Company

Name of other related parties	Other related parties' relationship with the Company
Deng Liming (鄧立明)	Shareholder
Li Yang (李陽)	Shareholder
Deng Shangguang (鄧尚光)	A relative of Deng Hongwen (鄧紅文) (Shareholder)
Gou Xiaoyun (苟筱蕓)	Senior management of the Company

(II) Related party transactions

Lending to/borrowing from related party

2020

Related party	Opening balance	Increase during the period	Decrease during the period	Closing balance
Deng Hongwen (鄧紅文)	2,083,000.00	8,287,000.00		10,370,000.00
Deng Shangguang (鄧尚光)	200,000.00			200,000.00
Gou Xiaoyun (苟筱蕓)	200,000.00			200,000.00
Deng Liming (鄧立明)	30,000.00			30,000.00
Li Yang (李陽)		100,000.00		100,000.00
Sub-total	2,513,000.00	8,387,000.00		10,900,000.00

2019

Related party	Opening balance	Increase during the period	Decrease during the period	Closing balance
Deng Hongwen (鄧紅文)	58,857.05	12,094,348.00	10,071,205.05	2,083,000.00
Deng Shangguang (鄧尚光)	200,000.00			200,000.00
Gou Xiaoyun (苟筱蕓)	200,000.00			200,000.00
Deng Liming (鄧立明)	30,000.00			30,000.00
Sub-total	488,857.05	12,094,348.00	10,071,205.05	2,513,000.00

2018

Related party	Opening balance	Increase during the period	Decrease during the period	Closing balance
Deng Hongwen (鄧紅文)	50,000.00	8,857.05		58,857.05
Deng Shangguang (鄧尚光)	70,000.00	130,000.00		200,000.00
Gou Xiaoyun (苟筱蕓)	100,000.00	100,000.00		200,000.00
Deng Liming (鄧立明)	30,000.00			30,000.00
Sub-total	250,000.00	238,857.05		488,857.05

(III) Amount due from related party

Name of item	Related party	31 December 2020	31 December 2019	31 December 2018
Other payables	Deng Hongwen (鄧紅文)	10,370,000.00	2,083,000.00	58,857.05
Other payables	Deng Shangguang (鄧尚光)	200,000.00	200,000.00	200,000.00
Other payables	Gou Xiaoyun (苟筱蕓)	200,000.00	200,000.00	200,000.00
Other payables	Deng Liming (鄧立明)	30,000.00	30,000.00	30,000.00
Other payables	Li Yang (李陽)	100,000.00		
Sub-total		10,900,000.00	2,513,000.00	488,857.05

VII. COMMITMENTS AND CONTINGENCIES

(I) Commitments

As of the balance sheet date, the Company had no material commitments that required to be disclosed.

(II) Contingencies

As of the balance sheet date, the Company had no material contingencies that required to be disclosed.

VIII. POST BALANCE SHEET DATE EVENT

As of the date of approval of this financial report, the Company had no material post balance sheet date events that required to be disclosed.

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2020 (the "Track Record Period"). The following financial information is based on the financial information of the Target Company as set out in Appendix II to this circular.

BUSINESS REVIEW

Business Overview and Scope

Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) (the "Target Company") was incorporated on 19 March 2015 with a registered capital of RMB6 million and the registered address at No. 1607, Unit 1, Building 4, No. 802 Anju South Road, Shuimogou District, Urumqi, Xinjiang. Its registered business scope includes sales of plastic raw materials and products, lubricants, metal materials, machinery and equipment, agricultural and livestock products, electronic products, instruments and apparatus, agricultural films, mulch and building materials.

The Target Company has been engaged in the sales of polyethylene and polypropylene since its establishment in 2015. With the efforts of all staff, the Target Company has established collaborative relationship with many petrochemical enterprises and large petrochemical trading enterprises, such as PetroChina Dushanzi Petrochemical Company* (中國石油獨山子石化公司), China Shenhua Coal-to-Liquid and Chemical Co., Ltd. Sales Branch, Alashankou PetroChina International Co., Ltd.* (阿拉山口中石油國際事業有限公司), Xinjiang Xinfeng Co., Ltd.* (新疆新峰股份有限公司), Ningxia Baofeng Energy Group Co., Ltd* (寧夏寶豐能源集團股份有限公司), Beijing Silian Chuangye Chemical Group Ltd.* (北京四聯創業化工集團有限公司), Kuitun Shengyao Chemical Co., Ltd.* (奎屯聖耀化工有限公司), Qingdao Tianshu Petrochemical Co., Ltd.* (青島天塑石化有限公司), Shihezi Development Zone Western Resources Logistics Co., Ltd.* (石河子開發區西部資源物流有限公司) and Xinjiang Hengli Environmental Protection Technology Co., Ltd.* (新疆恒利環保科技有限公司). The Target Company was at first an individual customer of Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司), and then became a 1A-class customer in 2017 before further evolving as a 3A-class strategic customer in 2019. Currently, there are only six 3A-class strategic customers in Xinjiang, basically accounting for more than 80% of the market shares in Xinjiang. As a 3A-class strategic customer, the Target Company enjoys a stable supply of resources to offer the best prices for its supply pipeline, while tapping into the brand advantage of large enterprises such as Dushanzi Petrochemical General Factory and Urumqi Petrochemical. As a result, its products are highly recognized by the market without quality disputes. In 2020, the Target Company ranked first among the distributors of Northwest Chemical Products Sales Branch of PetroChina Company Limited in the Xinjiang market, attracting a large number of petrochemical enterprises and large petrochemical trading enterprises for potential cooperation. Owing to its strong product supply capability and bargaining power on product pricing, the Target Company is able to obtain bulk prices and secure goods in advance over the course of its operations, as with other enterprises constantly reducing their prices of certain products in an attempt to end PetroChina's monopoly in the Xinjiang market, and that Northwest Chemical Products

Sales Branch of PetroChina Company Limited becomes increasingly conscious of the importance of distributors by adopting the hierarchical management based on distributors' operating ability and incentive mechanisms according to market conditions.

For each of the financial years ended 31 December 2018, 2019 and 2020, the Target Company recorded operating income of approximately RMB393 million, RMB489 million and RMB546 million, respectively. For each of the financial years ended 31 December 2018, 2019 and 2020, the Target Company's gross profit amounted to approximately RMB1.756 million, RMB1.601 million and RMB1.303 million, respectively. The Target Company's profit for the year was approximately RMB579,000, RMB125,000 and RMB503,000 for the financial years ended 31 December 2018, 2019 and 2020, respectively.

As one of the earliest companies engaged in plastic and chemical operations, the Target Company has over 30 years of industrial experience. By continuing to work hard with its employees as a whole to make advancements, the Target Company has successfully built its own corporate brand, which has achieved market recognition across the plastic industry in Xinjiang. In constant pursuit of innovation and development, the Target Company succeeded in revolutionizing the original single sales channel by introducing the online sales platform model, which has successfully brought in new customers and generated operating income.

	For the year ended 31 December 2018		For the year ended 31 December 2019		For the year ended 31 December 2020	
	Sales volume	Market share	Sales volume	Market share	Sales volume	Market share
	ton	*%*	*ton*	*%*	*ton*	*%*
Polyethylene	47,632.824	11.1	56,950.48	12.1	77,528.6	15.2
Polypropylene	3,941.65	14.1	2,335.1	8.1	2,262.375	7.5

Source of market data: http://www.esuliao.com/

Operating Income

The Target Company is a wholesale company whose principal activity involves the sales of plastic raw materials and products, mainly including polyethylene and polypropylene.

	For the year ended 31 December 2018		For the year ended 31 December 2019		For the year ended 31 December 2020	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
Polyethylene	361,196,756.14	91.96	470,896,510.64	96.29	530,236,891.55	97.1
Polypropylene	31,489,262.11	8.02	18,163,402.75	3.71	15,825,720.59	2.9
Black color masterbatch	84,743.59	0.02	0	0	0	0
Total	392,770,761.84	100.0	489,059,913.39	100.0	546,062,612.14	100.0

Polyethylene

Revenue from polyethylene for the financial year ended 31 December 2020 amounted to approximately RMB530 million, accounting for approximately 97.1% of total revenue of the Target Company, and representing an increase of approximately 12.77% as compared to the corresponding period in 2019. The increase was primarily attributable to a significant increase in the number of sales customers of the Target Company. Revenue from polyethylene for the financial year ended 31 December 2019 amounted to approximately RMB470 million, accounting for approximately 96.29% of total revenue of the Target Company, and representing an increase of approximately 30.37% as compared to the corresponding period in 2018. The increase was mainly attributable to stable business transactions and the close relationship between Hongrui Plastic with upstream and downstream companies. In terms of procurement, there is a stable supplier base and sufficient supply of products. Hongrui Plastic has high product quality standard, which can meet customers' daily requirements. Hongrui Plastic guarantees a high quality after-sales service and maintain high customer satisfaction. Revenue from polyethylene for the financial year ended 31 December 2018 amounted to approximately RMB361 million, accounting for approximately 91.96% of total revenue of the Target Company.

Polypropylene

Revenue from polypropylene for the financial year ended 31 December 2020 amounted to approximately RMB16 million, accounting for approximately 2.9% of total revenue of the Target Company, and representing a decrease of approximately 12.87% as compared to the corresponding period in 2019. The decrease was mainly attributable to costs being higher than revenue, which is caused by lower gross profit margin on sales and insufficient sales momentum. Revenue from polypropylene for the financial year ended 31 December 2019 amounted to approximately RMB18 million, accounting for approximately 3.71% of total revenue of the Target Company, and representing a decrease of approximately 42.32% as compared to the corresponding period in 2018. The decrease was mainly attributable to costs being higher than revenue, which is caused by lower gross profit margin on sales and insufficient sales momentum. Revenue from polypropylene for the financial year ended 31 December 2018 amounted to approximately RMB31 million, accounting for approximately 8.02% of total revenue of the Target Company.

Selling Expenses

Selling expenses mainly include salaries and wages, operating expenses, transportation costs and storage charges of the Target Group.

Selling expenses for the financial year ended 31 December 2020 amounted to approximately RMB823,000, representing a decrease of approximately 29.84% as compared to the corresponding period in 2019. Selling expenses for the financial year ended 31 December 2019 amounted to approximately RMB1,173,000, representing an increase of approximately 49.24% as compared to the corresponding period in 2018. Selling expenses for the financial year ended 31 December 2018 amounted to approximately

RMB786,000. The increase in selling expenses in 2019 and the subsequent decrease in 2020 was mainly attributable to a significant increase in transportation costs in 2019 as compared to 2018 and a decrease of nearly 70% in transportation costs in 2020 as compared to 2019.

Administrative Expenses

Administrative expenses mainly include business entertainment expenses, office expenses, travel expenses, vehicle expenses and other general administrative expenses.

Administrative expenses for the financial year ended 31 December 2020 amounted to approximately RMB224,000, representing a slight increase of approximately 4.34% as compared to the corresponding period in 2019, mainly due to the rental payment. Administrative expenses for the financial year ended 31 December 2019 amounted to approximately RMB215,000, representing a slight decrease of approximately 11.14% as compared to the corresponding period in 2018, mainly due to the decrease in office expenses and vehicle expenses. Administrative expenses for the financial year ended 31 December 2018 amounted to approximately RMB242,000.

Investment Income

Investment income primarily consists of purchases of financial assets.

Investment income increased from approximately RMB111,000 in 2018 to approximately RMB213,000 in 2019, and further increased to approximately RMB272,000 in 2020, mainly due to the year-by-year increase in investment income arising from the ongoing increase in financial assets purchased.

Income tax expenses

Income tax expenses mainly refer to the enterprise income tax calculated on the taxable profits of the Target Company in the PRC. Income tax expenses for the years ended 31 December 2018, 2019 and 2020 were RMB79,000, RMB12,000 and RMB32,000, respectively.

Net profits

In view of the above discussion, the Target Company also recorded net profits of approximately RMB579,000, RMB125,000 and RMB503,000 for the years ended 31 December 2018, 2019 and 2020, respectively.

Liabilities and Financial Position of the Group

As at 31 December 2018

The non-current assets and current assets of the Target Company as at 31 December 2018 amounted to RMB138,000 and RMB57,152,000, respectively. The non-current assets of the Target Company as at 31 December 2018 mainly consist of fixed assets, intangible assets and deferred income tax assets, while the current assets of the Target Company as at

31 December 2018 mainly consist of monetary funds, financial assets measured at fair value through profit or loss, derivative financial assets, bill receivables, account receivables, prepayments, other receivables, inventories and other current assets. The current liabilities of the Target Company as at 31 December 2019 amounted to approximately RMB50,497,000. The current liabilities of the Target Company as at 31 December 2018 mainly comprise bill payables, account payables, receipts in advance, payroll payables, tax payables and other payables.

As at 31 December 2019

The non-current assets and current assets of the Target Company as at 31 December 2019 amounted to RMB121,000 and RMB46,455,000, respectively. The non-current assets of the Target Company as at 31 December 2019 mainly consist of fixed assets, intangible assets and deferred income tax assets, while the current assets of the Target Company as at 31 December 2019 mainly consist of monetary funds, financial assets measured at fair value through profit or loss, derivative financial assets, bill receivables, account receivable, prepayments, inventories and other current assets. The current liabilities of the Target Company as at 31 December 2019 amounted to approximately RMB39,659,000. The current liabilities of the Target Company as at 31 December 2019 mainly comprise bill payables, receipts in advance, payroll payables, tax payables and other payables.

As at 31 December 2020

The non-current assets and current assets of the Target Company as at 31 December 2020 amounted to RMB88,000 and RMB87,022,000, respectively. The non-current assets of the Target Company as at 31 December 2020 mainly consist of fixed assets and deferred income tax assets, while the current assets of the Target Company as at 31 December 2019 mainly consist of monetary funds, financial assets measured at fair value through profit or loss, account receivable, prepayments, inventories and other current assets. The current liabilities of the Target Company as at 31 December 2020 amounted to approximately RMB79,689,000. The current liabilities of the Target Company as at 31 December 2020 mainly comprise bill payables, receipts in advance, payroll payables, tax payables and other payables.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, 2019 and 2020, the Target Company had net current assets of RMB6,655,000, RMB6,796,700 and RMB7,332,800, respectively. The increase in net current assets as at 31 December 2019 as compared to the net current assets as at 31 December 2018 was mainly due to the decrease in other receivables under current liabilities and the increase in financial assets under current assets. The increase in net current assets as at 31 December 2020 as compared to the net current assets as at 31 December 2019 was mainly due to the doubling of financial assets under current assets.

The Target Company recorded a net cash inflow of RMB2,035,000 for the year ended 31 December 2018, which was mainly attributable to net cash inflow from operating activities of RMB1,365,000 during the period. The Target Company recorded a net cash inflow of RMB23,864,000 for the year ended 31 December 2019, which was mainly attributable to net cash inflow from operating activities of RMB26,780,000. The Target Company recorded a net cash inflow of RMB34,149,500 for the year ended 31 December 2020, which was mainly attributable to net cash inflow from operating activities of RMB41,302,800.

NET GEARING RATIO

The Target Company had net gearing ratio of approximately 743.36%, 573.26% and 1,073.77% as at 31 December 2018, 2019 and 2020, respectively. The net gearing ratio reflects the Target Company's ability to repay debts with its own funds on a long-term basis.

CAPITAL COMMITMENTS

As at 31 December 2018, 2019 and 31 December 2020, the Target Company did not have any significant capital commitments.

OPERATING LEASE COMMITMENTS

As at 31 December 2018, 2019 and 31 December 2020, the Target Company did not have any operating lease commitments.

CONTINGENT LIABILITIES

As at 31 December 2018, 2019 and 31 December 2020, the Target Company did not have any contingent liabilities.

FINANCIAL RISK MANAGEMENT

The Targets Company was mainly exposed to market risk, credit risk and liquidity risk for the years ended 31 December 2018, 2019 and 2020. The Target Company has adopted risk management policies and measures relevant to these risks.

(a) Foreign currency exchange risk

The Target Company has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Target Company's entities.

(b) Credit risk

The Target Group has not used any financial instruments for hedging purposes, nor foreign currency borrowings. The management of the Target Group would constantly monitor any changes in the exchange rate and regularly analyzes the impact of exchange rate changes on its business, as well as mitigates the impact of exchange rate fluctuations by entering into contracts to adjust the domestic and foreign procurement, developing settlement system etc.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Target Company aims to maintain flexibility in funding by maintaining availability under committed credit facilities.

The Target Company monitors the cash flow rolling forecasts of its undrawn borrowing facility and cash and cash equivalents available as at each month end in meeting its liabilities.

(d) Interest rate risk

As the Target Company has no significant interest-bearing assets, nor any borrowings, except for bank deposits, the Target Company' operating cash flows are substantially independent of changes in market interest rates.

Most of the bank deposits are maintained in the savings and fixed deposits accounts in the PRC. The interest rates are regulated by the People's Bank of China while the Target Company closely monitors the fluctuation on such rates periodically.

SEGMENTAL INFORMATION

The Target Company is mainly engaged in the sales of polyethylene and polypropylene. The principal business of the Target Company will remain unchanged in the future.

CAPITAL COMMITMENTS

For the years ended 31 December 2018, 2019 and 2020, the Target Company had no material capital commitments.

MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Target Company had not made or held any other material investments.

MATERIAL INVESTMENTS, ACQUISITION AND DISPOSAL

For the years ended 31 December 2018, 2019 and 2020, the Target Company had no material investments, acquisition and disposal.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

The Target Company had no future plans for material investments or acquisition of capital assets.

CHARGES ON THE TARGET COMPANY'S ASSETS

As at 31 December 2018, 2019 and 2020, no assets of the Target Company were pledged as a security for bank borrowings or any other financing facilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, 2019 and 2020, the Target Company had approximately 9, 9 and 9 employees, respectively. For the years ended 31 December 2018, 2019 and 2020, the total employee costs of the Target Company accounted for as administrative expenses were RMB375,500, RMB393,000 and RMB440,000, respectively.

The remuneration policy adopted by the Target Company places emphasis on both the market competitiveness of remuneration and the fairness among employees.

As at 31 December 2018, 2019 and 2020, all of the employees of the Target Company are members of a state-managed pension scheme operated by the PRC government. The total costs included in the income statements for the years ended 2018, 2019 and 2020 were approximately RMB64,800, RMB64,300 and RMB22,000, respectively.

In addition to the basic pension system and medical system, the Target Company provides housing provident fund and enterprise annuity for its employees. The Target Company confirms that it has not adopted or had (i) financing and treasury policies and objectives, (ii) financial instruments for hedging purposes, (iii) foreign currency net investments in foreign currency-denominated borrowings and other hedging instruments.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

I. INTRODUCTION

The following are the unaudited pro forma consolidated balance sheet of the Enlarged Group of Xinjiang Tianye Water Saving Irrigation System Company Limited (the "Company") and related notes (collectively referred to as the "Unaudited Pro Forma Financial Information"), which have been prepared by the directors of the Company in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the basis set out in the notes below for the purpose of illustrating the impact of the 34.06% equity interest in Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) ("Hongrui Plastic") held by the Company through the proposed capital increase to Hongrui Plastic by way of cash payment on the financial position of the Enlarged Group (being Hongrui Plastic together with the Company referred to as the "Enlarged Group").

The unaudited pro forma consolidated balance sheet was prepared based on (i) the audited consolidated balance sheet of the Company as at 31 December 2020, (ii) the audited balance sheet of Hongrui Plastic as at 31 December 2020, and (iii) after making pro forma adjustments relating to the Capital Increase, as if the Capital Increase had been completed on 31 December 2020.

The Unaudited Pro Forma Financial Information had been prepared for illustrative purposes only and because of its hypothetical nature, the directors of the Company are aware that it may not reflect the true picture of the financial position of the Enlarged Group had the completion of the Capital Increase took place as at 31 December 2020 or any future dates, where appropriate.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Company as set out in the report of the Company for the year ended 31 December 2020 and other financial information included elsewhere in the circular.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS AT 31 DECEMBER 2020

Item	Audited consolidated balance sheet of the Company as at 31 December 2020 *(Note 2)*	Audited balance sheet of Hongrui Plastic as at 31 December 2020 *(Note 3)*	Pro forma adjusted carrying value based on the fair value of Hongrui Plastic as at 31 December 2020 *(Note 4)*	Pro forma acquisition price paid by the Company for the Capital Increase *(Note 5)*	Pro forma acquisition price received by Hongrui Plastic for the Capital Increase *(Note 6)*	Pro forma equity elimination attributable to Hongrui Plastic as the subsidiary of the Company *(Note 7)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 December 2020
							(7)=(1)+(2)+(3)+(4)+(5)+(6)
	(1)	(2)	(3)	(4)	(5)	(6)	
Cash	116,336,169.81	62,085,691.39		–4,581,209.35	4,581,209.35		178,421,861.20
Financial assets held for trading		13,000,000.00	1,921.00				13,001,921.00
Trade and bill receivables	173,102,709.76	4,067,259.98					177,169,969.74
Account receivable financing	4,800,000.00						4,800,000.00
Prepayments	19,959,829.99	5,286,630.91					25,246,460.90
Other receivables	28,552,746.06						28,552,746.06
Inventories	391,769,140.01	1,729,804.08	8,486.88				393,507,430.97
Other current assets	6,919,181.64	852,435.05					7,771,616.69
Total current assets	741,439,777.27	87,021,821.41	10,407.88	–4,581,209.35	4,581,209.35		828,472,006.56
Long-term equity investments	2,599,070.91			4,581,209.35		–4,581,209.35	2,599,070.91
Investment properties							
Fixed assets	145,539,740.02	78,525.95	59,754.05				145,678,020.02
Construction in progress	2,523,829.96						2,523,829.96
Biological assets for production	20,613,190.14						20,613,190.14
Intangible assets	15,387,658.80						15,387,658.80
Development expenses	8,144,298.63						8,144,298.63
Goodwill						476,460.67	476,460.67
Long-term deferred expenses	6,875,682.32						6,875,682.32
Deferred income tax assets	3,486,341.75	10,098.51					3,496,440.26
Other non-current assets	118,775.00						118,775.00
Total non-current assets	205,288,587.53	88,624.46	59,754.05	4,581,209.35		–4,104,748.68	205,913,426.71
Total assets	946,728,364.80	87,110,445.87	70,161.93		4,581,209.35	–4,104,748.68	1,034,385,433.27
Short-term borrowings	53,058,569.44						53,058,569.44
Bill and trade payables	224,299,378.73	60,000,000.00					284,299,378.73
Receipts in advance		8,429,224.50					8,429,224.50
Contract liabilities	37,016,460.33						37,016,460.33
Employee remuneration payables	8,376,366.66	2,217.00					8,378,583.66
Tax and levy payables	2,152,718.27	257,252.41					2,409,970.68
Other payables	26,203,466.74	11,000,333.00					37,203,799.74
Other current liabilities	3,096,841.42						3,096,841.42
Total current liabilities	354,203,801.59	79,689,026.91					433,892,828.50
Long-term borrowings							
Provisions							
Deferred income	10,802,414.38						10,802,414.38
Total non-current liabilities	10,802,414.38						10,802,414.38
Total liabilities	365,006,215.97	79,689,026.91					444,695,242.88
Paid-in capital (or share capital)	519,521,560.00	6,000,000.00			3,100,000.00	–9,100,000.00	519,521,560.00
Capital reserve	25,737,140.18		70,161.93		1,481,209.35	–1,551,371.28	25,737,140.18
Surplus reserve	34,724,097.27	142,141.90				–142,141.90	34,724,097.27
Unallocated profit	–9,679,091.17	1,279,277.06				–1,279,277.06	–9,679,091.17
Total owners' equity attributable to Parent Company	570,303,706.28	7,421,418.96	70,161.93		4,581,209.35	–12,072,790.24	570,303,706.28
Minority interest	11,418,442.55					7,968,041.56	19,386,484.11
Total owners' equity	581,722,148.83	7,421,418.96	70,161.93		4,581,209.35	–4,104,748.68	589,690,190.39
Total liabilities and shareholders' equity	946,728,364.80	87,110,445.87	70,161.93		4,581,209.35	–4,104,748.68	1,034,385,433.27

III. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. Basic information on the Transaction

The Company proposes to acquire 34.06% of the equity interest in Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) (hereinafter referred to as "Hongrui Plastic") in cash by way of capital increase. By reference to Asset Appraisal Report on The Value of All The Equity Interest of the Shareholders in Urumqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) in Relation to the Proposed Capital Increase by Xinjiang Tianye Water Saving Irrigation System Company Limited* (Tong Zhi Xin De Ping Bao Zi [2021] No. 030036) (同致信德評報字 [2021] 第030036號《新疆天業節水灌溉股份有限公司擬對烏魯木齊泓瑞塑化商貿有限公司增資涉及的股東全部權益價值資產評估報告》) issued by Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd.* (同致信德(北京)資產評估有限公司), by using 31 December 2020 as the benchmark date, the valuation of the above 34.06% of the equity interest in Hongrui Plastic and the net fair value of its identifiable assets and liabilities amounted to RMB4,581,200, respectively, the basic transaction price of the 34.06% of the equity interest in Hongrui Plastic amounted to RMB4,581,200, and the proposed acquisition price of 34.06% of the equity interest in Hongrui Plastic, the target of the Transaction, is RMB4,581,200.

After completion of the transactions on the acquisition of 34.06% of the equity interest in Hongrui Plastic in cash by the Company, the Company will hold 34.06% of the equity interest in Hongrui Plastic, resulting in a business combination not under common control.

2. The audited consolidated balance sheet of the Company as at 31 December 2020 was extracted without adjustment from the 2020 audited annual financial statements of the Group as at 31 December 2020.

3. The audited balance sheet of Hongrui Plastic as at 31 December 2020 was extracted without adjustment from the accountants' report on Hongrui Plastic.

4. The pro forma assumed that the Company takes 31 December 2020 as the acquisition date, on which the Company adjusted the carrying value of each identifiable assets and liabilities of Hongrui Plastic at fair value.

According to the asset appraisal report disclosed in Appendix V of this circular, it involves an increase of RMB1,921.00 in financial assets held for trading, an increase of RMB8,486.88 in inventories and an increase of RMB59,754.05 in fixed assets and an increase of RMB70,161.93 in capital reserve attributable to the parent company.

5. The pro forma assumed that the Company paid a consideration of RMB4,581,209.35 for the capital increase in Hongrui Plastic on the acquisition date, obtaining 34.06% shares of Hongrui Plastic, which involves a decrease of monetary funds amounting to RMB4,581,209.35 and an increase of long-term equity investments amounting to RMB4,581,209.35.

6. The pro forma assumed that Hongrui Plastic received a consideration of RMB4,581,209.35 for the capital contribution by the Company on the acquisition date, which involves an increase of monetary funds amounting to RMB4,581,209.35, an increase of paid-in capital amounting to RMB3,100,000.00 and an increase of capital reserve amounting to RMB1,481,209.35.

7. The pro forma assumed that the Company takes 31 December 2020 as the acquisition date, after completion of the transactions on the acquisition of 34.06% of the equity interest in Hongrui Plastic in cash by the Company, the Company will hold 34.06% of the equity interest in Hongrui Plastic.

The fair value of identifiable net assets of Hongrui Plastic on the acquisition date is adjusted as follows:

	RMB *(Yuan)*
The appraised value of net assets of Hongrui Plastic as at 31 December 2020	4,581,209.35
Less: Goodwill resulted from capital increase	–476,460.67
Resulting: The fair value of identifiable net assets of Hongrui Plastic	4,104,748.68

The cost of combination of the Company is RMB4,581,209.35, which differs from the fair value of the identifiable net assets of Hongrui Plastic on acquisition date by RMB476,460.67, resulting in a goodwill of RMB476,460.67. However, the fair value of the identifiable net assets of Hongrui Plastic may change after the actual completion date of the proposed acquisition, therefore, the actual values of assets and liabilities included in the consolidated financial statements of the Enlarged Group after the completion of the proposed acquisition will be different from the above appraised value to some extent.

Upon completion of the Transaction, Hongrui Plastic, as a holding subsidiary of the Company, will be consolidated into the Company provided the long-term equity investment and gains therefrom between the Company and Hongrui Plastic shall be eliminated. This involves in a decrease in long-term equity investment of RMB4,581,209.35, elimination of interests attributable to shareholders of the parent of RMB12,072,790.24, and an increase of minority shareholders' interests of RMB7,968,041.56.

Xinjiang Tianye Water Saving Irrigation System Company Limited*
27 May 2021

PAN-CHINA
天健会计师事务所
Pan-China Certified Public Accountants

Address: No.128, Xixi Road, Hangzhou City
Postal Code: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE PREPARATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Xinjiang Tianye Water Saving Irrigation System Company Limited*

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Xinjiang Tianye Water Saving Irrigation System Company Limited* (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the illustrative unaudited pro forma consolidated balance sheet as at 31 December 2020 and related notes as set out on pages IV-1-IV-7 in Appendix IV of the circular issued by the Company dated 27 May 2021. The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described on page IV-1.

The unaudited pro forma financial information has been prepared by the directors to illustrate the impact of the 34.06% equity interest in Urumuqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) ("Hongrui Plastic") held by the Company through the proposed capital increase to Hongrui Plastic by way of cash payment on the Group's financial position as at 31 December 2020 as if the transaction had taken place on 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the directors from financial statements as at 31 December 2020, on which an audit report has been published. Information on the financial position of the Target Company has been extracted by the directors from the audited financial information of the Target Company as at 31 December 2020 in the accountants' report set out in Appendix II to the circular.

I. DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors are responsible for compiling the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

II. OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Review of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

III. REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in preparing the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or a review of the financial information used in preparing the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly prepared on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the preparation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria;
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been prepared, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

IV. OPINION

In our opinion:

(I) the unaudited pro forma financial information has been properly prepared on the basis stated;

(II) such basis is consistent with the accounting policies of the Group;

(III) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Pan-China Certified Public Accountants LLP

Hangzhou, the PRC

27 May 2021

Set out below is a full text of the valuation report prepared by Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd., an independent valuer commissioned by the Company to carry out the valuation on the Target Company. The text has been prepared for inclusion in this circular.

This report is prepared under the PRC Asset Appraisal Standards

THE VALUE OF ALL THE EQUITY INTEREST OF THE SHAREHOLDERS IN URUMQI HONGRUI PLASTIC TRADE LIMITED* (烏魯木齊泓瑞塑化商貿有限公司) IN RELATION TO THE PROPOSED CAPITAL INCREASE BY XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED* (新疆天業節水灌溉股份有限公司)

ASSET APPRAISAL REPORT

The First of Three Volumes

Volume One: Asset Appraisal Report

Volume Two: Appraisal Description

Volume Three: Asset Appraisal Statement

TONGZHIXINDE (BEIJING) ASSETS APPRAISAL CO., LTD.

19 May 2021

* *For identification purpose only*

STATEMENT BY THE ASSET APPRAISER

I. This asset appraisal report is prepared in accordance with the Basic Standards for Asset Appraisal issued by the Ministry of Finance, and the Asset Appraisal Practice Standards and Professional Ethics Standards issued by the China Appraisal Society.

II. The Principal or any other user of this asset appraisal report shall use the asset appraisal report in accordance with the provisions of laws and administrative regulations and the scope of use specified in the asset appraisal report. If the Principal or other user of this asset appraisal report uses this asset appraisal report in violation of the foregoing provisions, the asset appraisal agency and the asset appraiser shall not bear the liability.

This asset appraisal report can only be used by the Principal and other users of this asset appraisal report as agreed in the asset appraisal contract and users of the asset appraisal report stipulated by laws and administrative regulations. In addition, any other institutions and individuals cannot become the users of this asset appraisal report.

The asset appraisal agency and the asset appraiser suggest that users of this asset appraisal report should understand and use the appraisal conclusion correctly. The appraisal conclusion does not equal to the realizable price of the appraised subject, and the appraisal conclusion should not be considered as the guarantee of the realizable price of the appraised subject.

III. The asset appraisal agency and the asset appraiser shall abide by laws, administrative regulations and asset appraisal criteria, adhere to the principle of independence, objectivity and fairness, and bear the responsibility for the asset appraisal report issued according to law.

IV. The list of assets and liabilities involved in the appraised subject shall be declared by the Principal and the appraised entity and confirmed by affixing signatures and seals of the Principal and the appraised entity or other methods permitted by law. The Principal and other relevant parties shall be responsible for the authenticity, completeness and legality of the materials they provide according to law.

V. The asset appraisal agency and the asset appraiser have no existing or expected interest in the appraised subjects in the asset appraisal report, nor do the same have existing or anticipated interest in the relevant parties, having no bias against the relevant parties.

VI. The asset appraiser has carried out on-site investigation on the appraised subject in the asset appraisal report and the assets involved. Necessary attention has been given to the status of legal ownership concerning the appraised subject and its assets, while information on the status of legal ownership concerning the appraised subject and its assets has been verified, in which case disclosure has been made regarding the issues identified, and the Principal and other relevant parties have been requested to remove title defects in order to meet the requirements for issuing the assets appraisal report.

VII. The analysis, judgment and result in this asset appraisal report issued by the asset appraisal agency shall be limited by the assumptions and restrictions in the asset appraisal report, and the users of the asset appraisal report shall fully consider the assumptions, restrictions and special matters stated in the asset appraisal report and their impacts on the appraisal conclusion.

ASSET APPRAISAL REPORT

ON

THE VALUE OF ALL THE EQUITY INTEREST OF THE SHAREHOLDERS IN URUMQI HONGRUI PLASTIC TRADE LIMITED* (烏魯木齊泓瑞塑化商貿有限公司) IN RELATION TO THE PROPOSED CAPITAL INCREASE BY XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED* (新疆天業節水灌溉股份有限公司)

SUMMARY

IMPORTANT NOTE

The following contents are extracted from the body of the appraisal report. For the details of the appraisal project and correct understanding and use of the appraisal conclusions, please refer to the body of the appraisal report.

Tongzhi Xinde (Beijing) Asset Appraisal Co., Ltd. (hereinafter referred to as "the Appraiser") is engaged by Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司) (hereinafter referred to as "Tianye Water Saving") to complete the necessary appraisal procedures over the value of the entire equity interest of the shareholders in Urumqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) (hereinafter referred to as "Hongrui Plastic"), and produce an asset appraisal report as agreed under the asset appraisal contract. The summary of the assets appraisal and appraisal conclusions is reported as follows:

I. The Principal and other users of this appraisal report: The Principal is Xinjiang Tianye Water Saving Irrigation System Company Limited*. The other users of the appraisal report as agreed in the asset appraisal contract shall be those who require the use of this report in order to carry out relevant business activities for the purpose of the appraisal as stipulated by national laws and regulations.

II. Appraised entity: Urumqi Hongrui Plastic Trade Limited*

III. Purpose of the Appraisal: To provide Xinjiang Tianye Water Saving Irrigation System Company Limited* with a value reference for the Proposed Capital Increase in Urumqi Hongrui Plastic Trade Limited*.

IV. Appraised subject and scope: The appraised subject is the value of all the equity interest of the shareholders in Hongrui Plastic. The appraised scope covers all audited assets and liabilities declared by Hongrui Plastic as of 31 December 2020.

V. Value type: market value.

VI. Appraisal reference date and validity of appraisal conclusion: The appraisal reference date is 31 December 2020. The validity period of the appraisal conclusion is one year from 31 December 2020, i.e. until 30 December 2021.

VII. Appraisal methods: asset-based method and income method.

VIII. Appraisal conclusion: The appraisal conclusion adopts the appraisal result under the income method.

As of the appraisal reference date, compared to the book value of the entire equity interest of the shareholders in Hongrui Plastic amounting to RMB7,421,400, the appraised value is RMB8,866,900 under the income method, representing an appreciation of RMB1,445,500, or an appreciation rate of 16.30%.

Notes on special matters:

1. Inventory assets included in the appraised scope are inventory goods with a book value of RMB1,729,804.08. The appraised entity is a trading company with its inventories stored off site. Due to the pandemic outbreak and the inventory management system, the field survey cannot be proceed. The Appraiser has carried out various verification procedures, including inbound and outbound inventory statements, sales statements and inventory confirmation letters as at the appraisal reference date.

2. Hongrui Plastic was recognized as a micro and small enterprise in 2019 and 2020, which enjoys a preferential income tax policy in accordance with the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (Cai Shui [2019] No. 13). Based on the audit report provided by the appraised entity, the appraiser concluded that the asset scale of the appraised entity in the past years does not meet the identification standard for a micro and small enterprise. Therefore, the appraised entity was subject to an income tax rate of 25% under the income method in the forecast period and it was no longer entitled to the preferential policy for micro and small enterprises. The income method adopted for this appraisal is based on the assumption that the appraised entity is not a small and micro enterprise.

ASSET APPRAISAL REPORT

ON

THE VALUE OF ALL THE EQUITY INTEREST OF THE SHAREHOLDERS IN URUMQI HONGRUI PLASTIC* (烏魯木齊泓瑞塑化) IN RELATION TO THE PROPOSED CAPITAL INCREASE BY XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*(新疆天業節水灌溉股份有限公司)

To Xinjiang Tianye Water Saving Irrigation System Company Limited*:

Tongzhi Xinde (Beijing) Asset Appraisal Co., Ltd. (hereinafter referred to as the "Appraiser") has been appointed to appraise the value of the entire equity interest of the shareholders of Urumqi Hongrui Plastic Trade Limited* (烏魯木齊泓瑞塑化商貿有限公司) as of 31 December 2020, by adopting the income method and the asset-based method while carrying out the necessary appraisal procedures in accordance with the provisions of laws, administrative regulations and asset appraisal standards, as well as based on the principles of independence, objectivity and fairness. Details of the asset appraisal are reported as follows:

I. OVERVIEW OF THE PRINCIPAL, THE APPRAISED ENTITY AND OTHER USERS OF THE APPRAISAL REPORT AS AGREED IN THE ASSET APPRAISAL CONTRACT

(I) Overview of the Principal

Company name	:	Xinjiang Tianye Water Saving Irrigation System Company Limited* (hereinafter referred to as the "Principal" or "Tianye Water Saving")
Legal address	:	No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Xinjiang
Business address	:	No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Xinjiang
Legal representative	:	Chen Lin
Registered capital	:	RMB FIVE HUNDRED NINETEEN MILLION FIVE HUNDRED TWENTY-ONE THOUSAND FIVE HUNDRED SIXTY ONLY
Type of Company	:	joint-stock company (Taiwan, Hong Kong, Macao and Domestic Joint Venture, Listed)

Scope of business	:	Development and promotion of high and new technologies of water-saving irrigation; pilot testing and promotion of new water-saving equipment; transfer of water-saving irrigation technologies and services; development and utilization of computer application software for water-saving irrigation; production and sales of PVC materials for water supply pipes, PE piping materials and accessories, pressure compensatory drip tapes, labyrinth-style drip tapes, embedded-style drip tapes, agricultural films and drippers; imports of copper scraps, iron scraps, aluminum scraps, waste paper and plastic waste; recycling and processing of waste plastics; distribution of mechanical and electrical products (excluding cars) and chemical products (excluding hazardous chemicals and narcotics), and agricultural machinery and fertilizers; Class C specialty for water conservancy industry (drip irrigation and drainage); Level 1 contractor for agricultural water-saving irrigation construction projects (the specific scope of which is subject to the qualification certificate); exports of its own products and technologies, as well as imports of machinery and equipment, spare parts, raw materials and auxiliary materials and technologies required for its own business operations (excluding commodities and technologies restricted or prohibited by the government from import and export); lease of machinery and equipment and facilities; computer information engineering system integration; production and sales of drainage PVC pipes, PE pipes and various accessories; e-commerce platform sales; consulting, survey, design and construction of water conservancy and hydropower projects; consulting, survey, design and construction for municipal water supply and drainage systems, and garden and road afforestation (in which case, business activities subject to approval according to law can proceed only after approval by relevant departments)

(II) Overview of the appraised entity

1. Basic information

Company Name	:	Urumqi Hongrui Plastic Trade Limited* (hereinafter referred to as "Hongrui Plastic")
Legal domicile	:	Room 1607, Unit 1, Building 4, No. 802, South Anju Road, Shuimogou District, Urumqi, Xinjiang
Business Address	:	Room 1607, Unit 1, Building 4, No. 802, South Anju Road, Shuimogou District, Urumqi, Xinjiang
Legal representative	:	Deng Hongwen
Registered capital	:	RMB6 million
Type of company	:	limited liability company (invested or controlled by natural person)
Scope of business	:	Sales of plastic raw materials and products, lubricants, metal materials, machinery and equipment, livestock products, electronic products, instruments, agricultural films, plastic films, and building materials (in which case, business activities subject to approval according to law can proceed only after approval by relevant departments)

2. History

In March 2015, Hongrui Plastic was jointly invested and established by Deng Liming, Deng Hongwen and Li Yang, with a registered capital of RMB3 million upon its establishment. In March 2015, Hongrui Plastic completed the registration procedures for the industrial and commercial establishment with the Urumqi Shuimogou District Market Supervision Administration, and obtained the business license with the unified social credit code 91650105333097197M. Hongrui Plastic has a stable sales team of 9 employees. The key sales representative agents have been engaged in chemical product marketing for 15 to 30 years, accumulating rich experiences in predetermining and monitoring the industry trend and risk control. In order to adapt to the changing complicated market demands, Hongrui Plastic attaches great importance to the introduction of young employees, who will be trained by the seasoned employees to make contributions to Hongrui Plastic. As a long-term strategic partner of Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司), after years of unremitting efforts, Hongrui Plastic has maintained a steady growth in its operating performance. In 2019, Hongrui Plastic was authorized by Northwest Chemical Products Sales Branch of PetroChina Company Limited as its 3A-class strategic customer, which is of the highest classification. Hongrui Plastic historically witnessed a steady growth in annual sales by revenue and sales volume. Set forth below is the shareholding structure upon the establishment of Hongrui Plastic:

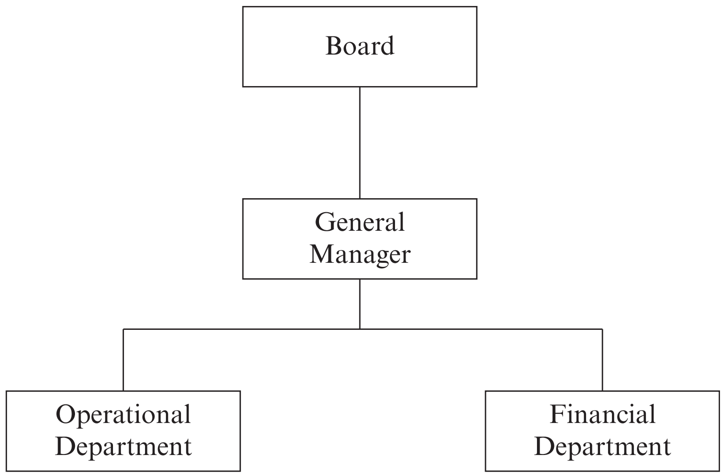
Investor's name	**Amount**	**Percentage of investment**
	(RMB: 10,000)	*(%)*
Deng Hongwen	240	80%
Deng Liming	30	10%
Li Yang	30	10%
Total	300	100%

According to the resolution passed at the shareholders' meeting of Hongrui Plastic held on 26 April 2018, Deng Hongwen, Deng Liming and Li Yang increased the registered capital of Hongrui Plastic by injecting cash contribution of RMB3 million. After the Capital Increase, the registered capital of Hongrui Plastic was changed to RMB6 million, and the shareholding structure is illustrated as follows:

Investor's name	**Amount**	**Percentage of investment**
	(RMB: 10,000)	*(%)*
Deng Hongwen	480	80%
Deng Liming	60	10%
Li Yang	60	10%
Total	600	100%

3. Organizational structure

As of the appraisal reference date, the executive director and general manager of Hongrui Plastic is Deng Hongwen, and the supervisor is Gou Xiaoyun. The organizational structure is set out as below:



4. Assets, finance and operating conditions in the last three years

As of 31 December 2020, being the appraisal reference date, Hongrui Plastic had total assets of RMB87,110,400, total liabilities of RMB79,689,000, and the shareholder's equity of RMB7,421,400 (all of which were denominated in book value). From January to December 2020, Hongrui Plastic achieved the income from principal business amounting to RMB546,062,600, the gross profit of RMB535,600 and the net profit of RMB503,300. The assets, finance and operating conditions of Hongrui Plastic in the last three years are shown in the following table:

Financial Statement (Unit: RMB10,000)

Item	**31st Dec 2018**	**31st Dec 2019**	**31st Dec 2020**
Total assets	5,729.02	4,657.69	8,711.04
Total liabilities	5,049.71	3,965.89	7,968.90
Net asset	679.31	691.81	742.14
Item	**2018**	**2019**	**2020**
Total operating income	39,277.08	48,905.99	54,606.26
Gross profit	65.76	13.65	53.56
Net profit	57.87	12.50	50.33

(Note: the above financial statements have been audited. Among which, the financial information for 2020 was audited by Xinjiang Branch of Pan China Certified Public Accountants LLP, and the standard unqualified audit report Tian Jian Shen [2021] No. 14–7 was issued.)

5. *Relevant business operation certificates, main tax categories and tax rates and preferential tax policies obtained by Hongrui Plastic*

Major tax categories and rates

(1) Breakdown

Tax categories	**Taxation basis**	**Tax rate (%)**
Value added tax	The output tax is calculated on the income from the sale of goods, which is calculated in accordance with the provisions of the tax law. The value added tax payable is the difference between the output tax and the input tax allowed to be deducted for the period	13%
City maintenance and construction tax	Actual turnover tax paid	7%
Education surcharge	Actual turnover tax paid	3%
Local education surcharge	Actual turnover tax paid	2%
Enterprise income tax	Taxable profit	25%

(2) Preferential tax policies and approval documents

None

(3) Relationship between the Principal and Hongrui Plastic

The Principal Tianye Water Saving increased the registered capital of Hongrui Plastic.

(4) Overview of other users of this appraisal report as agreed in the asset appraisal contract

The other users of the appraisal report as agreed in the asset appraisal contract shall be those who require the use of this report in order to carry out relevant business activities for the purpose of the appraisal as stipulated by national laws and regulations.

II. THE PURPOSE OF THE APPRAISAL

According to the minutes of the 17th meeting of the sixth board of directors of Xinjiang Tianye Water Saving Irrigation System Company Limited* on 10 January 2021, Xinjiang Tianye Water Saving Irrigation System Company Limited* proposed to inject its capital to Urumqi Hongrui Plastic Trade Limited*. The purpose of the appraisal is to provide a value reference for the above business activities.

The above business activities have been approved at the 17th meeting of the sixth board of directors of Xinjiang Tianye Water Saving Irrigation System Company Limited* on 10 January 2021.

III. APPRAISED SUBJECT AND SCOPE

(I) Appraised subject

The appraised subject in this appraisal is the value of the entire equity interest of the shareholders of Hongrui Plastic.

(II) Appraised scope

1. Appraised scope

The appraised scope covers all the audited assets and liabilities of Hongrui Plastic as of 31 December 2020 after being declared for appraisal. Set out below are the type and amount of the assets in book value:

Unit: 10,000

Item		Book value
1	**Current assets**	**8,702.18**
	including: Cash	6,208.57
	Financial assets held for trading	1,300.00
	Trade receivables	406.73
	Prepayment	528.66
	Inventory	172.98
	Other current assets	85.24
2	**Non-current assets**	**8.86**
	Fixed assets	7.85
	Deferred tax assets	1.01
3	**Total assets**	**8,711.04**
4	**Current liabilities**	**7,968.90**
5	**Total liabilities**	**7,968.90**
6	**Net assets (shareholder's equity)**	**742.14**

(Note: The financial information for 2020 was audited by Xinjiang Branch of Pan China Certified Public Accountants LLP, and the standard unqualified audit report Tian Jian Shen [2021] No. 14–7 was issued.)

The assets and liabilities included in the appraised scope shall be consistent with the scope specified in this appraisal declaration form, the asset appraisal contract and the business activity documents.

2. Type and quantity of off-balance-sheet assets declared by the enterprise

For this appraisal, Hongrui Plastic has not declared off-balance-sheet assets, necessary verification of which has been made by the Appraiser, and no off-balance-sheet assets have been found on the appraisal reference date.

3. References made to the type, quantity and carrying amount of assets involved in the report conclusion issued by other institutions

The book value on the appraisal reference date is referred to the standard unqualified audit report Tian Jian Shen [2021] No. 14–7 issued by Pan China Certified Public Accountants LLP.

IV. VALUE TYPE

(I) The value type selected in this enterprise value appraisal is: market value.

(II) Definition of value type: the market value refers to the estimated amount of the value of normal and fair transactions of the appraised subject on the appraisal reference date when the respective voluntary buyer and voluntary seller act rationally without any coercion.

(III) Reasons for selecting a value type: according to the purpose of the appraisal, specific market conditions and the status of the appraised subject, the value type selected for the enterprise value appraisal is defined as market value.

V. APPRAISAL REFERENCE DATE

The appraisal reference date of the assets as referred hereof is 31 December 2020.

Explanations of relevant matters in determining the appraisal reference date:

(I) Reasons for determining the appraisal reference date hereof: in order to accurately reflect the market value of the appraised subject, which will facilitate the successful performance of the business activities hereof, the Principal determines that the appraisal reference date hereof is 31 December 2020.

(II) All pricing standards, interest rates, exchange rates and tax rates used in the appraisal shall be the pricing standards, interest rates, exchange rates and tax rates in effect on the appraisal reference date.

VI. BASIS OF APPRAISAL

(I) Basis of business activities

1. Minutes of the 17th meeting of the sixth board of directors of Xinjiang Tianye Water Saving Irrigation System Company Limited* on 10 January 2021.

(II) Basis of laws and regulations

1. Asset Appraisal Law of the People's Republic of China (Presidential Decree No. 46 in 2016);

2. Company Law of the People's Republic of China (Presidential Decree No. 15, as amended on 26 October 2018);

3. Civil Code of the People's Republic of China (Adopted at the Third Session of the 13th National People's Congress of the People's Republic of China on 28 May 2020);

4. Law of the People's Republic of China on the State-Owned Assets of Enterprises (Presidential Decree No.5 in 2008);

5. Enterprise Income Tax Law of the People's Republic of China (the second amendment on 29 December 2018);

6. Detailed Rules for the Implementation of the Interim Regulations on Value-added Tax of the People's Republic of China (Order No. 65 of the Ministry of Finance on 1 November 2011);

7. Decision of the State Council to Repeal the Interim Regulations of the People's Republic of China on Business Tax and Amending the Interim Regulations of the People's Republic of China on Value-added Tax (Decree No. 691 of the State Council);

8. Regulations for the Implementation of the Enterprise Income Tax Law of the People's Republic of China (Decree No. 714 of the State Council);

9. Vehicle and Vessel Tax Law of the People's Republic of China (Presidential Decree No. 6, first amended on 23 April 2019);

10. Provisions on the Standards for Compulsory Retirement of Motor Vehicles issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection (No.12, 2012);

11. Vehicle Acquisition Tax Law of the People's Republic of China (Presidential Decree No. 19, adopted at the Seventh Session of the Standing Committee of the 13th National People's Congress on 29 December 2018);

12. Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-added Tax in an All-round Manner (Cai Shui [2016] No. 36);

13. Announcement of the Relevant Policies on Deepening the Value-added Tax Reform (Announcement No.39 by the Ministry of Finance, General Administration of Taxation, and General Administration of Customs in 2019);

14. Rules on the Evaluation and Management of State-owned Assets (Decree No. 91 of the State Council in 1991);

15. Detailed Rules for the Implementation of the Administrative Measures for the Appraisal of State-owned Assets Assessment (Office of the National State-Owned Assets Administration Bureau [1992] No. 36);

16. Interim Regulations on Supervision and Administration of State-owned Assets of Enterprises (Decree No.588 of the State Council in 2011);

17. Circular of the General Office of the State Council on Forwarding Opinions of the Ministry of Finance on Reforming the Administrative Methods of State-owned Assets Appraisal to Strengthen the Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

18. Administrative Measures for Approval of State-owned Assets Appraisal Projects (Cai Qi [2001] No. 801);

19. Measures for Financial Supervision and Administration of Asset Appraisal Industry (Decree No. 86 of the Ministry of Finance, revised by Decree No. 97 of the Ministry of Finance in January 2019);

20. Provisions on Certain Issues in the Administration of State-owned Assets Appraisal (Decree No. 14 of the Ministry of Finance in 2001);

21. Measures for the Supervision and Administration of Enterprise State-owned Asset Transactions (SASAC Decree No. 32 in 2016);

22. Interim Measures for the Administration of the Enterprise State-owned Asset Appraisal (SASAC Decree No.12 in 2005);

23. Circular on Issues Related to Strengthening the Administration of Enterprise State-owned Asset Appraisal (SASAC Property Rights [2006] No. 274);

24. Circular on Relevant Matters Concerning the Examination and Approval of Enterprise State-owned Asset Appraisal Reports (State-owned Assets Property Rights [2009] No. 941);

25. Guidelines for the Filing of Enterprise State-owned Asset Appraisal Projects (SFC [2013] No. 64);

26. Accounting Standards for Business Enterprises — Basic Standards (Decree No. 76 of the Ministry of Finance in 2014);

27. Other laws and regulations related to asset appraisal.

(III) Basis of appraisal standards

1. Circular of the Ministry of Finance on the Issuance of the Basic Standards for Asset Appraisal (Cai Zi [2017] No. 43);

2. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Professional Ethics Standards (China Appraisal Society [2017] No. 30);

3. Circular of China Appraisal Society on the Issuance and Revision of the Asset Appraisal Practice Standards — Asset Appraisal Report (China Appraisal Society [2018] No.35);

4. Circular of China Appraisal Society on the Issuance and Revision the Asset Appraisal Practice Standards — Asset Appraisal Procedure (China Appraisal Society [2018] No.36);

5. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Practice Standards — Asset Appraisal Contract (China Appraisal Society [2017] No. 33);

6. Circular of China Appraisal Society on the Issuance and Revision of the Asset Appraisal Practice Standards — Asset Appraisal Documentation (China Appraisal Society [2018] No. 37);

7. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Practice Standards — Use of Expert Work and Related Reports (China Appraisal Society [2017] No. 35);

8. Circular of China Appraisal Society on the Issuance and Revision of the Asset Appraisal Practice Standards — Enterprise Value (China Appraisal Society [2018] No. 38);

9. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Practice Standards — Asset Appraisal Methods (China Appraisal Society [2019] No. 35);

10. Circular of China Appraisal Society on the Issuance and Revision of Guidelines for the Enterprise State-owned Asset Appraisal Reports (China Appraisal Society [2017] No. 42);

11. Circular of China Appraisal Society on the Issuance of the Guidelines for Business Quality Control of Asset Appraisal Institutions (China Appraisal Society [2017] No. 46);

12. Circular of China Appraisal Society on the Issuance and Revision of the Guiding Opinions on Value Types for Asset Appraisal (China Appraisal Society [2017] No. 47);

13. Circular of China Appraisal Society on the Issuance of the Guiding Opinions on Legal Ownership of Appraised Subjects under Asset Appraisal (China Appraisal Society [2017] No. 48);

14. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Expert Guide No. 8 — Check and Verification in Asset Appraisal (China Appraisal Society [2019] No. 39);

15. Reasonable Performance of Asset Appraisal Procedures During the COVID-19 Pandemic (Asset Appraisal Expert Guide No. 10);

16. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Practice Standards — Machinery Equipment (China Appraisal Society [2017] No.39);

17. Circular of China Appraisal Society on the Issuance of the Asset Appraisal Expert Guide No. 12 — Estimation of Discounting Rate in Enterprise Value Using Income Method (China Appraisal Society [2020] No. 38).

(IV) Basis of ownership

1. Motor Vehicle Driving Permit;

2. Other documents and materials evidencing the title of assets, including the equity transfer contract.

(V) Pricing basis

1. Handbook of Commonly Used Data and Parameters for Asset Valuation (second edition);

2. Interest rate and maturity yield of government bonds obtained from searching on the Internet;

3. Loan Prime Rate (LPR) published by the People's Bank of China on the appraisal reference date;

4. Market research and inquiry data;

5. Internet information and data;

6. Records of on-site investigations and interviews;

7. Business contracts and orders in future years and other information;

8. Investment and financing plans of Hongrui Plastics in future years;

9. Information on business, assets, finance, personnel and operating conditions of Hongrui Plastic;

10. Future business, investment and development planning and income forecast data of Hongrui Plastic;

11. Macroeconomic and regional economic factors affecting the operations of Hongrui Plastic;

12. Information on the current industrial situation and development prospect of Hongrui Plastic;

13. The Hithink RoyalFlush iFinD data information and other network query information;

14. The Asset Appraisal Declaration Schedule for the Asset-based Method, Asset Appraisal Declaration Schedule for the Income Method, and other materials provided by Hongrui Plastic;

15. Other collection documents.

(VI) Other references

1. Asset appraisal contract;

2. Other references.

VII. APPRAISAL METHODS

The basic methods of asset appraisal include the market method, income method and cost method (asset-based method). Appraisal shall be conducted after analyzing the applicability of the income method, the market method and cost method (asset-based method) based on the purpose of the appraisal, appraised subject, value types, data collection, and so forth. One or more of the basic method(s) of asset appraisal shall be properly selected, and the asset-based method and the income method were adopted for the appraisal.

(I) Market method

The market method refers to the appraisal method where the appraised subject is compared against comparable listed companies or comparable transactions to determine the value of the appraised subject. When choosing and using the market method, the asset appraiser should pay attention to the following four prerequisites: first, there is a fully developed and active capital market. Second, there are enough reference enterprises that are the identical or similar to the appraised subject in the above capital market, or there are enough transactions in the capital market. Third, the market information, financial information and other relevant materials in respect of the reference enterprises or transactions can be collected and obtained. Fourth, it can be ascertained that the information based on the data is representative and reasonable, and is valid on the appraisal reference date.

The asset appraisal professionals shall consider the applicability of the market method in the light of the adequacy and reliability of the operational and financial data of comparable enterprises and the number of comparable enterprises that can be collected.

Two specific methods commonly used under the market method are the listed company comparison method and transaction comparison method.

1. Listed company comparison method

The listed company comparison method refers to the specific method where the operating and financial data of comparable listed companies can be obtained and analyzed to calculate the value ratio, and determine the value of the appraised subject on the basis of making comparisons with the appraised entity.

Hongrui Plastic is a wholesale company, and it is very challenging to identify a listed company similar to Hongrui Plastic in terms of cash flow, growth potential and risk in the domestic circulation market. Therefore, the listed company comparison method is not suitable for the purpose of the appraisal.

2. Transaction comparison method

The transaction comparison method refers to the specific method where data of transactions, acquisitions and mergers of comparable enterprises are obtained and analyzed to calculate the value ratio, and determine the value of the appraised subject on the basis of making comparisons. As it is challenging to collect the comparable prices of recent market transactions, the transaction comparison method is not suitable for asset appraisal the purpose of the appraisal.

(II) Income method

The income method refers to a specific method where the expected income is capitalized or discounted to determine the value of the appraised subject. The income method is applicable to enterprises that demonstrate a stable correlation between operation and earnings on an ongoing basis, and whose future earnings and risks can be predicted and quantified. The following three prerequisites are required for the application of the income method in this appraisal: first, the price paid by the investor(s) when investing in an enterprise will not exceed the present value converted from the expected future earnings of the enterprise (or similar enterprises with the same level of risks as the enterprise). Second, the future earnings of the enterprise can be reasonably forecasted. Third, the rate of return corresponding to the level of risks of the enterprise's future income can be reasonably estimated.

The asset appraisal professionals shall properly consider the applicability of the income method in the light of the historical operation of the appraised entity, the predictability of future earnings and the adequacy of the appraisal data obtained.

The specific methods commonly used in the income method include dividend discount method and cash flow discount method.

1. Dividend discount method

The discounted dividend method is a specific method where expected dividends are discounted to determine the value of the appraised subject, which is usually applicable to the appraisal of the partial equity interest of the shareholders who lack control rights. As the appraised subject in this appraisal is the value of the entire equity interest of the shareholders, rather than the control right, the dividend discount method is not adopted for the appraisal.

2. Cash flow discount method

The discounted cash flow method usually includes the discounted enterprise free cash flow model and the discounted equity free cash flow model. The asset appraisal professionals shall appropriately select the types of discounted cash flow model according to the industry, business model, capital structure and development trend of the appraised entity. As cash flow can more accurately reflect the operating income of an enterprise, cash flow is more commonly used in the international market as the income indicator to estimate the value of an enterprise. Since the cash flow related to interest-bearing debts are not necessarily taken into consideration under the enterprise free cash flow model, especially in the case of significant changes in the financial leverage of the appraised entity, it is comparatively easy to apply the enterprise free cash flow to calculate the enterprise value. Therefore, the free cash flow is usually adopted for the cash liquidity. For enterprises with abundant cash flow and without financial leverage, the discounted equity cash flow method can also be adopted.

As Hongrui Plastic has been engaged in the wholesales of chemical products for six years, it has proven its stable relationship with upstream and downstream players as a going concern, and a relatively stable correlation between operation and revenue, future revenue and risks of which can be predicted and quantified, the enterprise free cash flow model was used to assess the value of the entire equity interest of the shareholders in this appraisal.

(1) *Calculation formula under enterprise free cash flow model*

E = B – D

where:

E: the value of the entire equity interest of the shareholders of the appraised subject;

B: the enterprise value of the appraised subject;

D: the value of the interest-bearing debts of the appraised subject;

where: $B = P + \sum C_i$

P: discounted value of operating assets;

$\sum C_i$: Value of non-operating assets, liabilities and surplus assets existing on the appraisal reference date of the appraised subject.

Of which: the calculation formula of the discounted value of operating assets is as follows:

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_{i+1}}{r(1+r)^i}$$

where: P: the discounted value of operating assets

Ri: the net cash flow generated by the investment capital in Year i

R: Discount rate

n: The forecast period of the future operation of the appraised subject is 5 years, and the subsequent forecast data are the same as the data in the fifth year

(2) Selection of parameters

① Enterprise free cash flow

The enterprise free cash flow refers to the cash flow attributable to all investors, including shareholders and creditors of interest-bearing debts, which is calculated as follows:

Enterprise free cash flow = net profit after tax + depreciation and amortization + interest ×(1 – enterprise income tax rate) – CAPEX – net increase in working capital

Net profit after tax = operating income – operating costs – taxes and surcharges – administrative expenses – operating expenses – financial expenses + investment income – enterprise income tax

② Discount rate

The enterprise free cash flow is used as the income forecast indicator in this appraisal. According to the matching principle, the weighted average cost of capital (WACC) is used as the discount rate r in this appraisal. The calculation formula is as follows:

$$r = r_d(1-t)\times w_d + r_e \times w_e$$

where:

w_d — Ratio of debt capital of the appraised subject to total investment capital;

w_e — Ratio of equity capital of the appraised subject to total investment capital;

r_d — Interest rate on interest-bearing debts;

r_e — Cost of equity capital, which is determined under the capital asset pricing model (CAPM);

t — Income tax rate

where:

$$w_d = \frac{D}{(E+D)}$$

$$w_e = \frac{E}{(E+D)}$$

The capital asset pricing model (CAPM) determines the cost of equity capital r_e by the following formula:

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon$$

Where: r_f : Risk-free return rate;

r_m-r_f : Excess risk return rate in the equity market;

ε : Specific risk adjustment factor of the appraised subject;

β_e : Expected market risk coefficient of the equity capital of the appraised subject;

③ Income period

It is assumed in this appraisal that Hongrui Plastic will be able to continue its business operation by principally engaging in wholesales of chemical raw materials, such as polyethylene and polypropylene.

In view of the assets and operating conditions of Hongrui Plastic, it is considered in this appraisal that the enterprise can maintain the original main operating business using the asset scale on the appraisal reference date, and the operating scale, income level and management level will gradually reach a relatively stable stage. Therefore, the income period has been divided into two phases in this appraisal:

A. The first phase covers from the appraisal reference date to 2025. According to the forecast of Hongrui Plastic, from the appraisal reference date to 2025, the operating income of Hongrui Plastic will continue to rise and reach a fair and reasonable income level on the current asset scale.

B. The business term of Hongrui Plastic is long-term, and there is no noticeable periodicity in the wholesale industry. In view of the renewal of the appraised entity after the expiration, the second phase starting from 2025 will be perpetual. Therefore, the maximum income level and operating level of the first phase should be maintained, and the enterprise free cash flow should remain at the level of the first phase.

④ Consideration of mid-year discount

Considering that the cash flow will occur throughout the year in the future earning years, the discount time of the cash flow will be considered as a mid-year discount.

⑤ Value of excess assets

The excess assets refer to the excess assets which are not directly related to the operation of the enterprise but are more than required by the operation of the enterprise, which are appraised under the cost method for this time.

⑥ Value of non-operating assets and liabilities

Non-operating assets refer to the assets that have no direct relationship with the main business of an enterprise.

(III) Asset-based method

The asset-based method refers to an appraisal method where the values of assets and liabilities in the statement and identifiable off-balance sheet of an enterprise are reasonably appraised on the basis of the balance sheet of the appraised entity on the appraisal reference date for the purposes of determining the values of the appraised subject. The asset-based method is mainly suitable for appraising new or recently completed enterprises and holding companies, and is not suitable for appraising companies with a large number of intangible assets. The prerequisites for applying the asset-based method are as follows: first, the appraised subject is in a state of continuous use or is assumed to be in a state of continuous use; second, the appraised subject can be determined to have the expected profit potential; third, there is available historical data. The asset-based method is suitable for this appraisal, so the asset-based method is adopted.

The appraisal methodology and formulas are as follows:

(1) appraisal methodology: the value of the entire equity interest of the shareholders is reasonably determined after each individual asset and liability is appraised.

(2) Calculation formula: the value of the entire equity interest of the shareholders = sum of appraised values of individual assets — appraised values of liabilities

(3) Specific appraisal methods for each asset

① ***Current assets***

A. Cash: cash of Hongrui Plastic includes bank deposits and other cash. The Appraiser verifies the bank deposits by confirming with the bank and checking the bank statement and the balance reconciliation statement, and appraises the bank deposits according to their verified book value.

B. Financial assets held for trading: financial assets held for trading included in the appraised scope are all financial products (i.e. Anxin Express Tiantian Roll-Interest Phase 2) purchased by Hongrui Plastic from Agricultural Bank of China through e-banking. The Appraiser verified the share and purchase date of the financial products using bank statements, accounting vouchers, bank confirmation and other methods. According to the net value of the financial products Anxin Express Tiantian Roll-Interest Phase 2 on the appraisal reference date published by Agricultural Bank of China, the market method is adopted for appraisal, and the specific formula is as follows:

Appraised value = share of financial products × net value of financial products on the appraisal reference date/share

C. To appraise debt assets (i.e. trade receivables and prepayments), the historical information and details obtained from investigations during the appraisal will be taken into account in combination with alternative appraisal procedures to be performed, including detailed accounts to be checked, and confirmation letters to be served, so that all breakdowns can be verified. The appraised value is determined based on the amount that is likely to be recovered. In the case of prepayments, an appraised value is determined based on the value of the assets or rights formed by the corresponding goods that can be recovered. The receivables determined as uncollectable in the appraisal are appraised to be zero if there is conclusive evidence. Where no valid evidence is obtained, the age analysis method shall be adopted to estimate bad debt losses. The appraised value is derived from the estimated recoverable amount on the basis of deducting the expected bad debts.

D. Inventory appraisal: the inventory of Hongrui Plastic is all goods in stock. The appraised inventory goods are stored off site. According to the inventory list provided by Hongrui Plastic, the Appraiser, together with the relevant personnel of the enterprise, verifies the purchase invoices and accounting vouchers and understands the inventory management system. Due to the pandemic outbreak and the inventory management system, the field survey cannot proceed. The Appraiser has carried out various verification procedures, including inbound and outbound inventory statements, sales statements, and inventory confirmation letters as at the appraisal reference date. As inventory is a current asset, the inventory turnover rate is high. By the date of on-site verification, the main inventory were sold out of the warehouse, and no anomalies were found in respect of quality and quantity of the inventory. On this basis, the inventory goods subject to appraisal are appraised.

According to the marketability of the inventory goods, the inventory goods are divided into salable products, normally sold products, slow-selling products and unsalable overstocked products. Based on the sales cost rate, distribution expense ratio and related tax rate of inventory goods at full cost, and according to the market sales of each product, whether to deduct the appropriate tax net profit or lower the cost will be determined, the appraisal calculation formula of which will be separately determined as follows:

Appraised value = Actual quantity × tax-included selling price × [1 – distribution expense ratio – sales taxes and surcharge rates – profit margin × income tax rate – profit margin × (1 – income tax rate) × profit deduction ratio]

E. Other current assets: the Appraiser shall analyze and spot check the original records to verify the existence and authenticity of other current assets. For the retention of VAT credit, the appraised value shall be determined according to the verified account value.

② ***Machine and equipment (including electronic equipment, vehicles, etc.)***

The replacement cost method is used to appraise electronic equipment and vehicles. The formula of the replacement cost method is as follows:

Appraised value = replacement cost × Newness rate

When appraising machinery and equipment, the contents as contained in the appraisal declaration schedule of electronic equipment and vehicles provided by Hongrui Plastic shall be verified against the property rights thereof based on the examination of relevant contracts, legal ownership certificates and accounting vouchers, and equipment ledges.

A. Determination of replacement cost:

The replacement cost refers to the total cost required to repurchase, construct, or form the assets in a completely new state which is exactly the same or basically similar to the appraised subject under the current conditions.

a. Replacement cost of electronic equipment: it shall be determined on the basis of the current market price of the same type of equipment in the domestic market, plus relevant reasonable expenses (such as transportation fees, installation and debugging fees, and capital costs).

b. Determination of replacement cost of transport vehicles

Replacement cost of transport vehicles = current purchase price + vehicle purchase tax + license fee – deductible VAT;

c. Determining transportation rate, installation and debugging rate, and capital cost

Electronic equipment is mainly comprised of office equipment, which are small assets in simple and flexible structure, and no installation and debugging is required. Therefore, transportation fees, installation and debugging fees, and capital costs are not considered.

B. Determination of the newness rate

The newness rate is the ratio that reflects the current value of the appraised subject and its replacement cost in the new state.

The newness rate was determined by the straight line method, the fractional scoring method, or a combination of the two. In the process of the analysis and calculation of the newness rate, full attention should be paid to the design, manufacturing, actual use, maintenance, repair and transformation of the equipment with the influence of designed useful life, physical life, economic life, existing performance, operating state and technological advancement take into due consideration.

a. Office electronic equipment

The newness rate of electronic equipment is determined by using the straight line method, in which case, the newness rate is determined based on the used life and economic life of the equipment in combination with the on-site investigation, the technical condition of the equipment and the maintenance situation. Its formula is as follows:

Newness rate (N) = (1 – used life／economic life) × 100%

b. Vehicles: the theoretical newness rate is determined using two methods, mileage and useful life, whichever is lower, subject to adjustments based on the site investigation. The calculation formula is as follows:

Newness rate = Min (newness rate of useful life and mileage) × 30% + newness rate of investigation × 70%

The determination of theoretical newness rate:

The newness rate under the straight line method = (economic useful life – used life) / economic useful life × 100%

Newness rate based on driving mileage = (prescribed mileage – driven mileage) / prescribed mileage × 100%

The newness rate of the investigation is determined based on the manufacturing quality, use and maintenance status and on-site investigation status of the vehicle.

The appraised value of the equipment is obtained by multiplying the replacement cost by the newness rate.

For the electronic equipment that remains in use beyond its useful life, the appraised value shall be determined according to the second-hand market price.

③ ***Appraisal of deferred income tax assets***

Deferred income tax assets included in the appraised scope are all deferred income tax assets recognized by the allowance for bad debts under trade receivables. After the Appraiser consults relevant vouchers and documents, and checks the impairment provisions of various assets, retained earnings and the enterprise income tax rate, the appraised value will be determined according to the verified book value in this appraisal.

④ ***Appraisal of liabilities***

The appraised value of liabilities shall be confirmed based on the actual liability items and amount assumed by Hongrui Plastic after realizing the purpose of the appraisal. Items in the liability that are not the actual burden are set as zero.

(IV) The method for determining the appraisal conclusion

After analyzing the appraisal results of the asset-based method and the income method, the Appraiser and the signing valuation professional believe that the income method is more reasonable. Therefore, the appraisal results under the income method is adopted for the appraisal conclusion in this appraisal.

VIII. THE IMPLEMENTATION PROCESS AND SITUATION OF THE APPRAISAL PROCEDURE

Upon being appointed for this appraisal, the appraisal professionals of the Appraiser is procured to appraise the assets within the appraised scope in accordance with the principles and regulations of the People's Republic of China on asset appraisal, and in reference to the matters as agreed in the asset appraisal contract between the Appraiser and the Principal, which involves the process of accepting appointment, asset verification, appraisal and estimation, appraisal and summary, and submission of reports. Specific steps are as follows:

(I) Acceptance stage

An asset appraisal contract was only entered into after the current status of the appraised assets was well understood, while basic facts including the business nature, purpose, and scope in this appraisal were learnt and clarified. An appraisal panel was established to formulate an implementation plan and working schedule for asset appraisal.

(II) Asset verification stage

(1) The officer in charge of this appraisal project assisted Hongrui Plastic to fill in the relevant asset appraisal declaration schedule according to the formulated plan. In order to ensure the truthfulness and completeness of the filled-in details, Hongrui Plastic was initially required to conduct a comprehensive inspection, which should be verified by the Appraiser;

(2) Interviews with the management, financial department, and asset management department of Hongrui Plastic facilitated the understanding of Hongrui Plastic's management, financial status, and asset management and utilization, as well as an analysis over the composition of various future revenues, costs and expenses, and reasons for changes in each year during the forecast period;

(3) Data collection included basic information, financial information, macroeconomic and industrial information, ownership certificates, material contracts, agreements and future sales and operation plans, cost estimation, transaction background and other information of Hongrui Plastic over recent years;

(4) The impact of macroeconomic policies on the industry, industry development prospects and market competition was analyzed;

(5) According to the financial plan and strategic plan of Hongrui Plastic and potential market advantages, the expected return and income period of Hongrui Plastic in the future were verified with appropriate adjustments to the forecast value according to the economic environment and market development.

(III) Appraisal and estimation stage

According to the relevant national regulations and standards of asset appraisal, the history and current status of various assets under appraisal in respect of the definite appraised scope and specific subject was understood, alongside further review over the asset appraisal data filled by Hongrui Plastic. Necessary examination and identification was required for the relevant data after review, and the quality and quantity of physical assets were checked, inspected, recorded, and analyzed. At the same time, the market research and inquiry work was conducted to collect relevant pricing information, so that the selected appraisal methods could be used to appraise and estimate various assets and liabilities.

(IV) Appraisal and summary stage

Based on the preliminary appraisal results of various assets, a summary analysis was performed to ascertain that there was no duplication or omission during the appraisal work, and the appraisal results were adjusted, modified and improved based on the summary analysis.

(V) Report submission stage

According to the appraisal work, the appraisal report was drafted. After the Appraiser's internal three-level review, and communications with the Principal, the formal appraisal report was finally submitted.

IX. APPRAISAL ASSUMPTIONS

(I) Appraisal premise

This appraisal is based on the assumption that the enterprise is a going concern. The appraisal premise is that the appraised subject is trading on the open market, is in use and will continue to be used.

(II) Basic assumptions

1. It is assumed that all the documents and materials provided by the Principal and Hongrui Plastic are true, valid and accurate.

2. It is assumed that there is no major change in the national macroeconomic policy and the socio-economic environment in the region.

3. It is assumed that the tax policy, credit interest rate, exchange rate, etc. on which the business operations and appraisal are based, have not undergone significant changes that are sufficient to affect the appraisal conclusion.

4. It is assumed that the influence of natural forces and other force majeure factors has not been considered, nor have special transaction methods caused any impacts on the appraisal conclusion.

5. Except for the matters that are known and disclosed, it is assumed in this appraisal that there are no other undiscovered off-book assets and liabilities, mortgages or guarantees, and major future events, and that Hongrui Plastic owns every legal right to the assets included in the appraised scope.

(III) Specific assumptions

Specific assumptions under the asset-based method:

1. The appraisal conclusion is based on the assumption that the market value of the assets included in the appraised scope will be reflected on the appraisal reference date (i.e. 31 December 2020) under the condition that the current scale and current use remain unchanged.

2. Specific assumptions under the income method:

   (1) It is assumed that Hongrui Plastic continues its operation under the current model without the scale expansion taken into account, that is, the net profit obtained every year is not retained in Hongrui Plastic for additional investment, and the existing operating capacity and operating model of the appraised entity remain unchanged;

   (2) It is assumed that the depreciation of fixed assets is all used for the maintenance and update of the original fixed assets, so as to keep the operating capacity of the appraised entity unchanged;

   (3) The impact of inflation on the operation of Hongrui Plastic has not been considered, nor has the impact of future investment plans on cash flow;

   (4) It is assumed that there will be no new changes in the macro-environment faced by Hongrui Plastic, including that the same level of the preferential state policies enjoyed by Hongrui Plastic;

(5) The calculation of income is based on the accounting year, assuming that income and expenditure occur evenly throughout the year;

(6) Only the operating income, various costs, expenses, etc. of Hongrui Plastic in the next 5 years are predicted, and the above indicators for each year after the 5th year are assumed to remain at the level of the 5th year in the future (i.e. 2025);

(7) Under the proper management of the operator on a going concern basis, its operation may exist perpetually. Therefore, it is assumed that its operating period is indefinite according to the appraisal practice; and

(8) It is assumed that during the forecast period, the value-added tax to be deducted at the beginning of Hongrui Plastic will be deducted at a certain percentage.

The appraisal report and appraisal conclusions are based on the above appraisal premises, basic assumptions and specific assumptions, as well as the results of the principles, basis, conditions, methods and procedures determined in this appraisal report. If the above premises and assumptions change, it is generally understood that this appraisal reports and appraisal conclusions will automatically become invalid.

X. APPRAISAL CONCLUSION

(I) Appraisal results under the asset-based method

1. Appraisal results

Upon appraisal, the book value of Hongrui Plastic' assets as of the appraisal reference date (i.e. 31 December 2020) is RMB87,110,400, and the appraised value is RMB87,176,600, representing an appreciation of RMB66,200, or an appreciation rate of 0.08%. The book value of liabilities is RMB79,689,000, and the appraised value is RMB79,689,000, so there is no change in value. The book value of the entire equity interest of the shareholders is RMB7,421,400, and the appraised value is RMB7,491,600, representing an appreciation of RMB70,200 or an appreciation rate of 0.95%. The specific results are shown in the table below:

Summary of the Assets Appraisal result

Appraisal reference date: 31 December 2020

Appraised entity:
Urumqi Hongrui Plastic Trade Limited* Monetary unit: RMB10,000

Item		Book Value A	Appraised Value B	Change C = B–A	Appreciation Rate % D = C/A × 100
1	Current assets	8,702.18	8,703.22	1.04	0.01
2	Non-current assets	8.86	14.84	5.98	67.49
3	Which: Available-for-sale financial assets	—	—	—	
4	Held-to-maturity investments	—	—	—	
5	Long-term receivables	—	—	—	
6	Long-term equity investments	—	—	—	
7	Investment properties	—	—	—	
8	Adjustments to share marketability right	—	—	—	
9	Fixed Assets	7.85	13.83	5.98	76.18
10	Construction in progress	—	—	—	
11	Engineering Materials	—	—	—	
12	Fixed assets disposal	—	—	—	
13	Biological assets for production	—	—	—	
14	Oil and gas assets	—	—	—	
15	Intangible assets	—	—	—	
16	Development expenses	—	—	—	
17	Goodwill	—	—	—	
18	Long-term deferred expenses	—	—	—	
19	Deferred income tax assets	1.01	1.01	—	0.00
20	Other non-current assets	—	—	—	
21	Total assets	8,711.04	8,718.06	7.02	0.08
22	Current liabilities	7,968.90	7,968.90	—	0.00
23	Non-current liabilities	—	—	—	
24	Total liabilities	7,968.90	7,968.90	—	0.00
25	Net Assets (Owner's Equity)	742.14	749.16	7.02	0.95

2. Changes and reasons for the comparison between the appraisal conclusion and the book value

The increase in changes of total assets appraisal was RMB70,200, representing an appreciation rate of 0.08%. The main reasons are as follows:

The increase in value of equipment assets and vehicles among fixed assets is mainly due to the fact that enterprises depreciate equipment assets over their useful lives as required by accounting policies, while the appraisal is based on the economic useful life of the assets, which is longer than their accounting depreciable lives.

(II) Appraisal results under the income method

The value of entire equity interest of Hongrui Plastic upon appraisal by income method as at 31 December 2020 was RMB8,866,900, representing an increase of RMB1,445,500 over the appraised book value of RMB7,421,400, or an appreciation rate of 16.30%.

(III) Appraisal conclusion

1. Analysis on the difference between the appraisal results under the two methods

The appraisal value by adopting the income method was RMB8,866,900, while the appraisal value by adopting the asset-based method was RMB7,491,600, leading to a result difference between the two methods of RMB1,375,300, and a difference rate of 15.51%. The reasons for the difference are:

The appraisal result by the asset-based approach did not take into account the non-recognizable intangible assets such as customer relationships, sales networks, and human resources of the enterprise. The income method is based on the expected income of the enterprise, and takes into full consideration the intangible assets including customer relationships, sales network and human resources developed by the business under market competition.

2. Selection of the final appraisal conclusion

After analyzing the various appraisal results derived from the above two appraisal methods, and based on the comprehensive consideration of the rationality of such results, the Appraiser consider the appraisal result under the income method to be more reasonable for the following reasons and grounds:

The asset-based method is based on the balance sheet of Hongrui Plastic. According to the Accounting Standards for Business Enterprises, it is impossible to include all the non-identifiable intangible assets in the balance sheet of the enterprise, and the overall value of the enterprise includes not only tangible assets, but also various non-identifiable intangible assets including customer relationships and human resources developed by the business under market competition. The asset-based approach cannot give an objective picture on the value of non-recognizable intangible assets. Since its establishment in 2015, the sales revenue of Hongrui Plastic has been growing steadily and its market share has been continuously expanding over the years. In the market competition, Hongrui Plastic has established collaborative relationship with various upstream companies, such as PetroChina Dushanzi Petrochemical Company* (中國石油獨山子石化公司), China Shenhua Coal-to-Liquid and Chemical Co., Ltd. Sales Branch (中國神華煤制油化工有限公司銷售分公司), Alashankou PetroChina International Co., Ltd.* (阿拉山口中石油國際事業有限公司), Xinjiang Xinfeng Co., Ltd.* (新疆新峰股份有限公司), Ningxia Baofeng Energy Group Co., Ltd* (寧夏寶豐能源集團股份有限公司), Beijing Silian Chuangye Chemical Group Ltd.* (北京四聯創業化工集團有限公司), Kuitun Shengyao Chemical Co., Ltd.* (奎屯聖耀化工有限公司), Qingdao Tianshu Petrochemical Co., Ltd.* (青島天塑石化有限公司), Shihezi Development Zone Western Resources Logistics Co., Ltd.* (石河子開發區西部資源物流有限公司) and Xinjiang Hengli Environmental Protection Technology Co., Ltd.* (新疆恒利環保科技有限公司). It became a 3A-class strategic customer of Northwest Chemical Products Sales Branch of PetroChina Company Limited* (中國石油天然氣股份有限公司西北化工銷售分公司) in 2019, which will further improve its bargaining power and cost control ability. Its sales network has been continuously expanding thanks to its stable cooperation with its downstream customers, such as Xinjiang Wanjianghong Pipeline Industry Co., Ltd.* (新疆萬疆宏管業有限公司), Xinjiang Juncheng Haoxin Plastic Industry Co., Ltd.* (新疆君誠灝欣塑業有限公司), Kashi Xinqin Pipeline Industry Co., Ltd.* (喀什市新秦管業有限責任公司), Xinjiang Jinjiang Gaoke Plastic Pipeline Industry Co., Ltd.* (新疆進疆高科塑膠管業有限公司) and Xinjiang Xinhui Tengda Wire & Cable Manufacturing Co., Ltd.* (新疆新輝騰達線纜製造有限公司). Hongrui Plastic is an asset-light company engaging in the wholesale of chemical raw materials, such as polyethylene and polypropylene. The income method is based on the future profitability of the business and takes into full consideration the intangible assets including customer relationships, sales network and human resources developed by the business under market competition, which can objectively reflect the value of the business.

3. Selection of appraisal conclusions

In view of the above, we are of the view that the appraisal result under the income method can better reflect the market value of Hongrui Plastic as at the appraisal reference date. Therefore, based on the purpose of this appraisal, the appraisal result under the income method was selected as the conclusion of this appraisal, that is, the appraisal conclusion for the value of the entire equity interest of Hongrui Plastic's shareholders as at 31 December 2020 was RMB8,866,900 (in words: RENMINBI EIGHT MILLION EIGHT HUNDRED SIXTY SIX THOUSAND AND NINE HUNDRED ONLY).

The appraisal conclusion is drawn based on the above appraisal work.

XI. SPECIAL NOTES

(I) In the absence of special explanation by Hongrui Plastic and when the Appraiser not generally aware with their professional experience, the Appraiser and the appraisal professionals shall not be liable for the flaws in Hongrui Plastic that may affect the appraised value of assets.

(II) During the appraisal process, this report is prepared on the basis of all information related to the appraisal such as the title ownership, financial and accounting information provided by the Principal and Hongrui Plastic. The Principal and Hongrui Plastic shall be responsible for the reliability, truthfulness, accuracy and comprehensiveness of such relevant information; the responsibility of the Appraiser is to analyze, estimate and express professional opinions on the value of the appraised subject under the specific purpose as at the appraisal reference date. The Principal and Hongrui Plastic shall bear the legal consequences arising from deliberately withholding or providing false information which misleads the appraisal professionals in investigating the ownership of the appraised assets and appraisal.

(III) The Principal and the parties concerned bear responsibility for the truthfulness, legality and completeness of the information provided by them, such as the legal ownership of the appraised subject. The Appraiser has the responsibility to conduct necessary verification and disclosure of such information and its sources, which does not represent the provision of any guarantee for the ownership of the assets under appraisal. It is beyond the scope of professional practice of the Appraiser to confirm or express an opinion on the ownership of the appraised subject.

(IV) The appraisal of the appraised assets and related debts in this report is to reflect the value of the appraised assets in an objective manner. The Appraiser has no intention to require Hongrui Plastic to perform relevant accounting treatments in accordance with the results and expressions of this report. Whether and how to perform the relevant accounting process shall be determined by the higher-level fiscal and taxation authority of Hongrui Plastic and shall comply with the provisions of the Accounting Standards for Business Enterprises.

(V) When appraising fixed assets such as machinery and equipment, we did not consider the mortgages or guarantees owing on these assets, and any restrictions that may affect their value including associated expenses and taxation arising from the disposal of such assets, nor appreciation or depreciation of various assets upon revaluation for tax purposes. The impact of deferred income tax expenses arising from the appreciation or depreciation of fixed assets and other assets on the appraisal results was not taken into account in this appraisal.

(VI) Unless otherwise specified, the related assets were deemed to be wholly owned by Hongrui Plastic in arriving the appraised value in this report, and any relevant liability that may arise from the failure to make payment for certain costs by Hongrui Plastic was not taken into account. We assumed that there was no connection between the transferees of the assets and such liabilities.

(VII) Subsequent events relating to guarantees, leases and contingencies:

The office of Hongrui Plastic is located at No. 1607, Unit 1, Building 4, No. 802, Anju South Road, Shuimogou District, Urumqi, Xinjiang. It is acquired by lease, with a term from 15 March 2015 to 14 March 2021.

(VIII) Constraints on the appraisal procedures

Inventory assets included in the appraised scope are inventory goods with a book value of RMB1,729,804.08. Hongrui Plastic is a trading company with its inventories stored off site. Due to the pandemic outbreak and the inventory management system, the field survey cannot proceed. The Appraiser has carried out various verification procedures, including inbound and outbound inventory statements, sales statements, and inventory confirmation letters as at the appraisal reference date. As the inventory is a current asset with a relatively high inventory turnover rate, and by the date of on-site verification, the main inventories were sold out of the warehouse, and no anomalies were found in respect of quality and quantity of the inventory, there is no impact on the appraisal conclusion.

(IX) Failure of the Principal and Hongrui Plastic to provide relevant information

Nil.

(X) Legal, economic, taxation and other outstanding matters as of the appraisal reference date

Hongrui Plastic was recognized as a micro and small enterprise in 2019 and 2020, which enjoys a preferential income tax policy in accordance with the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (Cai Shui [2019] No. 13). Based on the audit report provided by Hongrui Plastic, the appraiser concluded that the asset scale of Hongrui Plastic in the past years does not meet the identification standard for a micro and small enterprise. Therefore, Hongrui Plastic was subject to an income tax rate of 25% under the income method in the forecast period and it was no longer entitled to the preferential policy for micro and small enterprises. The income method adopted for this appraisal is based on the assumption that Hongrui Plastic is not a small and micro enterprise.

(XI) Deficiencies in the economic activity corresponding to the asset appraisal that may have a material effect on the appraisal conclusion

Nil.

The users of the appraisal report shall refer to other factors for reference in actual use of the report results.

★ The user of the report should pay attention to the impact of the above special notes on the appraisal conclusion during the use of the appraisal report.

XII. RESTRICTIONS ON THE USE OF APPRAISAL REPORTS

(I) The valuation report is only prepared for the Principal and other users of the report specified in asset appraisal engagement contract for the purpose of this appraisal and for submission to the competent asset appraisal authority for review. Without consent from the valuation institution that issues the appraisal report, the contents of the appraisal report shall not be extracted, quoted or disclosed in the public media, save as otherwise required by the laws and regulations and agreed upon by parties.

(II) Where the Principal or other users of the asset appraisal report fail to use the asset appraisal report within the scope as set forth herein in accordance with the laws and administrative regulations, the Appraiser and its appraisal professionals shall take no responsibility.

(III) Any other agencies and individuals, other than the Principal, other users of the asset appraisal report as agreed in the asset appraisal engagement contract, and the users of the asset appraisal report as stipulated by laws and administrative regulations, shall not be the users of the asset appraisal report;

(IV) The user of the asset appraisal report shall have a correct understanding and usage of the appraisal conclusion, which is not equivalent to the realizable price of the appraised subject, and shall not be deemed as a guarantee for the realizable price of the appraised subject.

(V) The appraisal conclusion shall not be used without the completion of the filling of this appraisal report with the state-owned assets supervision and management agency of the enterprise (including its affiliated enterprises).

(VI) The appraisal conclusions of this appraisal report are valid for one year, that is, from 31 December 2020 to 30 December 2021.

XIII. DATE OF ASSET APPRAISAL REPORT

The date of this asset appraisal report is 19 May 2021.

The aforesaid content is extracted from the full text of the asset appraisal report. For the purpose of understanding the details of this appraisal and an accurate comprehension of the appraisal conclusion, please refer to the full text of the asset appraisal report carefully.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

(a) Interests in the Company and its associated corporations

As at the Latest Practicable Date, the Directors, supervisors and chief executives of the Company who had an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executives of the Company are taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules are as follows:

Name	Capacity	Number of H Shares of the Company held *(Note 1)*	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company *(Note 2)*
Chen Lin	Beneficial owner	564,000 (L)	0.28%	0.11%

Notes:

1. "L" denotes the person's/entity's long position in the Shares.

2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including Domestic Shares and H Shares).

As at the Latest Practicable Date, none of the Directors had short position in any shares, underlying shares and debentures of the Company or any of its associated corporations.

Save as disclosed above, none of the Directors or any of their associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations which had been recorded in the register required to be kept under section 352 of the SFO.

(b) Other interests

As at the Latest Practicable Date, so far is known to the Directors,

(i) none of the Directors and supervisors of the Company had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up;

(ii) none of the Directors and supervisors of the Company was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which was subsisting and significant in relation to the business of the Group taken as a whole;

(iii) save as disclosed in this circular, none of the Directors and their respective associates had any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules; and

(iv) none of the other Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company or any of its Associated Corporations", as at the Latest Practicable Date, so far as is known to any Director of the Company, the following persons had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of Share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) Domestic Shareholders

Name	Capacity	Number of Domestic Shares of the Company held *(Note 1)*	Approximate percentage of the total issued Domestic Shares of the Company	Approximate percentage of the total issued share capital of the Company *(Note 2)*
Tianye Company *(Note 3)*	Beneficial owner	202,164,995 (L)	63.75%	38.91%
Tianye Group *(Note 4)*	Beneficial owner	111,721,926 (L)	35.23%	21.51%
	Interest in controlled corporation	202,164,995 (L)	63.75%	38.91%

Notes:

1. "L" denotes the person's/entity's long position in the Shares.

2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including Domestic Shares and H Shares).

3. The Domestic Shares held by Tianye Company represents approximately 63.75% of the total Domestic Shares in issue.

4. 202,164,995 Domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Group, which is interested in approximately 42.05% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 Domestic Shares held by Tianye Company.

(b) H Shareholders

Name	Capacity	Number of H Shares of the Company held *(Note 1)*	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company *(Note 2)*
Long Thrive Holdings Limited (“Long Thrive”) *(Notes 3)*	Beneficial owner	14,407,000 (L)	7.12%	2.77%
Mr. Ding Wei (“Mr. Ding”) *(Notes 4)*	Interest in controlled corporation	14,407,000 (L)	7.12%	2.77%
Ms. Wang Bing (“Ms. Wang”) *(Notes 5)*	Interest of spouse	14,407,000 (L)	7.12%	2.77%

Notes:

1. The letter “L” denotes the person’s/entity’s long position in the Shares.

2. The approximate percentage of shareholding is calculated with reference to the total issued shares of 519,521,560 shares (including Domestic Shares and H Shares).

3. The H shares held by Long Thrive were equivalent to approximately 7.12% of the total H Shares in issue of the Company.

4. Long Thrive directly held 14,407,000 H Shares. Long Thrive is wholly-owned by Mr. Ding. By virtue of the SFO, Mr. Ding is deemed to be interested in the 14,407,000 H Shares held by Long Thrive.

5. Ms. Wang is the spouse of Mr. Ding. By virtue of SFO, Ms. Wang is deemed to be interested in the 14,407,000 H Shares held by Long Thrive.

4. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or the Supervisors nor any of their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules.

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors and supervisors of the Company entered or proposed to enter into any service contract with the Group which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, to the Directors' best knowledge, there was no litigation or claim of material importance pending or threatened by or against any member of the Group.

7. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business carried on or intended to be carried on by the Group), were entered into by the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) the Capital Increase Agreement;

(b) the equity transfer agreement entered into by the Company and Tianye Group in relation to the sales of 11.63% equity of Xinjiang Tianye Ecological Technology Company Limited* (新疆天業生態科技有限公司) on 22 June 2020, pursuant to which the Company agreed to transfer in full its equity of Xinjiang Tianye Ecological Technology Company Limited* (新疆天業生態科技有限公司) to Tianye Group; and

(c) the investment agreement entered into by the Company and Fuxin Ecological Environment Construction Investment (Group) Co., Ltd.* (阜新市生態環境建設投資(集團)有限公司) in relation to the establishment of the joint venture, namely Liaoning Tianfu Ecological Agriculture Development Group Co., Ltd. on 1 December 2020, pursuant to which the Company agreed to subscribe for 51% equity of Liaoning Tianfu Ecological Agriculture Development Group Co., Ltd., and Fuxin Ecological Environment Construction Investment (Group) Co., Ltd.* (阜新市生態環境建設投資(集團)有限公司) agreed to subscribe for 49% equity of Liaoning Tianfu Ecological Agriculture Development Group Co., Ltd..

9. EXPERT AND CONSENT

The following are the qualifications of the experts who had given opinion contained in this circular:

Name	Qualification
Pan China Certified Public Accountants LLP	Certified Public Accountants
Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd* (同致信德(北京)資產評估有限公司)	Valuation advisors

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

The experts above have given and have not withdrawn their written consent to the issue of this circular with the respective reports, letters and references to their names in the form and context in which they are included.

10. GENERAL

(i) The registered office of the Company is located at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, PRC.

(ii) The head office and principal place of business of the Company in Hong Kong are located at Unit A, 27/F, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.

(iii) The Hong Kong H share registrar and transfer office of the Company is Tricor Investor Services Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iv) The company secretary of the Company is Ms. Chan Ching Yi, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection from 9:00 a.m. to 5:00 p.m. at the office of Messrs. Li & Partners at 22nd Floor, World Wide House, Central, Hong Kong during 14 Business Days from the date of this circular:

(i) the articles of association of the Company;

(ii) the Capital Increase Agreement;

(iii) the letter from the Board, the text of which is set out in "Letter from the Board" in this circular;

(iv) the annual reports of the Company for the three financial years ended 31 December 2018, 2019 and 2020;

(v) the Target Company 2020 Audited Accounts, the text of which is set out in Appendix II to this circular;

(vi) the Valuation Report of Target Company, the text of which is set out in Appendix V to this circular;

(vii) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(viii) the written consents referred to in the section headed "Expert Qualification and Consent" in this Appendix;

(ix) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(x) this circular.