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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 or transfer was effected for transmission to the purchaser or the transferee.

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**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)**

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION  
— DISPOSAL OF ASSET;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to Independent Board Committee and  
Independent Shareholders**

  
**INCUB Corporate Finance Limited**

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A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from INCUB Corporate Finance Limited, the Independent Financial Adviser, containing its recommendation to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 30 of this circular.

The notice for convening the extraordinary general meeting ("EGM") of the Company to be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC on Friday, 31 March 2023 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is dispatched on Wednesday, 15 March 2023, and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM, please complete and return the forms of proxy in accordance with the instructions printed thereon to the Hong Kong H share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or at the Company's registered office at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares only), as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meetings. Completion and return of the forms of proxy will not preclude you from attending and voting at the meetings or any adjourned meeting(s) should you so wish.

**PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING**

To safeguard the health and safety of Shareholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM of the Company:

- (1) Compulsory temperature screening/checks;
- (2) Submission of health and travel declaration form;
- (3) Wearing of surgical face mask; and
- (4) No provision of refreshments or drinks.

Attendees who do not comply with the precautionary measures referred to in (1) to (4) above may be denied entry to the venue for the EGM, at the absolute discretion of the Company as permitted by law. For the health and safety of Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

\* For identification purpose only

15 March 2023

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## DEFINITIONS

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

“Appraisal Reference Date”	30 November 2022;
“Articles of Association”	the articles of association of the Company as may be amended from time to time;
“Asset Transfer Agreement”	the asset transfer agreement entered into by the Company and Tianye Company on 13 February 2023 in relation to the Disposal;
“Asset Valuation Report”	The Asset Valuation Report (Jingkun Ping Bao Zi [2023] No. 0054) by the PRC Independent Valuer of Certain Fixed Assets on the Appraisal Reference Date Held by Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司) Involved in its Proposed Asset Transfer (京坤評報字[2023]0054號新疆天業節水灌溉股份有限公司擬進行資產轉讓涉及的其持有的部分固定資產價值項目資產評估報告);
“associate(s)”	has the meaning as defined under the Listing Rules;
“Board”	the board of directors;
“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, whose H Shares are listed and traded on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning as defined under the Listing Rules;
“CPC”	the Communist Party of China;
“Directors”	the directors of the Company;
“Disposal”	the disposal of Target Assets as contemplated under the Asset Transfer Agreement;
“Domestic Share(s)”	domestic share(s) of nominal value of RMB1.00 each in the registered capital of the Company which are subscribed for in RMB;

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC on Friday, 31 March 2023 at 11:00 a.m., for, among others, the Independent Shareholders to consider and, if thought fit, approve the Asset Transfer Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“H Share(s)”	the overseas listed foreign invested share(s) of 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\$;
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors;
“Independent Financial Adviser” or “INCU”	INCU Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Disposal;
“Independent Shareholders”	Shareholders other than Tianye Group and Tianye Company and their associates;
“Latest Practicable Date”	9 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information as contained therein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“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;
“PRC Independent Valuer”, or “Beijing KYSIN”	Beijing KYSIN Assets Appraisal Co., Ltd.* (北京坤元至誠資產評估有限公司), an independent qualified valuer;
“RMB”	Renminbi, the lawful currency of the PRC;

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	H Shares, the Domestic Shares 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;
“Shareholders”	the registered holders of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Substantial Shareholder(s)”	has the meaning as defined under the Listing Rules;
“Target Assets”	<p>a number of buildings (structures) and equipment owned by the Company (a total of 24 items), including:</p> <ol style="list-style-type: none"><li>1. Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and</li><li>2. Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator;</li></ol>
“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, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600075). As at the Latest Practicable Date, it owns approximately 38.91% of the registered capital of the Company;
“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 the Xinjiang Production and Construction Corps Eighth Division SASAC* (新疆生產建設兵團第八師國有資產監督管理委員會). As at the Latest Practicable Date, it is directly and indirectly interested in a total of approximately 45.14% and 60.42% of the registered capital and issued share capital of Tianye Company and the Company, respectively;
“Transitional Period”	from the date of execution of the Asset Transfer Agreement to the completion date of registration of change in the ownership of the Target Assets; and
“%”	percent.



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. Li He (*Chairman*)

Ms. Yang Ling

Mr. Jiang Dayong

*Independent Non-executive Directors:*

Mr. Li Lianjun

Ms. Gu Li

Mr. Hung Ee Tek

Mr. He Xinlin

*Supervisors:*

Mr. Wang Zhigang

Mr. Chen Cailai

Mr. Xie Xinghui

*Registered office:*

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

*Principal place of business  
in Hong Kong:*

Room B102, Block B,  
10/F., International Industrial Building,  
No. 501–503 Castle Peak Road,  
Cheung Sha Wan, Kowloon,  
Hong Kong

15 March 2023

*To the Shareholders*

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION  
— DISPOSAL OF ASSET  
AND**

**(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 13 February 2023 in relation to, among other things, the Disposal.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with (1) further details of the Asset Transfer Agreement and the transactions contemplated thereunder; (2) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Disposal; (3) a letter from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders containing advice in respect of the Disposal; and (4) a notice convening the EGM.

### 2. ASSET TRANSFER AGREEMENT

Major terms of the Asset Transfer Agreement are outlined as follows:

- Date: 13 February 2023
- Parties:
1. The Company (as the Vendor); and
  2. Tianye Company (as the Purchaser)
- Subject Matter: In accordance with the terms and conditions of the Asset Transfer Agreement, the Company has conditionally agreed to sell, and Tianye Company has conditionally agreed to acquire, the Target Assets.
- Target Assets: The Target Assets are a number of buildings (structures) and equipment owned by the Company (a total of 24 items), including:
1. Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and
  2. Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.
- Consideration: The consideration of the Target Assets is RMB26,608,400.
- The aforesaid consideration was determined after arm's length negotiations between the Company and Tianye Company with reference to the appraised market value of the Target Assets of RMB26,608,400 on the Appraisal Reference Date, which was appraised by the PRC Independent Valuer using the cost approach in the Asset Valuation Report. The construction of the Target Assets was funded by the Company, of which, buildings (structures) were mainly built between 2002 and 2014; and equipment was mainly purchased between 2001 and 2020.

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## LETTER FROM THE BOARD

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**Payment terms:** The consideration of the Target Assets shall be paid by Tianye Company in a lump sum by cash to such an account as designated by the Company within five working days from the date of fulfillment of the conditions precedent to the Asset Transfer Agreement.

**Terms of performance:** Following execution of the Asset Transfer Agreement, the parties shall conduct an inventory count and check based on the list of Target Assets, which shall be also completed within five business days from the date of the Asset Transfer Agreement. The Company shall provide Tianye Company with the relevant certificates and licenses in relation to the Target Assets and all information relating to the construction of the Target Assets.

The valuation fees of the Target Assets shall be borne by the Company, while other taxes and expenses incurred during the asset transfer shall be borne by both parties respectively. All relevant expenses and liabilities in relation to relevant ownership or change of ownership registration required after the transfer of the Target Assets, shall be borne by Tianye Company. The Company shall assist Tianye Company in completing real estate ownership certificates in respect of the buildings included in the Target Assets.

**Conditions Precedent:** The Asset Transfer Agreement shall take effect upon fulfillment of all of the following conditions:

1. the approval of the Board in respect of the Disposal having been obtained by the Company according to the Articles of Association;
2. the approval of its Independent Shareholders and the review and approval of the general meeting in respect of the Disposal having been obtained by the Company; and
3. the announcement and circular requirement and other relevant requirements under the Listing Rules having been complied with by the Company.

As at the Latest Practicable Date, item 1 of the conditions precedent to the Asset Transfer Agreement has been fulfilled.

**Transitional Period Arrangement:** During the Transitional Period, the Company is required to manage the Target Assets properly and shall not do anything harmful to the Target Assets.

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## LETTER FROM THE BOARD

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### 3. BASIS OF DETERMINATION OF THE CONSIDERATION

The consideration was determined after arm's length negotiations between the Company and Tianye Company with reference to the corresponding appraised market value of the Target Assets on the Appraisal Reference Date, which was appraised by the PRC Independent Valuer. The Board understands that the cost approach was finally adopted by the PRC Independent Valuer for the valuation of the Target Assets. The PRC Independent Valuer has considered all commonly adopted valuation approaches in the market (namely market approach, income approach and cost approach) for the purpose of determining the valuation of the Target Assets. The Directors (including the independent non-executive Directors) are of the view that the consideration for the Disposal and the terms and conditions of the Asset Transfer Agreement are on normal commercial terms, are fair and reasonable to the Company and in the interests of the Company and its Shareholders as a whole.

### 4. BACKGROUND INFORMATION ABOUT TARGET ASSETS

The Target Assets are a number of buildings (structures) and equipment owned by the Company (a total of 24 items), including:

1. Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and
2. Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.

The Company leased only the profile workshop of the Target Assets to Tianye Group. Following the restructuring of the Company's production lines, the production line of drip irrigation belt products has been migrated to another Group member's site, causing the pipe workshop of the Target Assets being currently idle. The other Target Assets (except for the profile workshop and pipe workshop) are ancillary facilities of the pipe workshop and are all in idle state.

The Target Assets are generally in good condition and their daily maintenance remains normal, all of which are accessible as usual without any damage. Fully installed with water and power supply and fire-fighting facilities, the Target Assets are located in a well-developed light industrial park, which is in close proximity to the high-speed rail, railway and urban areas, offering easily accessible transportation. Disposal of the Target Assets will not adversely affect the production and sales of the Company's products, and will revitalize the Company's assets and promote the preservation and appreciation of the Company's assets.

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## LETTER FROM THE BOARD

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On 26 May 2020, the Company entered into a lease agreement with its controller Tianye Group in respect of the profile workshop included in the Target Assets, for a lease period from 1 July 2020 to 30 June 2023 at an annual rent of RMB426,000 (including property management fees). None of the remaining Target Assets involve leasing.

### 5. FINANCIAL INFORMATION ABOUT TARGET ASSETS

Part of the Target Assets, being profile workshop, are currently leased out for rental income. The net profit attributable to such part of the Target Assets for the financial years ended 31 December 2022 and 31 December 2021 was as follows:

	<b>For the year ended 31 December 2022</b> (Unaudited) <i>RMB</i>	<b>For the year ended 31 December 2021</b> (Unaudited) <i>RMB</i>
Approximate net profit before tax	426,000	426,000
Approximate net profit after tax	406,000	406,000

As at 31 December 2022, the unaudited net book value and original book value of the Target Assets were RMB20,312,000 and RMB35,082,000, respectively.

### 6. FINANCIAL EFFECTS OF THE DISPOSAL ON THE GROUP

As the Company is expected to no longer have any rights or interests in the Target Assets upon completion of the Disposal, property and equipment will decrease by approximately RMB20,370,000, cash and bank balance will increase by approximately RMB24,916,300, and the net assets will increase by approximately RMB4,546,300. The amount by which the consideration exceeds the unaudited net book value of the Target Assets is approximately RMB6,238,200.

As a result of the Disposal, the Company is expected to record a gain on disposal of RMB6,399,000, which, after deducting the estimated expenses in relation to the Disposal of approximately RMB300,000, will result in an increase in the Group's actual gain of approximately RMB6,099,000 (before tax), subject to audit.

### 7. USE OF PROCEEDS FROM THE DISPOSAL

The Company expects that 60% of the proceeds from the Disposal will be applied for general working capital of the Group, such as purchasing of raw materials. The remaining 40% will be applied for possible commercial investments, such as additional investments in the subsidiaries of the Company.

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## LETTER FROM THE BOARD

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### **8. REASONS AND BENEFITS OF THE DISPOSAL**

The holder of the land use rights certificates for the Target Assets is Tianye Company, the controlling shareholder of the Company, which does not meet the requirements of “integration of property and land use right” under the real estate administration laws and regulations. To clarify the ownership of the Target Assets and promote asset preservation and appreciation, the Company will dispose the Target Assets to Tianye Company, so that the said ownership is clarified without any dispute for occupation purposes, ensuring that there will be no substantial impact on the production and operation of the two companies. At the same time, in compliance with the requirements of “integration of property and land use right”, Tianye Company can also successfully complete the real estate ownership certificates for the two plants, ensuring the preservation and appreciation of the state-owned assets.

### **9. VIEWS OF DIRECTORS ON THE DISPOSAL AND ABSTENTION FROM VOTING ON RESOLUTIONS BEFORE THE BOARD**

The Directors (including the independent non-executive Directors) believe that the Disposal is determined on normal commercial terms, is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Ms. Yang Ling and Mr. Jiang Dayong, executive Directors of the Company, have abstained from voting on the approval of the Disposal at the meeting of the Board, as they have material interests therein as a member of the Committee of the CPC of Tianye Group and the assistant to the general manager of operation of Tianye Group, respectively. Save as disclosed above, none of the Directors have material interests in the Disposal.

### **10. INFORMATION ABOUT TIANYE COMPANY AND THE COMPANY**

Tianye Company, a company listed on the Shanghai Stock Exchange (stock code: 600075), is principally engaged in the production and sales of plastic and chemical products; vehicles transportation; sales of machinery facilities (other than small vehicles and those products required special approval by the government of the PRC), construction materials, electric apparatus, steel productions, grain, cotton and linen products, textiles products, vehicle accessories, livestock products and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste; recycling, reprocessing and sales of used plastic, import and export of goods and technologies; and processing of agricultural by-products.

The Group is principally engaged in the design, manufacturing and sales of drip tapes, PVC/PE pipelines and drip assemblies used in water saving irrigation systems, and is also engaged in the provision of installation services of water saving irrigation systems for its customers, as well as land circulation and hydraulic engineering business, and strategic development of digital agriculture and agriculture service business.

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## LETTER FROM THE BOARD

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### 11. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Tianye Company is the controlling shareholder of the Company, holding approximately 38.91% of the issued share capital of the Company, and therefore it is a connected person (as defined in the Listing Rules) of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more percentage ratios of the Disposal exceed 25% but are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules; while the Disposal also constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee of the Company has been established to advise the Independent Shareholders in relation to the Disposal. INCU has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

### 12. ABSTENTION FROM VOTING AT EXTRAORDINARY GENERAL MEETING

An Independent Board Committee of the Company comprising all independent non-executive Directors has been established to advise the Independent Shareholders as to whether the Disposal is fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole.

An extraordinary general meeting of the Company will be held to consider and approve, among other things, the ordinary resolution in respect of the Disposal. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Disposal is fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole.

To the best knowledge, information, and belief of the Directors, as at the Latest Practicable Date, save for Tianye Group (including Tianye Company) and its associates (which holds 313,886,921 Domestic Shares as at the Latest Practicable Date, representing approximately 60.42% of the total issued share capital of the Company, as set out in Appendix III to this circular), no other Shareholders shall be required to abstain from voting at the extraordinary general meeting, and the vote to be taken at the extraordinary general meeting in respect of the Disposal shall be conducted by poll.

### 13. EGM

The EGM will be held on Friday, 31 March 2023 at 11:00 a.m. at the conference room of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

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## LETTER FROM THE BOARD

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The notice for convening the EGM at which the resolution mentioned above will be proposed is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM will be despatched on Wednesday, 15 March 2023, and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM in person, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon to the H share registrar and transfer office of the Company, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM (i.e. 11:00 a.m. on Thursday, 30 March 2023) or not less than 24 hours before the time appointed for the holding of any adjournment thereof or not less than 24 hours before the time appointed for taking the poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### **14. VOTING BY WAY OF POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, save for certain procedural or administrative matters to be decided by the chairman of the meeting, all votes of the Shareholders at the general meetings will be taken by poll. Accordingly, the chairman of the EGM will demand a poll for every resolution to be put to the vote at the EGM pursuant to the Articles of Association.

### **15. CLOSURE OF REGISTER OF MEMBERS**

For the purpose of the EGM, the register of the members of the Company will be closed from Wednesday, 29 March 2023 to Friday, 31 March 2023 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming extraordinary general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar and the transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on Tuesday, 28 March 2023.

### **16. RECOMMENDATION**

The Company has appointed INCU as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Asset Transfer Agreement. The text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 30 of this circular.

The Directors consider that the proposed resolution as set out in the notice of EGM is in the interests of the Company and the Shareholders as a whole and, accordingly, the Directors recommend all Independent Shareholders to vote in favour of the resolution to be proposed at the notice of EGM in respect thereof.

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**LETTER FROM THE BOARD**

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**17. ADDITIONAL INFORMATION**

Your attention is drawn to the additional 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\***  
**Li He**  
*Chairman*

\* *For identification purpose only*



新疆天业节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)

15 March 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION AND CONNECTED TRANSACTION  
IN RELATION TO DISPOSAL OF ASSET**

We have been appointed as members of the Independent Board Committee to give our advice on the Asset Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) included in the circular dated 15 March 2023 (the “**Circular**”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular and the Letter from the Board unless the context otherwise requires.

INCUB has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders on the Asset Transfer Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 15 to 30 of the Circular.

\* For identification purpose only

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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Having considered the terms and conditions of the Asset Transfer Agreement, reasons and benefits of the Disposal, the advice given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Asset Transfer Agreement and the transactions contemplated thereunder are entered into on normal commercial terms. The Asset Transfer Agreement are in the interests of the Company and the Shareholders taken as a whole, and the terms and conditions of the Asset Transfer Agreement are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned, notwithstanding that the Disposal is not in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM for approving the Asset Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,  
Independent Board Committee

**Mr. Li Lianjun**  
*Independent  
non-executive  
Director*

**Ms. Gu Li**  
*Independent  
non-executive  
Director*

**Mr. Hung Ee Tek**  
*Independent  
non-executive  
Director*

**Mr. He Xinlin**  
*Independent  
non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from INCU Corporate Finance Limited, which has been prepared for the purpose of incorporation into this circular, setting out its opinion to the Independent Board Committee and the Independent Shareholders in connection with the Asset Transfer Agreement and the transaction contemplated thereunder.*



INCUB Corporate Finance Limited  
Unit 1402, 14/F, Winsome House,  
73 Wyndham Street,  
Central, Hong Kong

15 March 2023

*To: The Independent Board Committee and  
the Independent Shareholders of  
Xinjiang Tianye Water Saving Irrigation System Company Limited*

Dear Sirs or Madams,

### **MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF ASSET**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Asset Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 15 March 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the announcements of the Company dated 13 February 2023, Tianye Company, as the Purchaser, entered into the Asset Transfer Agreement with the Company, as the Vendor, pursuant to which the Company has conditionally agreed to sell, and Tianye Company has conditionally agreed to acquire, the Target Assets at a consideration of RMB26,608,400.

As at the Latest Practicable Date, Tianye Company is the controlling shareholder of the Company, holding approximately 38.91% of the issued share capital of the Company, and therefore it is a connected person (as defined in the Listing Rules) of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more percentage ratios of the Disposal exceed 25% but are less than 75%, the Disposal also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With reference to the announcements of the Company dated 21 February 2023 and 7 March 2023, on 7 March 2023, the Company has been informed by Tianye Group, its controlling shareholder, that Tianye Group entered into an equity transfer agreement with Tianye Company. Tianye Company shall transfer all of its equity interests in the Company (i.e. approximately 38.91% of all the issued shares of the Company) to Tianye Group at a consideration of RMB188,873,200. Upon completion of the transaction under the equity transfer agreement, the Tianye Group will continue to be the controlling shareholder of the Company and directly hold approximately 60.42% of all the issued shares of the Company while Tianye Company will no longer hold any issued shares of the Company.

Ms. Yang Ling and Mr. Jiang Dayong, executive Directors of the Company, have abstained from voting on the approval of the Disposal at the meeting of the Board, as they have material interests therein as a member of the Committee of the CPC and the assistant to the general manager of operation of Tianye Group, respectively. Save as disclosed above, none of the Directors have material interests in the Disposal.

To the best knowledge, information, and belief of the Directors, as at the Latest Practicable Date, save for Tianye Group (including Tianye Company) and its associates, no other Shareholders shall be required to abstain from voting at the EGM, and the vote to be taken at the EGM in respect of the Disposal shall be conducted by poll.

Except for being appointed as independent financial adviser to the Company regarding the discloseable and connected transaction in relation to the acquisition of 51% equity interest in subject company, which the circular has been despatched on 12 January 2023, we have not acted as an independent financial adviser and as not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Disposal, and accordingly, are eligible to give independent advice and recommendations on the Asset Transfer Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Li Lianjun, Ms. Gu Li, Mr. Hung Ee Tek and Mr. He Xinlin, has been established to advise the Independent Shareholders in respect of the terms of the Asset Transfer Agreement and as to whether the Asset Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, taking into account our recommendation.

As the Independent Financial Adviser, our role is to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the Asset Transfer Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the statements, information, opinions and representations relating to the operations, financial condition and prospects of the Group contained or referred to in this Circular and/or provided to us by the Company and the management of the Group. We have assumed that such information and any representation made to us were true, accurate and complete in all material respects as at the Latest Practicable Date and considered that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in this Circular have been arrived at after due and careful consideration and there are no other material facts not contained in this Circular, the omission of which would make any such statement made by them that contained in this Circular misleading in all material respects. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

Our review and analyses were based upon, among others, the information provided by the Group including this Circular, the Asset Valuation Report prepared by the PRC Independent Valuer as set out in Appendix II of this Circular and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report 2021**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**Interim Report 2022**”). We have also discussed with the Directors and the management of the Company with respect to the terms of and the basis and assumptions adopted in the Asset Valuation Report and the reasons for and benefits of the Disposal. We have not, however, for the purpose of this exercise, conducted any in-depth independent investigation into the businesses, affairs and financial positions of the Group nor have we carried out any independent verification of the information supplied.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, we have taken into account the following principal factors and reasons:

**1. Background and financial information of the Group**

*(a) Background of the Group*

The Company and its subsidiaries are principally engaged in the design, manufacturing and sale of drip tapes, PVC/PE pipelines and drip assemblies used in water saving irrigation systems, and is also engaged in the provision of installation services of water saving irrigation systems for its customers, as well as land circulation and hydraulic engineering business, and strategic development of digital agriculture and agriculture service business.

Tianye Company, a company listed on the Shanghai Stock Exchange (stock code: 600075), is principally engaged in the production and sales of plastic and chemical products; vehicles transportation; sales of machinery facilities (other than small vehicles and those products required special approval by the government of the PRC), construction materials, electric apparatus, steel productions, grain, cotton and linen products, textiles products, vehicle accessories, livestock products and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste; recycling, reprocessing and sales of used plastic, import and export of goods and technologies; and processing of agricultural by-products.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**(b) Financial performance of the Group**

Set out below is a summary of the financial performance of the Group for the two financial years ended 31 December 2020 (“FY2020”) and 31 December 2021 (“FY2021”) respectively as extracted from the Annual Report 2021 and the six months ended 30 June 2021 (“HY2021”) and 30 June 2022 (“HY2022”) respectively as extracted from the Interim Report 2022:

	<b>FY2020</b>	<b>FY2021</b>	<b>HY2021</b>	<b>HY2022</b>
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Operating income</b>				
(a) Drip tape and drip assemblies	168,462	50,938	35,918	27,211
(b) PVC/PE pipelines	343,484	285,668	135,945	105,772
(c) Provision of installation services	162,564	224,452	51,182	427,746
(d) Trading income	—	500,369	107,100	89,839
(e) Other operating income	<u>32,048</u>	<u>50,191</u>	<u>53,950</u>	<u>22,583</u>
<b>Total operating income</b>	<b>706,558</b>	<b>1,111,618</b>	<b>384,095</b>	<b>673,151</b>
<b>Profit/(Loss) from operations</b>	<b>(66)</b>	<b>(63,511)</b>	<b>175</b>	<b>(24,003)</b>
<b>Net profit/(loss) attributable to owners of the parent company</b>	<b>650</b>	<b>(66,836)</b>	<b>(127)</b>	<b>(24,514)</b>

As stated in the Annual Report 2021, the total operating income of the Group was approximately RMB1.11 billion for FY2021, representing an increase of approximately 57.33% from approximately RMB706.56 million for FY2020. The increase in operating income was mainly attributable to recognition of the operating income of Urumuqi Hongrui Plastic Trade Limited following its acquisition by the Company in 2021. The net loss attributable to owners of the parent company for FY2021 was approximately RMB66.84 million while the net profit attributable to owners of the Group for FY2020 was approximately RMB650,000.

As stated in the Interim Report 2022, the total operating income of the Group was approximately RMB673.15million for HY2022, representing an increase of approximately 75.25% from approximately RMB384.10 million for HY2021. The increase in the total operating income was mainly due to increase in operating income from engineering projects, including provision of installation

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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services. The Group recorded the unaudited net loss attributable to owners of the parent company of approximately RMB24.51 million and RMB127,000 for HY2022 and HY2021 respectively.

Based on the above financial information of the Group and the rental income of the Target Assets (as discussed in the section headed “2. Background of the Target Assets” in this letter), we consider the Disposal will not have material impact to the business operation of the Group. For details regarding the gain on Disposal, please refer to the section headed “6. Financial effects of the Disposal on the Group” in this letter.

***(c) Financial position of the Group***

Set out below is the consolidated statement of financial position of the Group as at 31 December 2021 and 30 June 2022 respectively as extracted from Interim Report 2022:

	<b>As at 31 December 2021 RMB'000 (audited)</b>	<b>As at 30 June 2022 RMB'000 (unaudited)</b>
<b>Current assets</b>		
Cash	148,328	126,643
Trade receivables	155,090	154,476
Prepayment	26,383	51,992
Other receivables	24,638	26,171
Inventories	362,655	346,069
Other current assets	<u>4,322</u>	<u>2,340</u>
	<u>721,416</u>	<u>707,691</u>
<b>Non-current assets</b>		
Long-term equity investment	1,954	1,636
Fixed assets	122,149	117,811
Construction in progress	5,615	4,648
Biological assets for production	29,102	34,976
Right-of-use assets	47,397	47,317
Intangible assets	18,981	17,964
Development expenses	8,472	11,203
Long-term deferred expenses	7,131	7,661
Deferred income tax assets	2,606	2,606
Other non-current assets	<u>153</u>	<u>—</u>
	<u>243,560</u>	<u>245,822</u>
<b>Total assets</b>	<b><u>964,976</u></b>	<b><u>953,513</u></b>

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	<b>As at 31 December 2021 RMB'000 (audited)</b>	<b>As at 30 June 2022 RMB'000 (unaudited)</b>
<b>Current liabilities</b>		
Short-term borrowings	43,418	59,000
Trade payables	232,012	216,830
Contract liabilities	48,142	49,351
Employee remuneration payables	7,790	7,180
Taxes and levy payables	2,832	10,192
Other payables	34,918	38,620
Non-current liabilities due within one year	5,847	—
Other current liabilities	3,919	5,429
	<u>378,878</u>	<u>386,602</u>
<b>Non-current liabilities</b>		
Lease liabilities	43,616	49,362
Deferred income	13,390	12,269
	<u>57,006</u>	<u>61,631</u>
<b>Total liabilities</b>	<b>435,884</b>	<b>448,233</b>
<b>Net assets</b>	<b>529,092</b>	<b>505,280</b>

As shown in the above table, we note that the current assets, non-current assets and total assets of the Group do not have material increase or decrease over the period between 31 December 2021 and 30 June 2022.

According to the Letter from the Board, the unaudited net book value of the Target Assets at 31 December 2022 was approximately RMB20.31 million. As shown in the above table, the net book value of the fixed assets and total assets of the Group were approximately RMB117.81 million and RMB953.51 million as at 30 June 2022 respectively. Although the net book value of the Target Assets represents approximately 17.24% and 2.13% of the net book value of the fixed assets and total assets of the Group as at 30 June 2022 respectively, we have enquired the management of the Company and the management of the Company confirmed that, other than part of the Target Assets being leased to Tianye Group (as discussed further below), the remaining Target Assets have been idle since 2022 and therefore the Disposal will not have any material impact on the business operation of the Group.

## **2. Background of the Target Assets**

The Target Assets are a number of buildings (structures) and equipment owned by the Company (a total of 24 items), including:

- (1) Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and
- (2) Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.

On 26 May 2020, the Company entered into a lease agreement with its controller Tianye Group in respect of the profile workshop included in the Target Assets, for a lease period from 1 July 2020 to 30 June 2023 at an annual rent of RMB426,000 (including property management fees). None of the remaining Target Assets involve leasing. As discussed with the management of the Company, the lease agreement will be terminated upon the completion of the Disposal.

The Company leased only the profile workshop of the Target Assets to Tianye Group. Following the restructuring of the Company's production lines, the production line of drip irrigation belt products has been migrated to another Group member's site, causing the pipe workshop of the Target Assets being currently idle. The other Target Assets (except for the profile workshop and pipe workshop) are ancillary facilities of the pipe workshop and are all in idle state.

According to the Letter from the Board, the Target Assets are generally in good condition and their daily maintenance remains normal, all of which are accessible as usual without any damage. Fully installed with water and power supply and fire-fighting facilities, the Target Assets are located in a well-developed light industrial park, which is in close proximity to the high-speed rail, railway and urban areas, offering easily accessible transportation. Disposal of the Target Assets will not adversely affect the production and sales of the Company's products, and will revitalize the Company's assets and promote the preservation and appreciation of the Company's assets.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As mentioned above, part of the Target Assets, being profile workshop, are currently leased out for rental income. The net profit attributable to such part of the Target Assets for FY2021 and the financial year ended 31 December 2022 (“FY2022”) was as follows:

	<b>FY2021</b> (Unaudited) <i>Approximately</i> RMB	<b>FY2022</b> (Unaudited) <i>Approximately</i> RMB
Net profit before tax	426,000	426,000
Net profit after tax	406,000	406,000

As at 31 December 2022, the unaudited net book value and original book value of the Target Assets were approximately RMB20,312,000 and RMB35,082,000, respectively.

### 3. Principal terms of the Asset Transfer Agreement

The principal terms of the Asset Transfer Agreement are set out as follows:

#### *Date*

13 February 2023 (after trading hours of the Stock Exchange)

#### *Parties*

1. The Company (as the vendor); and
2. Tianye Company (as the purchaser)

#### *Subject Matter*

In accordance with the terms and conditions of the Asset Transfer Agreement, the Company has conditionally agreed to sell, and Tianye Company has conditionally agreed to acquire, the Target Assets.

#### *Target Assets*

The Target Assets are a number of buildings (structures) and equipment owned by the Company (a total of 24 items), including:

- (1) Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and
- (2) Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.

***Consideration***

The consideration of the Target Assets is RMB26,608,400.

The aforesaid consideration was determined after arm's length negotiations between the Company and Tianye Company with reference to the appraised market value of the Target Assets of RMB26,608,400 on the Appraisal Reference Date, which was appraised by the PRC Independent Valuer using the cost approach in the Asset Valuation Report. The construction of the Target Assets was funded by the Company of which, buildings (structures) were mainly built between 2002 and 2014; and equipment was mainly purchased between 2001 and 2020.

As disclosed in the Letter from the Board, the Board understands that the cost approach was finally adopted by the PRC Independent Valuer for the valuation of the Target Assets. The PRC Independent Valuer has considered all commonly adopted valuation approaches in the market (namely market approach, income approach and cost approach) for the purpose of determining the valuation of the Target Assets. The Directors are of the view that the consideration for the Disposal and the terms and conditions of the Asset Transfer Agreement are on normal commercial terms, are fair and reasonable to the Company and in the interests of the Company and its Shareholders as a whole.

***Payment Terms***

The consideration of the Target Assets shall be paid by Tianye Company in a lump sum by cash to such an account as designated by the Company within five working days from the date of fulfillment of the conditions precedent to the Asset Transfer Agreement.

***Term of performance***

Following execution of the Asset Transfer Agreement, the parties shall conduct an inventory count and check based on the list of Target Assets, which shall be also completed within five business days from the date of the Asset Transfer Agreement. The Company shall provide Tianye Company with the relevant certificates and licenses in relation to the Target Assets and all information relating to the construction of the Target Assets.

The valuation fees of the Target Assets shall be borne by the Company, while other taxes and expenses incurred during the asset transfer shall be borne by both parties respectively. All relevant expenses and liabilities in relation to relevant ownership or change of ownership registration required after the transfer of the Target Assets, shall be borne by Tianye Company. The Company shall assist Tianye Company in completing real estate ownership certificates in respect of the buildings included in the Target Assets.

***Conditions Precedent***

The Asset Transfer Agreement shall take effect upon fulfilment of all of the following conditions:

1. the approval of the Board in respect of the Disposal having been obtained by the Company according to the Articles of Association;
2. the approval of its Independent Shareholders and the review and approval of the general meeting in respect of the Disposal having been obtained by the Company; and
3. the announcement and circular requirement and other relevant requirements under the Listing Rules having been complied with by the Company.

As at the Latest Practicable Date, item 1 of the conditions precedent to the Asset Transfer Agreement has been fulfilled.

***Transitional Period Arrangement***

During the Transitional Period, the Company is required to manage the Target Assets properly and shall not do anything harmful to the Target Assets.

**4. Valuation of the Target Assets**

As disclosed in the Letter from the Board, the consideration for the Asset Transfer Agreement was determined after arm's length negotiations between the Company and Tianye Company with reference to the appraised market value of the Target Assets of RMB26,608,400 on the Appraisal Reference Date, which was appraised by the PRC Independent Valuer using the cost approach in the Asset Valuation Report.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the PRC Independent Valuer with the Company; (ii) the PRC Independent Valuer's background and qualification in relation to the preparation of the Asset Valuation Report; and (iii) the steps and due diligence measures taken by the PRC Independent Valuer for conducting the Asset Valuation Report. From the information provided by the PRC Independent Valuer and based on our discussion with them, we understand that the responsible officers of the PRC Independent Valuer for the valuation of the Target Assets have over 17 years and 20 years of experience in valuation respectively. Furthermore, the PRC Independent Valuer has provided a wide range of valuation services to numerous companies, including stated-owned enterprises and Hong Kong-listed companies, involving valuation of buildings and structures and machinery and equipment, using cost approach in the PRC. Therefore, we were satisfied with the PRC Independent Valuer's qualification for preparation of the Asset Valuation Report.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness and reasonableness of the consideration of the Disposal, we have reviewed the Asset Valuation Report and upon our further discussion with the PRC Independent Valuer, we understand that the PRC Independent Valuer has adopted cost approach in arriving the appraised value of the Target Assets after considering the following reasons as stated in the Asset Valuation Report:

***(1) Income approach***

The income approach refers to a specific model where the expected income is capitalized or discounted to determine the value of the appraised subject. The cash flow discount model is where expected future net cash flow is discounted to determine the value of the appraised subject, which includes the discounted enterprise free cash flow model and the discounted equity free cash flow model. The PRC Independent Valuer considered that, as the Target Assets cannot generate income independently with limited number of lessees (other than part of the Target Assets being leased to Tianye Group), the future income of the Target Assets cannot be reasonably predicted and measurable by monetary value. Therefore, the PRC Independent Valuer concluded that valuation using income approach is less appropriate for valuing the Target Assets.

***(2) Market approach***

The market approach refers to the appraisal method where the appraised subject is compared against comparable transactions to determine the value of appraised subject. According to the Asset Valuation Report, the PRC Independent Valuer concluded that as no transaction cases similar or comparable to the appraised subject are available in the market, it is not appropriate to adopt the market approach for the valuation of the Target Assets.

***(3) Cost approach***

The cost approach refers to the appraisal method where the relevant assets of the appraised subject can be used or is being used and can be acquired through replacement that the replacement cost of the relevant assets and the relevant depreciation can be reasonably estimated. According to the Asset Valuation Report, the PRC Independent Valuer considered that, as the data of construction and installation costs for comparable projects as at the Appraisal Reference Date can be reasonably obtained, full replacement cost of buildings and structures can be reasonably measured. Purchase prices of the machinery and equipment of the Target Assets can be easily obtained, alongside reasonable estimation of transportation sundries, basic equipment costs and installation costs, from the suppliers or through online inquiries. Therefore, the valuation using cost approach is appropriate for the valuation of the Target Assets.

We have also reviewed the appraisal assumptions in the Asset Valuation Report as set out in Appendix II of the Circular and confirm that the assumptions are fair and reasonable and appropriate for valuation of the Target Assets.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have inquired the PRC Independent Valuer on the applicability of the abovementioned assumptions and we understand that such assumptions are generally and consistently adopted in other valuation exercises and are in line with the market practices. We are therefore of the view that the assumptions adopted in the valuation are reasonable. During the course of our discussion with PRC Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the appraised value of the Target Assets.

We understand that the PRC Independent Valuer has performed the following steps to evaluate the market value of the Target Assets:

- (1) request the Company to provide detailed full list of the Target Assets;
- (2) review the financial information of the Target Assets;
- (3) perform on-site surveys and inspect the specifications, models and maintenance status of the Target Assets; and
- (4) evaluate the Target Assets after the on-site surveys.

As advised by the PRC Independent Valuer, the valuation of the Target Assets using cost approach can be determined by considering to repurchase or build a brand-new fixed assets similar to the Target Assets and subtracting the physical deterioration of the Target Assets by the calculation of the newness rate as evaluated from the estimated useful life of the Target Assets and the on-site survey and inspection performed by the PRC Independent Valuer. Details of the calculation and methodology of the newness rate are set out in the Asset Valuation Report in Appendix II of the Circular.

Factors considered in estimating the value of buildings and structures of the Target Assets include the current prices of construction materials and the pricing of construction projects with similar size. Regarding the valuation of the machinery and equipment, the PRC Independent Valuer has considered replacement costs based on market enquiry on prevailing purchase costs of assets with similar production scale of the Target Assets and the upfront costs incurred in bringing the assets to usable conditions. We have obtained the underlying calculation of the valuation from the PRC Independent Valuer and inquired the source of the quotes of construction materials and machinery and equipment. From our review of the underlying calculation of the valuation and discussion with the PRC Independent Valuer, we

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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note that the PRC Independent Valuer (i) has made comparison with other historical construction projects and adjusted with reference to the differences in size of the buildings and structures of the Target Assets and the inflation rate as obtained from the government data source; (ii) has made market enquiries on the replacement costs and upfront costs of the machinery and equipment; (iii) has obtained the loan prime rate announced by National Inter-bank Funding Center as authorized by the People's Bank of China for the cost of capital; and (iv) has considered the parameters and factors as set out in the Asset Valuation Report for the estimation of the newness rate. After reviewing the basis and underlying calculation of the valuation and discussing with the PRC Independent Valuer, we consider the above methodology are reasonable approaches in establishing the market values of the Target Assets.

Set out below is a summary of the net book value and valuation result of the Target Assets as at the Appraisal Reference Date (i.e., 30 November 2022):

	<b>Net book value</b>	<b>Market value</b>
	<i>RMB</i>	<i>RMB</i>
Buildings and structures	17,123,217	23,092,825
Machinery and equipment	<u>3,280,297</u>	<u>3,515,570</u>
<b>Total</b>	<b><u>20,403,514</u></b>	<b><u>26,608,395</u></b>

The buildings and structures of the Target Assets include pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities and water supply system. The machinery and equipment of the Target Assets include PVC mixed production line, mixed batching system, and cargo elevator.

As discussed with the PRC Independent Valuer, the reason for the difference between the net book value and market value is that (i) the labour cost and cost of construction materials increased in recent years, which leads to the increase in replacement costs; and (ii) the net book value of the Target Assets is subject to the depreciation rate based on the estimated useful life under the accounting policy, but the market value of the Target Assets is subject to the newness rate and the economic life of the assets after the PRC Independent Valuer performed the valuation work as mentioned above and in the Asset Valuation Report.

Based on our review of the Asset Valuation Report and discussion with the PRC Independent Valuer regarding, among others, (i) the scope of work and experiences of the PRC Independent Valuer; (ii) the reasons and appropriateness of adopting the cost approach for the valuation of the Target Assets; (iii) the basis, assumptions and methodology adopted in the Asset Valuation Report; and (iv) the valuation work performed by the PRC Independent Valuer, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the Asset

Valuation Report. In view of the above, we consider that the valuation performed by the PRC Independent Valuer as well as the basis, assumptions and methodology adopted in the Asset Valuation Report are appropriate.

#### **5. Reasons for and benefits of the Disposal**

According to the Letter from the Board, the holder of the land use rights certificates for the Target Assets is Tianye Company, the controlling shareholder of the Company, which does not meet the requirements of “integration of property and land use right” under the real estate administration laws and regulations. To clarify the ownership of the Target Assets and promote asset preservation and appreciation, the Company will dispose the Target Assets to Tianye Company, so that the said ownership is clarified without any dispute for occupation purposes, ensuring that there will be no substantial impact on the production and operation of the two companies. At the same time, in compliance with the requirements of “integration of property and land use right”, Tianye Company can also successfully complete the real estate ownership certificates for the two plants, ensuring the preservation and appreciation of the state-owned assets.

According to the Civil Code of the PRC (中華人民共和國民法典), where the right to use of the construction land is transferred, exchanged, funded or donated, the buildings, structures and ancillary facilities attached to such land shall be disposed of together. According to the notice made by Ministry of Natural Resources of the PRC on 14 May 2020 namely “Accelerating the Confirmation and Registration of Homestead and Collective Construction Land Use Rights (ZiRan ZiFa (2020) No. 84)” (關於加快宅基地和集體建設用地使用權確權登記工作的通知(自然資發[2020]84號), since 2011, the PRC government has promoted the “integration of property and land use right” policy that required the information of rural land and buildings to be properly registered and centralised in the government’s database. Due to the size of the rural land area in the PRC, the registration is still in progress. Therefore, after reviewing the above notice and laws and regulations, we consider that the Disposal is in line with the “integration of property and land use right” policy and allowing Tianye Company to obtain the real estate ownership certificates for the Target Assets is in compliance with the integration requirement of ownership and occupation under the laws and regulations. As discussed with the management of the Company, as majority of the Target Assets being idle, the Disposal of the Target Assets will not have material impact on the business operation of the Company.

The Company expects that 60% of the proceeds from the Disposal will be applied for general working capital of the Group, such as purchasing of raw materials. The remaining 40% will be applied for possible commercial investments, such as additional investments in the subsidiaries of the Company.

After taking into account (i) the Disposal was in line with the government policy; and (ii) the valuation of the Disposal is fair and reasonable, we consider that the Disposal is fair and reasonable to the Company and the Shareholders as a whole.

**6. Financial effects of the Disposal on the Group**

As the Company is expected to no longer have any rights or interests in the Target Assets upon completion of the Disposal, property and equipment will decrease by approximately RMB20,370,000, cash and bank balances will increase by approximately RMB24,916,300, and the net assets will increase by approximately RMB4,546,300. The amount by which the consideration exceeds the unaudited net book value of the Target Assets is approximately RMB6,238,200.

As a result of the Disposal, the Company is expected to record a gain on disposal of approximately RMB6,399,000, which, after deducting the estimated expenses in relation to the Disposal of approximately RMB300,000, will result in an increase in the Group's actual gain of approximately RMB6,099,000 (before tax), subject to audit.

**RECOMMENDATION**

Having considered the abovementioned principal factors and reasons, in particular, that (i) the principal terms of the Asset Transfer Agreement; (ii) the valuation of the Target Assets by the PRC Independent Valuer; and (iii) the reasons for and benefits of the Disposal, we are of the view that although the Asset Transfer Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Asset Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**INCUBORPORATE FINANCE LIMITED**  
**Gina Leung**  
*Managing Director*

*Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCUBORPORATE Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*

## 1. THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022 is disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.tianyejieshui.com.cn>):

- For the annual report of the Company for the year ended 31 December 2019 published on 14 May 2020 (pages 54 to 246), 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 published on 29 April 2021 (pages 47 to 241), please see:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902975.pdf>
- For the annual report of the Company for the year ended 31 December 2021 published on 29 April 2022 (pages 49 to 239), please see:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042903411.pdf>
- For the interim report of the Company for the six months ended 30 June 2022 published on 23 September 2022 (pages 2 to 15), please see:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0923/2022092301658.pdf>

## 2. INDEBTEDNESS STATEMENT

### (1) Bank borrowings and borrowings from other financial institutions

As at the close of business on 31 January 2023 (being the latest practicable date for the purpose of the statement of indebtedness), the Group had outstanding bank borrowings and borrowings from other financial institutions of approximately RMB65,000,000, which were secured borrowings from bank and other financial institutions with Tianye Group as guarantor. Capital commitments contracted for but not provided in the consolidated financial statements were nil. As at the close of business on 31 January 2023, there was no unutilized bank facilities.

### (2) Bonds payable

As at the close of business on 31 January 2023, there was no bond payable.

### (3) Lease liabilities

As at the close of business on 31 January 2023, the Group had lease liabilities of approximately RMB40,982,000.

## STATEMENT OF INDEBTEDNESS OF THE GROUP

As at the close of business on 31 January 2023, being the latest practicable date for the purpose of this statement of indebtedness, the Group's indebtedness is as follows:

	<i>RMB</i>
Bank borrowings	65,000,000
Borrowings from other financial institutions	0
Bonds payable	0
Amount due to related parties	75,146,000
Lease liabilities under current liabilities	0
Lease liabilities under non-current liabilities	<u>40,982,000</u>
<b>Total debts</b>	<b>181,128,000</b>

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, at the close of business on 31 January 2023, the Group did not have (i) debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans; (ii) other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (iii) mortgages and charges; and (iv) contingent liabilities or guarantees.

### 3. FINANCIAL AND BUSINESS PROSPECT OF THE GROUP

China regards agriculture as its foundation, and therefore the quality and safety of agricultural products directly affect the health of its people. As a result, the government and agricultural producers have put forward high requirements for the safety, reliability and technical advancement of water-saving irrigation products, which require water-saving irrigation product manufacturers to continuously make substantial capital investment in research and development, upgrading and continually improving the quality of existing products.

At present, the general trend in the world is to use precious water resources efficiently, and China is becoming more and more concerned about this issue, and therefore there is a need to vigorously develop water-saving irrigation. At the same time, developing water-saving irrigation is also an important means to build a conservation-oriented society and establish a water ecological civilization system. It was proposed in the 10th Plenary Session of Xinjiang Autonomous Region that the construction of ecological environment protection shall be strengthened to scientifically coordinate the key role of water resources in economic, social and ecological construction, aiming to provide guarantee for the sustainable development of Xinjiang. The Company's main goal is to build a water conservation, storage and dispatch system as a basic guarantee project, adjust and improve the leading system and management mechanism of water resources allocation,

systematically promote major cross-regional water resources allocation projects and the construction of water resources storage and dispatch capacity, systematically strengthen the intensive and economical use of water resources, and systematically implement the construction of ecological environment protection.

It was clearly proposed in the Report of the 19th National Congress of the CPC that development of agriculture and rural areas shall be the top priority of the CPC and the PRC. In 2022, the State Council approved the National High Standard Farmland Construction Plan (2021–2030), which focuses closely on the goal of food production and specifies the overall requirements for the construction of high standard farmland in the coming period, including construction standards and construction content, construction zoning and construction tasks, construction supervision and follow-up management, benefit analysis, implementation guarantee, etc., with an aim to striving to make the effective irrigation area of large and medium-sized irrigation areas into high-standard farmland on a priority basis through new construction projects and renovation projects, so as to ensure that 1 billion mu of high-standard farmland will be built by 2022, 1.075 billion mu by 2025, and 1.2 billion mu by 2030. China will make an overall plan for the simultaneous implementation of high-efficiency water-saving irrigation and high-standard farmland construction, in order to complete the construction of 110 million mu of new high-efficiency water-saving irrigated farmland within the planning period, indicating a bright market prospect in the future.

In close pursuit of development pattern of “one core business and two new businesses (一主兩新)” proposed by Tianye Group, under the core business of “modern agriculture”, based on the three major fundamental businesses of “product, engineering, and trade”, and strengthening strategic development mode with integrated agricultural services as its core business, the Company will quickly complete the transformation from “a simple manufacturer” to “a comprehensive service provider”. As an early listed water-saving company in the PRC with rich practical experience, the Company has made continuous efforts to build the reputation of “Xinjiang enjoying excellent performance in nation-wide water conservation, Xinjiang Production and Construction Corps enjoying excellent performance in water conservation in Xinjiang, and the Eighth Division of Xinjiang Production and Construction Corps ranking among the top in Xinjiang Production and Construction Corps in terms of water conservation (全國節水看新疆，新疆節水看兵團，兵團節水看八師)”. As a leader in the water-saving irrigation industry in the PRC, the Company will actively implement the requirements of the state, the autonomous regions, the Xinjiang Production and Construction Corps, and the Party Committee of various divisions of Xinjiang Production and Construction Corps on water resources, especially on the development of water-saving industry. Benchmarking with international first-class standard, and focusing on the innovative research on the whole process of water irrigation featuring “diversion, storage, transmission and use” of water resources, the Company will take the lead in establishing the high-efficiency water-saving industrialisation innovation research center in Xinjiang Production and Construction Corps, to create a comprehensive service platform covering full agricultural industry chain integrating “seeding, water, fertilizer, medicine, gas, machinery, processing and marketing” based on millions of mu of

land. Based on the Eighth Division of Xinjiang Production and Construction Corps, the Company will build a large-scale Xinjiang-focused, modern water-saving agricultural industry group.

#### **4. SUFFICIENT WORKING CAPITAL**

Taking into account the financial resources available to the Group, including internally generated funds, available facilities from banks and other financial institutions and the net proceeds from the Disposal, 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. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there is no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

*The following is the English translation of the asset valuation report prepared for the purpose of inclusion in this circular received from Beijing KYSIN, an independent qualified PRC valuer, in connection with the appraised value of the Target Assets as at 30 November 2022.*

This Asset Valuation Report is prepared under the PRC Asset Appraisal Standards

## **ASSET VALUATION REPORT**

**THE VALUATION PROJECT OF CERTAIN FIXED ASSETS HELD BY XINJIANG  
TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\***

**(新疆天業節水灌溉股份有限公司)**

**INVOLVED IN ITS PROPOSED ASSET TRANSFER**

**JINGKUN PING BAO ZI [2023] NO.0054**

**(Volume 1 of 1)**



**北京坤元至诚资产评估有限公司**

**Beijing KYSIN Assets Appraisal Co., Ltd**

3 February 2023

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**DISCLAIMER**

- I. This Asset Valuation Report is prepared in accordance with the Basic Standards for Asset Appraisal issued by the Ministry of Finance of the People's Republic of China, 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 Valuation Report shall use the Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use specified in the Asset Valuation Report. If the Principal or other user of this Asset Valuation Report uses this Asset Valuation Report in violation of the foregoing provisions, the asset valuer and its signing asset appraisers shall not bear the liability thereof.
- III. This Asset Valuation Report is only be used by the Principal and other users of this Asset Valuation Report as agreed in the asset appraisal contract and users of the Asset Valuation Report stipulated by national laws and administrative regulations. In addition, any other institutions and individuals cannot become the users of this Asset Valuation Report.
- IV. Users of this Asset Valuation 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.
- V. The analysis, judgment, and result in this Asset Valuation Report issued by the asset valuer shall be limited by the assumptions and limitations in the Asset Valuation Report, and the users of the Asset Valuation Report shall pay full attention to and consider the assumptions, limitations and special matters stated in the Asset Valuation Report and their impacts on the appraisal conclusion, as well as the reasonable use of appraisal conclusion in accordance with law.
- VI. The asset valuer and its asset appraisers 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 Valuation Report issued according to law.
- VII. The list of assets of the Appraised Subject involved in such valuation should be declared by the Principal and relevant parties and certified by signature, seal or other means permitted by laws. The Principal and relevant parties shall be responsible for the truthfulness, legality and completeness of the materials provided by them in accordance with laws. The Principal and relevant parties shall be liable for the legal consequences arising from the provision of false or inaccurate information on legal title, financial accounting information, or other relevant information by the Principal and relevant parties, which are not discovered by the asset appraisers during the normal course of verification.

- VIII. The asset valuer and the asset appraisers responsible for the project have no existing or expected interest in the Appraised Subject in the Asset Valuation Report, nor do the same have existing or anticipated interest in the relevant parties, having no bias against the relevant parties.
- IX. The asset appraisers have carried out necessary on-site investigations into the Appraised Subject as referred to in the Asset Valuation Report and the assets involved. Verification has been made on the status and information of legal ownership concerning the Appraised Subject and its assets involved, in which case proper disclosure has been made regarding the issues such as defective property right identified, no guarantee has been given on legal ownership of the Appraised Subject, and the Principal and relevant parties have been requested to remove title defects in order to meet the requirements of economic behaviors in the Asset Valuation Report.
- X. If there is any discrepancy between the sum of aggregated figures and exact figures on ten thousand basis in the Asset Valuation Report, it is due to the rounding rule applied over the rounding of various exact figures on ten thousand basis, and the aggregated figures shall prevail.

**ASSET VALUATION REPORT SUMMARY****THE VALUATION PROJECT OF CERTAIN FIXED ASSETS HELD BY XINJIANG  
TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\*****(新疆天業節水灌溉股份有限公司)****INVOLVED IN ITS PROPOSED ASSET TRANSFER****JINGKUN PING BAO ZI [2023] NO.0054**

Beijing KYSIN Assets Appraisal Co., Ltd. is engaged by Xinjiang Tianye Water Saving Irrigation System Company Limited\* to, subject to the principles of independence, objectivity and fairness, appraise the market value of certain fixed assets held by Xinjiang Tianye Water Saving Irrigation System Company Limited\* involved in its proposed asset transfer on the Appraisal Reference Date by adopting the cost approach and following the necessary appraisal procedures in accordance with relevant laws, administrative regulations and the standards of asset appraisal. The Asset Valuation Report Summary is as follows:

**I. PURPOSE OF APPRAISAL**

In accordance with the minutes of the 29th meeting of the Party Committee of Xinjiang Tianye Water Saving Irrigation System Company Limited\* in 2022 headed “Deliberation on the Disposal of the Profile Workshop, Pipeline Workshop and Ancillary Facilities of Tianye Water Saving Company to Tianye Company”, Xinjiang Tianye Water Saving Irrigation System Company Limited\* proposed the asset transfer, due to which the market value of certain fixed assets held by Tianye Water Saving Irrigation System Company Limited\* involved in the economic behavior on the Appraisal Reference Date (30 November 2022) shall be subject to appraisal, providing value reference for the above economic behavior.

**II. APPRAISED SUBJECT AND SCOPE OF APPRAISAL**

The Appraised Subject is the market value of the fixed assets involved in the asset transfer proposed by Tianye Water Saving Irrigation System Company Limited\*.

The scope of appraisal is the fixed assets involved in the asset transfer proposed by Tianye Water Saving Irrigation System Company Limited\*.

**III. VALUE TYPE**

The value type is market value.

**IV. APPRAISAL REFERENCE DATE**

The Appraisal Reference Date is 30 November 2022.

**V. APPRAISAL METHODS**

The appraisal method is the cost approach.

## VI. APPRAISAL CONCLUSION

According to the valuation, the appraisal conclusion on the market value of certain fixed assets proposed by Tianye Water Saving Irrigation System Company Limited\* for transfer on the Appraisal Reference Date is RMB26,608,400 (in words: RMB TWENTY SIX MILLION SIX HUNDRED AND EIGHT THOUSAND AND FOUR HUNDRED ONLY).

In accordance with the current regulations, the validity of the appraisal conclusion is one year with effect from the Appraisal Reference Date of the Report. Meanwhile, the users of the Report shall pay attention to the assumptions and pre-conditions on which the appraisal conclusion set out in the Asset Valuation Report is based, notes on special matters and limitations on use of the Asset Valuation Report.

## VII. NOTES ON SPECIAL MATTERS

### (I) Information about incomplete or defective ownership

The owner as specified on the land certificate attributable to the buildings (structures) involved in the appraisal is Xinjiang Tianye Company Limited. The ownership certificate of the appraised buildings has not been obtained, and confirmation of the gross floor area and structure parameters of the buildings is subject to declaration.

### (II) Other key information that the Appraised Entity has not provided or incomplete appraisal data

Not applicable.

### (III) Notes on other special matters

1. The appraisal conclusion of this report is an appraisal conclusion including VAT. The owner of the Appraised Asset shall carry out tax treatment in accordance with the provisions of the tax law and tax policy when realizing economic behaviors corresponding to the appraisal purpose of this report.
2. The owner as specified on the land use right certificate attributable to the buildings (structures) involved in the appraisal is Xinjiang Tianye Company Limited. The appraised buildings (structures) are to be transferred to Xinjiang Tianye Company Limited\*. The value of the appraised buildings (structures) does not include the value of the land use rights.
3. The two mixing production lines among the assets under this appraisal are idle due to the strategic adjustment of the Company's production operation. This appraisal is conducted on the premise that the idle production lines are all available for normal use.

The aforesaid content is extracted from the full text of the Asset Valuation 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 Valuation Report carefully.

## ASSET VALUATION REPORT

### THE VALUATION PROJECT OF CERTAIN FIXED ASSETS HELD BY XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\*

(新疆天業節水灌溉股份有限公司)

### INVOLVED IN ITS PROPOSED ASSET TRANSFER

**JINGKUN PING BAO ZI [2023] NO.0054**

To Tianye Water Saving Irrigation System Company Limited\*:

Beijing KYSIN Assets Appraisal Co., Ltd. (hereinafter referred to as the “Company” or “Asset Valuer”) is engaged by Xinjiang Tianye Water Saving Irrigation System Company Limited\* (hereinafter referred to as the “Principal” or “Tianhe Water Saving”) to, subject to the principles of independence, objectivity and fairness, appraise the market value of certain fixed assets held by Xinjiang Tianye Water Saving Irrigation System Company Limited\* involved its proposed the asset transfer on the Appraisal Reference Date by adopting the cost approach and following the necessary appraisal procedures in accordance with relevant laws, administrative regulations and the standards of asset appraisal. Details of the asset appraisal are reported as follows:

#### **I. THE PRINCIPAL, THE OWNER AND OTHER USERS OF THE ASSET VALUATION REPORT**

##### **(I) Overview of the Principal**

The Principal of this appraisal is Xinjiang Tianye Water Saving Irrigation System Company Limited\*, the general information of which is set out below:

Unified social credit code:	91650000757655578C
Name:	Xinjiang Tianye Water Saving Irrigation System Company Limited*
Type of Company:	Joint stock limited company (a listed joint venture between Taiwan/Hong Kong/Macao and Mainland China)
Legal representative:	Li He
Registered capital:	RENMINBIN FIVE HUNDRED NINETEEN MILLION FIVE HUNDRED TWENTY-ONE THOUSAND FIVE HUNDRED AND SIXTY ONLY

Date of establishment:	20 October 2006
Operating term:	20 October 2006 to 17 December 2056
Domicile:	No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang

Scope of business: development, consulting, exchange, transfer and marketing services and training (excluding establishment of for-profit private schools and training institutions) of new high-tech water saving irrigation technologies; pilot testing and marketing of advanced water saving equipment; development and utilization of computer application software for water saving irrigation; production and sales of plastic products, PVC pipelines for water supply and drainage systems, PE pipelines and assemblies, pressure compensatory style drip tapes, labyrinth-style drip tapes, embedded-style drip tapes, agriculture films and drippers; import of scrap copper, scrap steel, scrap aluminum, scrap paper and scrap plastic; recycling and processing of scrap and obsolete plastic; sales of filters, seeds, fertilizers, pesticides (other than restricted pesticides and hazardous chemicals), electrical and mechanical products (other than compact vehicles), chemical goods (other than dangerous chemical items and highly poisonous items) and agricultural machinery; professional grade C for irrigation and drainage in water conservancy; class-I construction contracting for agricultural water-saving irrigation projects (business operation of which is subject to the qualification certificates); import and export of cargos and technologies (excluding those that are prohibited by the government or require administrative approval); lease of machinery, equipment and property, and land use right lease; information system integration services; development of and sales through e-commerce platforms; consultation, exploration, design and construction of water conservancy, municipal engineering and hydropower engineering; city pipeline construction activities; garden landscaping construction; plantation and sales of grains, oilseeds, cotton, fruits, vegetables, and forage grass (except those prohibited by the government); road transportation of general cargo (the operation of which shall be subject to approval by the relevant authorities in case that such business requires approval).

## **(II) Overview of the Owner**

The owner of the assets involved in this appraisal is Tianye Water Saving Irrigation System Company Limited\*.

## **(III) Relationship between the Principal and the Owner**

The Principal and the Owner in this appraisal is Tianye Water Saving Irrigation System Company Limited\*.

**(IV) Other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract**

The users of the Asset Valuation Report shall be the Principal (also the Owner) and relevant authorities as stipulated by national laws and regulations. Save for the above, any institution or individual that has not been confirmed by the asset valuer and the Principal shall not become a user of the Asset Valuation Report only by virtue of obtaining this report.

**II. PURPOSE OF APPRAISAL**

In accordance with the minutes of the 29th meeting of the Party Committee of Xinjiang Tianye Water Saving Irrigation System Company Limited\* in 2022 headed “Deliberation on the Disposal of the Profile Workshop, Pipeline Workshop and Ancillary Facilities of Tianye Water Saving Company to Tianye Company”, Xinjiang Tianye Water Saving Irrigation System Company Limited\* proposed the asset transfer, due to which the market value of certain fixed assets held by Tianye Water Saving Irrigation System Company Limited\* involved in the economic behavior on the Appraisal Reference Date (30 November 2022) shall be subject to appraisal, providing value reference for the above economic behavior.

**III. APPRAISED SUBJECT AND SCOPE OF APPRAISAL**

**(I) Appraised Subject and Scope of Appraisal**

The Appraised Subject is the market value of the fixed assets involved in the asset transfer proposed by Tianye Water Saving Irrigation System Company Limited\*.

The scope of appraisal is the fixed assets involved in the asset transfer proposed by Tianye Water Saving Irrigation System Company Limited\*.

The original book value of the assets declared by Xinjiang Tianye Water Saving Irrigation System Company Limited\* was RMB35.0817 million, and the net book value was RMB20.4035 million. See the “Breakdown List of Asset Inventory and Evaluation” for details.

**(II) Overview of the Appraised Assets**

**1. Fixed assets — Buildings (Structures)**

The buildings (structures), including 6 buildings and 15 structures, are located in the plant premises of Xinjiang Tianye Water Saving Irrigation System Company Limited\* with an original book value of RMB30,326,613.19 and a net book value of RMB17,123,216.54. Among them, the said buildings, with the original book value of RMB19,163,262.71 and the net book value of RMB12,748,917.17, refer to the profile workshop, the raw material warehouse, the pipeline workshop and the security guard

office, which are comprised of structural steel and a mixture of brick and reinforced concrete. The structures, with an original book value of RMB11,163,350.48 and a net book value of RMB4,374,299.37, mainly include the cargo yard, floor, heating pipeline, water supply pipeline, filter tanks and cord covers (channels). The buildings (structures) were mainly built between 2002 and 2014. As of the Appraisal Reference Date, the real estate ownership certificate of the appraised buildings was not completed, the owner as specified on the land use right certificate attributable to the buildings (structures) is Xinjiang Tianye Company Limited\*, and the appraised buildings (structures) are normally accessible and maintained.

## **2. Fixed assets — Equipment**

The equipment assets are a total of three pieces of machinery and equipment, with an original book value of RMB4,755,110.25 and a net book value of RMB3,280,297.46. The machinery and equipment, including the PVC mixing production line, the capacity expansion facility of the mixing and batching system in the large-diameter product workshop, and the two cargo elevators in the drip irrigation building, are mainly installed in and deployed throughout in Xinjiang Tianye Water Saving Irrigation System Company Limited\* according to the production processes. Such equipment assets were mainly purchased between 2001 and 2020. As of the Appraisal Reference Date, the two mixing production lines for the appraised equipment are idle, with each of the assets well maintained.

As of the Appraisal Reference Date, none of the above assets involve other rights such as mortgages and guarantees.

## **IV. VALUE TYPE**

### **(I) Value type and selection**

The value types under the asset valuation include both the market value and the value other than the market value.

Upon sufficient communication with the Principal, based on relevant conditions such as the purpose of appraisal, actual conditions of the Appraised Subject, collection of valuation data, the asset appraiser has selected appropriate value types, and finally reached a consensus with the Principal on the value type of appraisal conclusion. The market value has been selected as the value type of appraisal conclusion of this valuation.

### **(II) Definition of market value**

The market value referred to in this Asset Valuation Report refers to the estimated value of the normal fair trade of the Appraised Subject on the Appraisal Reference Date when the voluntary purchaser and the voluntary seller act independently and without any coercion.

## V. APPRAISAL REFERENCE DATE

The Appraisal Reference Date of this valuation is 30 November 2022, and the Appraisal Reference Date is determined by the Principal and is consistent with the Appraisal Reference Date specified in the Asset Valuation Engagement Contract.

The following major factors were considered in determining the Appraisal Reference Date:

1. The Appraisal Reference Date was adopted as close to the implementation plan of the economic behavior corresponding to the purpose of the valuation as possible, so that the valuation on the Appraisal Reference Date would have a higher reference value to both parties to the transaction, and that the appraisal conclusion can effectively serve the purpose of the valuation.
2. The Appraisal Reference Date was adopted as the accounting report date which was as close to the implementation plan of the economic behavior corresponding to the purpose of the valuation as possible, so that the asset appraiser can fully understand the situation of the assets related to the Appraised Subject, and avoid as much as possible the impact of changes in interest rates, exchange rates, bases of taxation, tax rates and governmental fees, etc. on the appraisal conclusion, so as to facilitate the asset appraiser to performance the valuation procedures such as systematic onsite investigation, collection of valuation data and valuation of estimates.
3. The Appraisal Reference Date was adopted as close to the actual date of onsite investigation by the asset appraiser as possible, so that the asset appraiser can better grasp the conditions of the assets included in the Appraised Subject on the Appraisal Reference Date, so as to facilitate the truthful representation of the value of Appraised Subject on the Appraisal Reference Date.

## VI. BASIS OF APPRAISAL

### (I) Basis of business activities

The minutes of the 29th meeting of the Party Committee of Xinjiang Tianye Water Saving Irrigation System Company Limited\* in 2022 headed “Deliberation on the Disposal of the Profile Workshop, Pipeline Workshop and Ancillary Facilities of Tianye Water Saving Company to Tianye Company”.

### (II) Basis of laws and regulations

1. The Asset Appraisal Law of the People’s Republic of China (Order of the President of the People’s Republic of China No. 46, effective from 1 December 2016);

2. The Civil Code of the People's Republic of China (Order of the President of the People's Republic of China No.45, effective from 1 January 2021);
3. The Company Law of the People's Republic of China (Order of the President of the People's Republic of China No. 15, Fourth Revision, promulgated and effective from 26 October 2018);
4. The Securities Law of the People's Republic of China (Order of the President of the People's Republic of China No. 37, Second Revision, effective from 1 March 2020);
5. The Land Administration Law of the People's Republic of China (Order of the President of the People's Republic of China No. 32, Third Revision, effective from 1 January 2020);
6. The Urban Real Estate Administration Law of the People's Republic of China (Order of the President of the People's Republic of China No. 32, Third Revision, effective from 1 January 2020);
7. The Law of the People's Republic of China on the State-Owned Assets of Enterprises (Order of the President of the People's Republic of China No.5, effective from 1 May 2009);
8. The Rules on the Evaluation and Management of State-owned Assets (Decree No. 91 of the State Council, revised by Decree No. 732 of the State Council in 2020);
9. The Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council);
10. The Interim Measures for the Administration of the Enterprise State-owned Asset Appraisal (SASAC Decree No.12);
11. The Provisions on Several Issues Concerning the Administration of State-owned Assets Appraisal (Decree No. 14 of the Ministry of Finance);
12. The Supervisory and Administrative Measures for Enterprises State-owned Assets Transaction (SASAC and Ministry of Finance Decree No.32);
13. The Notice on Strengthening Management of Evaluation of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);
14. The Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property (2009) No. 941);

15. The Notice on Issuance of Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);
16. The Provisional Regulations of the People's Republic of China on Value-added Tax (Decree No. 691 of the State Council, promulgated and effective from 19 November 2017);
17. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation amended by Order No. 65 of the Ministry of Finance and the State Administration of Taxation);
18. The Notice of the Ministry of Finance and the State Administration of Taxation on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36);
19. The Announcement of Policies for Deepening the Value-added Tax Reform (No. 39 Announcement of the Ministry of Finance, State Administration of Taxation and General Administration of Customs [2019], effective from 1 April 2019);
20. The Announcement of Matters Concerning Deepening the Value-Added Tax Reform (No. 14 Announcement of the State Taxation Administration [2019], effective from 1 April 2019);
21. The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 86 Announcement of the Ministry of Finance [2017], revised by Order No. 97 of the Ministry of Finance on 2 January 2019);
22. Other laws and regulations related to asset appraisal.

### **(III) Basis of appraisal standards**

1. Basic Standards for Asset Appraisal (Ministry of Finance Cai Zi [2017] No. 43);
2. Asset Appraisal Professional Ethics Standards (China Appraisal Society [2017] No. 30);
3. Asset Appraisal Practice Standards — Asset Appraisal Procedure (China Appraisal Society [2018] No.36);
4. Asset Appraisal Practice Standards — Asset Valuation Report (China Appraisal Society [2018] No.35);

5. Asset Appraisal Practice Standards — Asset Appraisal Contract (China Appraisal Society [2017] No. 33);
6. Asset Appraisal Practice Standards — Asset Appraisal Documentation (China Appraisal Society [2018] No. 37);
7. Asset Appraisal Practice Standards — Use of Expert Work and Related Reports (China Appraisal Society [2017] No. 35);
8. Asset Appraisal Practice Standards — Asset Appraisal Methods (China Appraisal Society [2019] No. 35);
9. Asset Appraisal Practice Standards — Real Estate (China Appraisal Society [2017] No. 38);
10. Asset Appraisal Practice Standards — Machinery Equipment (China Appraisal Society [2017] No.39);
11. Guidelines for Enterprise State-owned Asset Valuation Reports (China Appraisal Society [2017] No. 42);
12. Guiding Opinions on Value Types for Asset Appraisal (China Appraisal Society [2017] No. 47);
13. Guidelines for Business Quality Control of Asset Appraisal Institutions (China Appraisal Society [2017] No. 46);
14. Guiding Opinions on Legal Ownership of Appraised Subjects under Asset Appraisal (China Appraisal Society [2017] No. 48).

**(IV) Basis of asset ownership**

1. Copies of business licenses of property owners;
2. Project settlement report;
3. Copies of equipment purchase contracts and invoices;
4. Other relevant ownership basis.

**(V) Pricing basis**

1. Financial data of property owners as of the Appraisal Reference Date;
2. The history and current asset price information provided by property owners;
3. The loan prime rate (LPR) announced by the National Interbank Funding Center as authorized by the People's Bank of China;

4. Information on recent costs of local projects;
5. Collection of Relevant Price Quotations and Parameters by Appraiser through Market Surveys;
6. Common Data and Parameter Manual for the Asset Appraisal published by China Machine Press;
7. Mechanical and Electrical Products Quotation Manual prepared by the Machinery Industry Information Research Institute;
8. Other relevant information.

#### **(VI) Other References**

1. Information on macro-economic analysis;
2. Information on industry statistics and research report issued by industry experts;
3. Relevant information from iFinD Information Finance Terminal;
4. Other relevant references.

### **VII. APPRAISAL METHODS**

#### **(I) Introduction to appraisal methods**

Appraisal methods refer to the combination of the approaches, procedures and technical means adopted to assess and estimate the value of assets, including the three basic methods, being the market approach, income approach and cost approach, and their derivatives.

##### ***1. Income approach***

The income approach refers to a valuation method that determines the value of the appraised subject by capitalizing or discounting its expected income.

##### ***2. Market approach***

The market approach refers to a valuation method that determines the value of the appraised subject by conducting direct comparison and analogous analysis between the appraised subject and recent transaction prices of the same or similar assets in the market with adjustments.

### 3. *Cost approach*

The cost approach refers to a valuation method that determines the value of the appraised subject by calculating its replacement cost for renewal or restoration and deducting its physical depreciation, functional depreciation and economic depreciation.

## (II) Selection of appraisal methods

In carrying out an appraisal of an asset's value, the asset appraisers shall prudently analyze the applicability of three basic asset appraisal methods, i.e. income approach, market approach and cost approach based on the purpose of appraisal, Appraised Subject, value type, data collection and other relevant factors, before properly selecting one or more basic asset appraisal methods for valuation in accordance with the law.

### 1. *Applicability analysis of appraisal methods*

#### (1) *Income approach*

##### ① Conditions for applying the income approach:

- I. The future income of the Appraised Subject can be reasonably expected and measured in currencies;
- II. The risk corresponding to the expected income can be measured;
- III. The income period can be determined or reasonably expected.

##### ② Applicability analysis of income approach

The assets included in the scope of this appraisal cannot generate income independently, so the income method is not appropriate.

#### (2) *Market approach*

##### ① Conditions for applying the market approach:

- I. The comparable reference objects of the Appraised Subject have a public market and active trading;
- II. The necessary information of the transactions is available.

② Applicability analysis of market approach

As no transaction cases similar or comparable to the Appraised Subject are available in the market, it is not appropriate to adopt the market approach for this appraisal.

(3) *Cost approach*

① Conditions for applying the cost approach:

- I. The relevant assets involved in the Appraised Subject can be used or is being used;
- II. The relevant assets involved in the Appraised Subject can be acquired through replacement;
- III. The replacement cost of the relevant assets involved in the Appraised Subject and the relevant depreciation can be reasonably estimated.

② Applicability analysis of cost approach

For a majority of the assets in the buildings and structures subject to the appraisal, the data of construction and installation costs for comparable projects as at the Appraisal Reference Date can be reasonably obtained. In addition, according to the relevant regulations on preliminary and other expenses issued by the central government and local governments in Xinjiang, as well as the LPR values reasonably determined based on the relevant data available on iFinD Information and interbank interest rates, the preliminary expenses and cost of capital can be reasonably determined. The full replacement cost of buildings and structures engineering can be reasonably measured. Purchase prices of the machinery and equipment subject to the appraisal can be easily obtained from manufacturers or online inquiries, alongside reasonable estimation of transportation sundries, basic equipment costs and installation costs. Furthermore, the cost of capital can be reasonably determined, and the full replacement price of the machinery and equipment can be reasonably measured. Based on the economic life of the Appraised Assets, and the remaining useful life calculated from the used life of the assets, the theoretical newness rate of the assets during their service life can be estimated. At the same time, based on the survey newness rate determined by on-site survey, estimation of integrated newness rate can be determined by weighted average.

Based on the above analysis and conclusion, the asset appraisers are of the view that cost approach is appropriate for this appraisal both in theory and practice.

## **2. Selection of valuation approach for this valuation**

The Appraised Subject is the market value of the fixed assets involved in the assets transfer proposed by Xinjiang Tianye Water Saving Irrigation System Company Limited\*. Based on the purpose of appraisal, Appraised Subject, value type, the relevant information provided by the Principal and Appraised Entity, information collected through on-site investigation and other channels, and details of Appraised Subject and other relevant conditions, coupled with comprehensive judgment such as the applicability analysis of the aforementioned valuation approaches, the valuation was conducted using the cost approach.

### **(III) Determination of technical ideas and key valuation parameters for this valuation**

For the purpose of this appraisal, the valuation was carried out mainly using the cost approach based on market prices in accordance with the principle of continued use of the assets, as well as with the features of the Appraised Assets and the information collected taken into account.

#### **1. Buildings (structures)**

The basic calculation formula for the valuation of buildings (structures) is as follows:

the appraisal value = full replacement cost × comprehensive newness rate

full replacement cost = comprehensive construction and installation costs + preliminary and other expenses + cost of capital

##### *(1) Estimation of full replacement costs*

###### ① comprehensive construction and installation costs

Such costs mainly refer to costs incurred from direct or indirect consumption of various materials, machinery operation and labor services by the building (structure) projects. The comprehensive construction and installation costs of the appraised buildings are determined on the data of single-party construction costs for comparable projects after considering the adjustment factors. The comprehensive construction and

installation costs of the structures are determined by obtaining the single-party construction costs from the construction party and professional cost consultancies, or through index adjustment.

② Preliminary and other expenses

Such expenses mainly refer to the engineering survey and design fees, project bidding agency fees, construction supervision fees, construction unit management fees, consultation fees on environmental impacts, consultation fees on engineering cost, etc., which are determined on the actual conditions of the construction investments and the regions where construction projects take place.

③ Cost of capital

It is calculated and charged based on the construction period of the main buildings (structures) with independent production capacity and with reference to the bank loan interest rate for the same period. The capital is calculated on the basis of even investment during the construction period.

(2) *Estimation of newness rate*

It is analyzed that there is no functional or economic depreciation for the buildings (structures) subject to the appraisal, therefore, the actual comprehensive newness rate of the Appraised Assets is mainly determined by using a combination of the newness rate under the service life and the survey newness rate, with the estimation formula as follows:

① Estimation formula of comprehensive newness rate

Comprehensive newness rate = the survey newness rate × 50%  
+ theoretical newness rate × 50%

② Estimation formula of theoretical newness rate

Theoretical newness rate = the remaining service life / (the used life + the remaining service life) × 100%

③ Estimation of on-site survey newness rate

Firstly, the appraisal professionals visited the sites and conducted on-site survey for each of the buildings by carrying out assessment over the quality and current status of each part of the buildings. Based on the assessment results, the quality of each part of the buildings was rated under the 100-point scoring system.

Secondly, based on the importance of each part of the buildings in the overall structure, the weighted coefficients of their sub-item scores were determined in the overall survey newness rate. The weighted coefficients totaled 100%.

Lastly, the score of each sub-item was multiplied by the corresponding weighted coefficient to calculate the assessed score of the survey newness rate of the sub-item. Being aggregated, the overall survey newness rate was arrived at. The total score for the overall survey newness rate was 100.

(3) *Estimation of appraisal value*

Appraisal value = full replacement price × newness rate

2. *Machinery and equipment*

For the purpose of this appraisal, the valuation was carried out mainly using the cost approach based on market prices in accordance with the principle of continued use of each category of the assets, as well as with the features of the appraised equipment and the information collected taken into account.

The basic formula for the appraised equipment with the cost approach:

Appraisal value = full replacement price × comprehensive newness rate

(1) *Estimation of full replacement price*

Determination of the full replacement price of domestic equipment:

Full replacement price = equipment purchase price + transportation sundries + installation and debugging charges + basic equipment costs + cost of capital + other expenses

Among which:

- ① Equipment purchase price: it is obtained through inquiries from dealers;
- ② Transportation sundries: They are calculated at 0% –5% of the equipment purchase price based on the weight of the equipment, delivery distance and packaging challenges;
- ③ Installation and debugging charges: They are calculated at 0%–45% of the equipment purchase price based on the complexity of equipment installation, and some equipment

with a higher percentage of installation charges is determined in accordance with the percentage of installation charges during the construction period;

- ④ Basic equipment costs: They are calculated at 0%–45% of the equipment purchase price based on the weight and performance of such equipment;
- ⑤ Cost of capital: Cost of capital is only taken into account in case of equipment with a high price or long installation and construction period;

It is generally assessed based on the prevailing lending rates during the reasonable construction period of the whole construction project. The construction and installation costs, preliminary and other expenses are taken into account assuming capital will be injected evenly, and the interest-bearing period is half of the reasonable construction period. The interest rate of the loan on the Appraisal Reference Date is determined based on the loan prime rate (LPR) announced by the National Inter-bank Funding Center as authorized by the People's Bank of China. Then:

$$\text{Cost of capital} = (\text{comprehensive construction and installation costs} + \text{preliminary and other expenses}) \times [(1 + \text{applicable loan rates})^{\text{reasonable construction period}/2} - 1]$$

The cost of capital was not taken into account due to a comparatively short installation period of the equipment in this appraisal.

- ⑥ Other expenses: they are considered on a case-by-case basis.

## (2) *Estimation of comprehensive newness rate*

The newness rate of equipment is estimated based on the economic and technological lives of the equipment as a whole and by taking into account the features and usage of the equipment.

For production-specific equipment, the comprehensive analysis method is adopted, wherein the following factors are used to estimate the newness of the equipment under the useful life method by considering the number of years  $N$  that the equipment has been in use, from which the remaining useful life of the equipment is initially determined, and then considering the utilization, load, maintenance, original manufacturing quality, working environment and failure rate of the equipment, so as to estimate the newness rate of such equipment.

Based on the experience concluded and data classification in previous equipment evaluations, the Company has determined and sorted out the range of relevant adjustment factors for various equipment, and the range of adjustment factors for the newness rate is as follows:

Equipment Utilization Factors	Code	Adjustment Range of Each Factor
Utilization coefficient	C1	(0.85–1.15)
Load factor	C2	(0.85–1.15)
Maintenance coefficient	C3	(0.85–1.15)
Original manufacturing quality coefficient	C4	(0.90–1.10)
Working environment coefficient	C5	(0.95–1.05)
Failure factor	C6	(0.85–1.15)

$$\text{Newness rate } K = n \div (n + N) \times C1 \times C2 \times C3 \times C4 \times C5 \times C6 \times 100\%$$

**VIII. THE IMPLEMENTATION PROCESS AND SITUATION OF THE APPRAISAL PROCEDURE**

Upon being appointed for this appraisal, the asset appraisers were selected to understand the basic information related to this appraisal, formulate the appraisal work plan, and arrange and assist the owner of the assets in asset checking. Being subsequently dispatched to the owner of the assets, the appraisal taskforce conducted on-site investigations into the Appraise Subject and its assets, collected and analyzed all information required for the appraisal, and identified the appraisal methods and appraisal models, before estimating the value of the Appraisal Subject. From the acceptance of the appraisal project to the issuance of the valuation report, it is divided into the following five appraisal work stages:

**(I) Negotiation of appraisal project and acceptance of engagement**

The asset valuer, through negotiations, risk assessment over appraisal project, and other preliminary work procedures, has resolved to accept the engagement. In other words, full communications with the Principal helps understand the basic information about this appraisal project, including purpose of appraisal, appraisal subject, and scope of appraisal, and the appraisal reference date, so as to prepare the appraisal work plan and formulate the appraisal scheme, as a result of which the Asset Valuation Engagement Contract has been entered into with the Principal.

**(II) On-site investigation and data collection**

This phase principally involves submission of the list of information required for asset appraisal; direction given to the owner of the assets in checking assets and preparing appraisal information; collection and verification of appraisal information; and due diligence interviews, on-site asset inspection, and verification of appraisal information, market surveys, and collection of market information and related data.

***1. Submission of the list of information required for asset appraisal***

In accordance with the features of the assets subject to appraisal, the specific list of information required for asset appraisal, asset Appraisal Breakdown Statement, and others shall be submitted, and the Principal and the owner of the assets are required to make active preparation for appraisal information.

***2. Direction given to the owner of the assets in checking assets and preparing appraisal information***

Communications with the relevant personnel of the Principal and the owner of the assets shall be maintained to make arrangements and assist them in completing the asset Appraisal Breakdown Statement and preparing the relevant information required for appraisal in accordance with the asset appraisal requirements.

***3. Collection and verification of information provided by the Principal and the owner of the assets***

Information provided by the Principal and the owner of the assets shall be verified and checked, and issues identified, if any, would be resolved through coordination.

***4. On-site survey and key inventory check***

A detailed surveys of assets involved in the Appraised Subject shall be carried out.

***5. Due diligence interview***

In accordance with specific conditions of the Appraised Subject, and the information provided by the Principal and the owner of the assets, seminars, discussions, telephone interviews, and other means shall be arranged with the governing bodies, management, and technical personnel of the owner of the assets, so as to reach consensus on the understanding of matters related to the Appraised Subject.

### ***6. Market survey and collection of market information and related data***

On the basis of collecting the materials provided by the Principal and the owner of the assets in accordance with the list of information required for asset appraisal, market information, industry data, macroeconomic data and regional data, etc., shall be collected to meet the requirements of appraisal and estimation.

### **(III) Appraisal and estimation**

This phase principally involves:

#### ***1. Selecting appraisal methods and appraisal models***

The selected appraisal method and specific appraisal model will be determined based on actual conditions and specific characteristics of the Appraised Subject and data collection.

#### ***2. Appraisal and estimation***

According to the selected appraisal method and specific appraisal model, the appraisal parameters required by the appraisal model will be reasonably determined, and the preliminary appraisal results of the Appraised Subject will be measured and calculated, so as to produce the asset Appraisal Breakdown Statement, asset appraisal description and related appraisal working papers.

### **(IV) Appraisal result aggregation and preparation of preliminary Asset Valuation Report**

The preliminary appraisal results will be analyzed and aggregated, which may be subject to necessary adjustments, corrections and improvements to determine the preliminary aggregated appraisal results. Furthermore, a preliminary Asset Valuation Report together with the asset Appraisal Breakdown Statement, asset appraisal explanations, and appraisal working papers will be drafted and submitted to the asset appraiser for internal audit.

### **(V) Issuance of Asset Valuation Report**

Upon the internal audit and approval on the Asset Valuation Report by us, the asset valuer, without prejudice to the independent judgment on the appraisal conclusion, communication with the Principal or other relevant parties agreed by the Principal on the relevant content of the Asset Valuation Report will be conducted, the content of which will be subject to independent analysis, Adjustments to the Asset Valuation Report will be determined according to the Company's quality control system and procedures. In case of necessary

adjustments, the content of the Asset Valuation Report will be modified and improved before the asset valuer issues and submits a formal Asset Valuation Report.

## IX. APPRAISAL ASSUMPTIONS

According to the asset appraisal standards, the asset appraisers made necessary analysis, judgments and adjustments on the information provided by the Principal or relevant parties. The following assumptions are reasonably made after considering various possibilities and their impacts in the future:

### (I) Precondition Assumptions

#### 1. *Arm's length assumption*

The arm's length assumption assumes that the Appraised Subject is already subject to a transaction, and the asset appraisers conduct the valuation by simulating the market on the arm's length principle based on the conditions of the transaction of the Appraised Subject.

#### 2. *Open market assumption*

The open market assumption assumes that the Appraised Subject is transacted in a fully competitive and established market (regional, national or international market), in which both parties to the proposed transaction are in arm's-length position with equal ability, opportunity and time to obtain sufficient market information; the transaction behaviors of both parties to the transaction are conducted under voluntary, rational rather than compulsory or unrestricted conditions, such that both parties to the transaction can make rational judgements on the function, purpose and transaction price of the subject matter. Under the market conditions of a fully competitive market, the exchange value of the subject matter is subject to market mechanisms and determined by market conditions instead of the transaction price in individual transactions.

#### 3. *Continuous usage assumption*

The continuous usage assumption assumes that use of the Appraised Subject and its assets continues according to its model, scale, frequency, environment, etc. prior to its being idle. It presumes not only the operating conditions of, but also the market conditions or market environment faced by, the Appraised Subject.

**(II) General Assumptions**

1. It is assumed that there will be no significant changes in the current relevant laws and regulations, industry policies, industrial policies, macro-economic conditions or any other aspects in the country or region where the owner of the assets operates as compared with those on the Appraisal Reference Date.
2. It is assumed that there will be no major changes in the fiscal and currency policies and the relevant prevailing interest rates, exchange rates, bases of taxation, tax rates and governmental fees in the region where the owner of the assets operates.
3. It is assumed that there will be no other force majeure or unforeseeable factors that may have material adverse impact on the Appraised Assets.

**(III) Special Assumptions**

1. It is assumed that the information (basic information, financial information, project final account (settlement), etc.) provided by the Principal and owner of the assets is true, accurate and complete, and that the disclosure of relevant material matters is adequate;
2. It is assumed that the owner of the assets fully complies with all relevant existing laws and regulations.

**(IV) Impacts of the Aforementioned Assumptions on the Appraisal Conclusion**

The aforementioned assumptions determine the conditions for using the assets included in the Appraised Subject and market conditions, and have a relatively material impact on the appraisal. According to the requirements for asset valuation, the asset appraisers have assumed that these assumptions are valid and reasonable on the Appraisal Reference Date. To the extent that the economic conditions materially change in the future, the asset valuer and the signing asset appraisers do not assume any liability for any different appraisal conclusion resulting from any changes in the aforementioned assumptions. To the extent that the economic conditions materially change in the future or the aforementioned assumptions are no longer valid, the appraisal conclusion would be invalid.

## X. APPRAISAL CONCLUSION

As of the Appraisal Reference Date, the carrying amount of certain fixed assets to be transferred as declared and evaluated by Xinjiang Tianye Water Saving Irrigation System Company Limited\* amounted to RMB20,403,500.

In this appraisal, as of the Appraisal Reference Date, the appraised value of certain fixed assets to be transferred as declared and evaluated by Xinjiang Tianye Water Saving Irrigation System Company Limited\* using the cost approach amounted to RMB26,608,400 with an appraisal appreciation of RMB6,204,900, representing an appreciation of 30.41%. The main reasons for evaluating impairment or appreciation of the Target Assets: the appreciation of the building (structure) assets is mainly due to the increase of the labor cost and cost of construction materials in the construction industry in recent years on the one hand, and the depreciation period provided by enterprise is inconsistent with that confirmed in the valuation on the other hand. The main reason for the appreciation in the appraisal value of equipment assets is that the depreciation period provided by the enterprise is shorter than the economic life confirmed in the valuation.

### Summary of the appraised results

*Monetary Unit: RMB10,000*

Item	Carrying amount	Appraised Value	Change	Change Rate %
	<i>A</i>	<i>B</i>	<i>C = B - A</i>	$D = C / A \times 100\%$
Non-current assets	2,040.35	2,660.84	620.49	30.41
Fixed assets	2,040.35	2,660.84	620.49	30.41
Total assets	2,040.35	2,660.84	620.49	30.41

**In other words, the appraisal conclusion on the market value of certain fixed assets to be transferred by Xinjiang Tianye Water Saving Irrigation System Company Limited\* as at the Appraisal Reference Date is RMB26,608,400 (in words: RMB TWENTY SIX MILLION SIX HUNDRED EIGHT THOUSAND AND FOUR HUNDRED ONLY).**

In accordance with the current regulations, the validity of the appraisal conclusion is one year with effect from the Appraisal Reference Date of the Report. Meanwhile, the users of the Report shall pay attention to the assumptions and pre-conditions on which the appraisal conclusion set out in the Asset Valuation Report is based, notes on special matters and limitations on use of the Asset Valuation Report.

**XI. NOTES ON SPECIAL MATTERS****(1) References to the conclusions of reports by other agencies**

None.

**(2) Information about incomplete or defective ownership**

The owner as specified on the land certificate attributable to the buildings (structures) involved in the appraisal is Xinjiang Tianye Company Limited. The ownership certificate of the appraised buildings has not been obtained, and confirmation of the gross floor area and structure parameters of the buildings is subject to declaration.

**(3) Other key information that the Appraised Enterprise has not provided or incomplete appraisal data**

None.

**(4) Pending matters, legal disputes and other uncertainties on the Appraisal Reference Date**

None.

**(5) Significant use of expert work and related reports**

None.

**(6) Material subsequent matters**

None.

**(7) Relevant limitations of appraisal procedures, remedial measures taken by the valuer and their impact on appraisal conclusions**

None.

**(8) Nature and amount of mortgage, guarantee, lease and contingent liabilities (contingent assets), and their relationship with the Appraised Subject**

None.

**(9) Deficiencies in economic activities corresponding to the asset appraisal that may have a material effect on the appraisal result**

None.

**(10) Notes on other special matters**

1. The appraisal conclusion of this report is an appraisal conclusion including VAT. The owner of the Appraised Asset shall carry out tax treatment in accordance with the provisions of the tax law and tax policy when realizing economic behaviors corresponding to the appraisal purpose of this report.
2. The owner as specified on the land use right certificate attributable to the buildings (structures) involved in the appraisal is Xinjiang Tianye Company Limited. The appraised buildings (structures) are to be transferred to Xinjiang Tianye Company Limited\*. The value of the appraised buildings (structures) does not include the value of the land use rights.
3. The two mixing production lines among the assets under this appraisal are idle due to the strategic adjustment of the Company's production operation. This appraisal is conducted on the premise that the idle production lines are all available for normal use.

**XII. LIMITATIONS ON USE OF THE ASSET VALUATION REPORT**

- (I) The official use of this Asset Valuation Report shall be subject to the approval of or filing with the state-owned assets supervision and administration authority or the competent authority of the Appraised Enterprise.
- (II) This Asset Valuation Report shall only be used for the purpose and objective of appraisal as set out herein. Meanwhile, the appraisal conclusion is issued for the purpose of appraisal stated herein in order to give a reference opinion on the market value of the Appraised Subject as at the Appraisal Reference Date based on the appraisal assumptions and constraints stated herein. Neither this appraisal conclusion takes into account the mortgages and guarantees that may be borne in the future and the impact of special transaction methods, nor does it take into account the impact of changes in the national macro-economic policies as well as natural forces and other force majeure. The appraisal conclusion will be generally invalid when there are changes in the assumptions and constraints of the appraisal. We, the asset valuer, shall not bear any liabilities relating to the invalidation of the appraisal conclusion due to changes in such circumstances.
- (III) Where the Principal or other users of the Asset Valuation Report fail to use the Asset Valuation Report within the scope as set forth herein in accordance with the laws and administrative regulations, the asset valuer and its signing asset appraisers shall take no responsibility.

- (IV) Any other agencies and individuals, other than the Principal, other users of the Asset Valuation Report as agreed in the Engagement Valuation Contract, and the users of the Asset Valuation Report as stipulated by laws and administrative regulations, shall not be the users of the Asset Valuation Report.
- (V) The user of the Asset Valuation 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.
- (VI) Without written consent from us, any entities or individuals shall not reproduce, extract or cite the whole or any part of the Asset Valuation Report, nor disclose the whole or any part of it on any media, save as otherwise required by laws and regulations and agreed upon by the relevant parties.

### XIII. DATE OF THE ASSET VALUATION REPORT

This Asset Valuation Report is dated 3 February 2023.

BEIJING KYSIN ASSETS  
APPRAISAL CO., LTD.

Asset appraisers: Fu Ping, Asset Appraiser Certificate No. 65120002, is currently the General Manager of Xinjiang Branch of Beijing KYSIN Assets Appraisal Co., Ltd.\* (北京坤元至誠資產評估有限公司新疆分公司), who has 17 years of experience in the asset appraisal industry.

Beijing, the PRC

Asset appraisers: Wang Qingyun, Asset Appraiser Certificate No. 65050019, is currently the Senior Engagement Manager of Xinjiang Branch of Beijing KYSIN Assets Appraisal Co., Ltd.\* (北京坤元至誠資產評估有限公司新疆分公司), who has 20 years of experience in the asset appraisal industry.

**SCHEDULES OF ASSET VALUATION REPORT**

1. Minutes of the 29th meeting of the Party Committee of Xinjiang Tianye Water Saving Irrigation System Company Limited\* (新疆天業節水灌溉股份有限公司) in 2022 headed “Deliberation on the Disposal of the Profile Workshop, Pipeline Workshop and Ancillary Facilities of Tianye Water Saving Company to Tianye Company”;
2. Copies of Business Licenses of the Principal and the Owner of the Assets;
3. Copies of major ownership certificates involved in the appraisal object;
4. Letter of undertaking of the Principal and the owner of the assets;
5. Letter of undertaking of signing asset appraisers;
6. Copies of the filing documents of the Asset Valuer;
7. Copy of counterpart of business license of the Asset Valuer;
8. Copies of registration card of qualification certificates of the signing asset appraisers;
9. The Asset Valuation Engagement Contract;
10. The summary table of the asset valuation and or breakdown list;
11. Explanation of the significant difference between the book value of assets and the appraisal conclusion.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Company. The information contained herein relating to the Company has been supplied by the Directors, who collectively and individually accept full responsibility for the accuracy of the information contained in this circular. 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, none of the Directors, supervisors and the chief executive of the Company 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.

### (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, or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, 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; and
- (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.

### 3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, there is no other person who 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, had, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

#### (A) Domestic Shareholders

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 the domestic Shares of the Company held (Note 1)	Approximate percentage of Shares of the domestic Company Approximate percentage of the total issued domestic share capital of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Xinjiang Tianye Company Limited (“Tianye Company”) (Note 3)	Beneficial owner	202,164,995(L)	63.75%	38.91%
Xinjiang Tianye (Group) Limited (“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 45.14% 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 ( <i>Note 1</i> )	Approximate	Approximate
			percentage of the total issued H shares of the Company	percentage of the total issued share capital of the Company ( <i>Note 2</i> )
Long Thrive Holdings Limited (“ <b>Long Thrive</b> ”) ( <i>Note 3</i> )	Beneficial owner	14,407,000(L)	7.12%	2.77%
Mr. Ding Wei (“ <b>Mr. Ding</b> ”) ( <i>Note 4</i> )	Interest in controlled corporation	14,407,000(L)	7.12%	2.77%
Ms. Wang Bing (“ <b>Ms. Wang</b> ”) ( <i>Note 5</i> )	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 was 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 determinable 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

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2021, 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 Asset Transfer Agreement;
- (b) The Acquisition Agreement entered into by the Company (as the purchaser) and Xinjiang Tianhe Yida Investment Co., Ltd.\* (新疆天合意達投資有限公司) (as the vendor) on 25 November 2022, pursuant to which the Company had conditionally agreed to purchase, and Xinjiang Tianhe Yida Investment Co., Ltd.\* had conditionally agreed to sell, the 51% equity interest in Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.\* (石河子市絲路天楊預拌砵有限公司), at a consideration of RMB15,647,200. For details, please refer to the circular dated 12 January 2023, and the announcements dated 1 December 2022 and 25 November 2022 of the Company; and

- (c) The Capital Increase Agreement entered into by the Company, Urumuqi Hongrui Plastic Trade Limited\* (烏魯木齊泓瑞塑化商貿有限公司), Ms. Deng Hongwen (鄧紅文) and Mr. Li Yang (李陽) on 26 May 2021, pursuant to which, the Company agreed to inject additional capital of RMB4,581,200 into the Target Company, of which RMB3,100,000 would be the registered capital of the Target Company and RMB1,481,200 would be treated as capital reserve. For details, please refer to the circular dated 21 June 2021 and the announcement dated 26 May 2021.

## 9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or advice contained in this circular:

INCU Corporate Finance Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Beijing KYSIN Assets Appraisal Co., Ltd.* (北京坤元至誠資產評估有限公司)	an independent certified PRC valuer

As at the Latest Practicable Date, each of INCU and Beijing KYSIN did not have any shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of INCU and Beijing KYSIN has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name in the form and context in which they are included.

The letter and recommendation given by INCU are given as at the date of this circular for incorporation herein.

As at the Latest Practicable Date, each of INCU and Beijing KYSIN do not have or did not have any interest, direct or indirect, in any assets which have been, since 31 December 2021 (being the date to which the latest audited financial statements of the Group were made up), 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.

## 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, the PRC.

- (ii) The head office and principal place of business of the Company in Hong Kong are located at Room B102, Block B, 10/F., International Industrial Building, No. 501–503 Castle Peak Road, 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.xj-tianye.com](http://www.xj-tianye.com)) for a period of 14 days from the date of this circular:

- (a) the Asset Transfer Agreement;
- (b) the Asset Valuation Report, the text of which is set out in Appendix II of this circular;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out from pages 16 to 17 of this circular;
- (d) the annual reports for the three financial years ended 31 December 2019, 2020 and 2021, and the interim report for the six months ended 30 June 2022;
- (e) the letter from INCU to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 15 to 30 of this circular;
- (f) Material contracts as referred to in the section headed “MATERIAL CONTRACTS” of this appendix; and
- (g) the consents referred to in the paragraph headed “EXPERTS AND CONSENTS” of this Appendix.

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## NOTICE OF EGM

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*Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.*



**新疆天业节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)**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** the extraordinary general meeting (the “**EGM**”) of Xinjiang Tianye Water Saving Irrigation System Company Limited\* (the “**Company**”) will be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the People’s Republic of China (the “**PRC**”) on Friday, 31 March 2023 at 11:00 a.m. for the following purposes and to pass the following resolution:

Unless otherwise specified, capitalized terms used herein shall have the same respective meaning as those defined in the circular of the Company dated 15 March 2023 (the “**Circular**”).

#### **ORDINARY RESOLUTION**

1. **THAT:** The Asset Transfer Agreement and the disposal of the Target Assets as proposed thereunder be and are hereby approved, confirmed and ratified; and any one of the Directors of the Company be and are hereby authorised to execute for and on behalf of the Company all such other documents, instruments and agreements, and to take all steps necessary or expedient to implement and/or give effect to the Asset Transfer Agreement; any member of the Group (including those newly established or invested through equity acquisition or other organisations) be and are hereby approved to, in its absolute discretion deemed appropriate or expedient and in the interests of the Company and its shareholders as a whole and based on the actual work needs, to negotiate, develop, execute,

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## NOTICE OF EGM

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amend, supplement and perform all documents in connection with the Asset Transfer Agreement (including but not limited to the specific agreement contemplated under the Asset Transfer Agreement) with any member of Tianye Company (including those newly established or invested through equity acquisition or other organisations) and proceed with all things and actions necessary for executing and implementing the Asset Transfer Agreement.

By Order of the Board  
**Xinjiang Tianye Water Saving Irrigation System Company Limited\***  
**Li He**  
*Chairman*

Xinjiang, the PRC, 15 March 2023

\* *For identification purpose only*

**Notes:**

1. Any member entitled to attend and vote at the EGM is entitled to appoint in written form for one or more than one proxy to attend and vote at the EGM on his behalf. A proxy need not be a member of the Company.
2. The form of proxy for the EGM is herewith enclosed. In order to be valid, the form of proxy, if such proxy form is signed by a person under a power of attorney or authority on behalf of the appointer, a notarially certified power of attorney (if any) or other authority (if any) under which it is signed, must be deposited at the Company's H Share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or the registered office of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares), not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.
3. Shareholders or their proxies shall present proofs of identities when attending the EGM.

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## NOTICE OF EGM

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4. The register of the members of the Company will be closed from Wednesday, 29 March 2023 to Friday, 31 March 2023 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the EGM of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on Tuesday, 28 March 2023.
5. Shareholders who intend to attend the EGM should complete and return the enclosed reply slip for attendance to the H Share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or the registered office of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares only), by hand, by post or by fax (the fax number of the Company's H Share registrar and transfer office: (852) 28611465 (for the holders of H Shares only) or the fax number of the Company (86993) 2623183 (for the holders of Domestic Shares only)) on or before 4:30 p.m. on Tuesday, 21 March 2023.
6. Voting of the resolution as set out in this notice will be by poll in accordance with the requirements under the Listing Rules.
7. The EGM is expected to last for less than half day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
8. The Company's registered address:  
  
No. 36, Bei San Dong Road, Shihezi Economic and Technology Development Zone, Shihezi, Xinjiang, the PRC
9. Precautionary measures for the EGM:

Please refer to the cover of the circular of the Company dated 15 March 2023 for the measures being taken to prevent and control the spreading of the coronavirus disease (COVID-19) at the EGM, which includes (i) compulsory temperature screening/checks; (ii) submission of health and travel declaration form; (iii) wearing of surgical face mask; and (iv) no provision of refreshments or drinks. Any person who fails to comply with these precautionary measures may be denied access to the venue of the EGM. The Company would like to encourage the Shareholders to exercise their right to vote on the relevant resolutions at the EGM by appointing the chairman of the EGM as their proxy, instead of attending the EGM in person.