
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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**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)

**(1) REVISION OF THE EXISTING SCOPE AND/OR
ANNUAL CAPS FOR THE EXISTING CONTINUING
CONNECTED TRANSACTIONS****(2) EXTENSION OF THE EXISTING CONTINUING
CONNECTED TRANSACTIONS**

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

**INCU Corporate Finance Limited**

A letter from the Board is set out on pages 5 to 29 of this circular. A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. A letter from INCU Corporate Finance Limited, the Independent Financial Adviser, containing its recommendation to the Independent Board Committee and the Independent Shareholders, is set out on pages 32 to 67 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 Thursday, 9 November 2023 at 10:30 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is dispatched on Wednesday, 25 October 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, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or to 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.

* *For identification purposes only*

25 October 2023

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DEFINITIONS

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

“2023–2025 Project Construction Services Framework Agreement”	the 2023–2025 Project Construction Services Framework Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) dated 15 September 2023 in relation to (i) revision of the annual cap for the continuing connected transactions as of 31 December 2023 under the Original Project Construction Services Framework Agreement; and (ii) extension of the term of the Original Project Construction Services Framework Agreement to 31 December 2025;
“2023–2025 Purchase Framework Agreement”	the 2023–2025 Purchase Framework Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) dated 15 September 2023 in relation to (i) increase in the types of products purchased under the Original Purchase Framework Agreement; and (ii) extension of the term of the Original Purchase Framework Agreement to 31 December 2025;
“2023–2025 Sales Framework Agreement”	the 2023–2025 Sales Framework Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) dated 15 September 2023 in relation to (i) revision of the annual cap for the continuing connected transactions as of 31 December 2023 under the Original Sales Framework Agreement; (ii) increase in the types of products sold under the Original Sales Framework Agreement; and (iii) extension of the term of the Original Sales Framework Agreement to 31 December 2025;
“Articles of Association”	the articles of association of the Company (as amended from time to time);
“Board”	the board of directors of the Company;
“Company”	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 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;
“Continuing Connected Transaction Agreements”	2023–2025 Project Construction Services Framework Agreement, 2023–2025 Sales Framework Agreement and 2023–2025 Purchase Framework Agreement;

DEFINITIONS

“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Domestic Shares”	domestic share(s) of nominal value of RMB1.00 each in the registered capital of the Company which are subscribed for in RMB;
“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 Thursday, 9 November 2023 at 10:30 a.m., for, among others, the Independent Shareholders to consider and, if thought fit, approve the Continuing Connected Transaction Agreements and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“H Shares”	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\$;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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 activity 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 Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps);
“Independent Shareholders”	Shareholders other than Tianye Group and Tianye Company and their associates;
“Latest Practicable Date”	18 October 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;

DEFINITIONS

“Original Project Construction Services Framework Agreement”	the Project Construction Services Framework Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 7 October 2022 in relation to the provision of infrastructure construction services. For details of the Original Project Construction Services Framework Agreement, please refer to the circular of the Company dated 14 November 2022;
“Original Purchase Framework Agreement”	the master purchase agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 26 November 2020 for the purchase by the Group from Tianye Group Companies of PVC resins. For details of the Original Purchase Framework Agreement, please refer to the circular of the Company dated 14 January 2021;
“Original Sales Framework Agreement”	the master sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 26 November 2020 for the sales by the Group to Tianye Group Companies of the PVC/PE pipelines, drip tapes and drip assemblies. For details of the Original Sales Framework Agreement, please refer to the circular of the Company dated 14 January 2021;
“PRC”	the People’s Republic of China, but for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	H 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 Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Substantial Shareholder(s)”	has the meaning as defined under the Listing Rules;
“Supervisor(s)”	the supervisor(s) of the Company;

DEFINITIONS

“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 owned by the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division* (新疆生產建設兵團第八師國有資產監督管理委員會) and the State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps* (新疆生產建設兵團國有資產監督管理委員會) as to 90% and 10% of the equity interest, respectively. It is directly interested in approximately 60.42% of the issued share capital of the Company as at the date of this announcement; and
“%”	per cent.



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)

Executive Directors:

Mr. Zhou Gang (*Chairman*)
Mr. Han Gen
Mr. Jiang Dayong

Independent non-executive Directors:

Mr. Li Lianjun
Ms. Gu Li
Mr. Hung Ee Tek
Mr. He Xinlin

Supervisors:

Ms. Chen Ming
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

25 October 2023

To the Shareholders

Dear Sir or Madam,

**(1) REVISION OF THE EXISTING SCOPE AND/OR
ANNUAL CAPS FOR THE EXISTING CONTINUING
CONNECTED TRANSACTIONS;
(2) EXTENSION OF THE EXISTING CONTINUING
CONNECTED TRANSACTIONS;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 15 September 2023 in relation to, among others, the Continuing Connected Transaction Agreements.

* For identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (1) further details of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps); (2) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Continuing Connected Transaction Agreements; (3) a letter from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders containing advice in respect of the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps); and (4) a notice of convening the EGM.

2. CONTINUING CONNECTED TRANSACTION AGREEMENTS

(i) 2023–2025 Project Construction Services Framework Agreement

Save for the changes to the relevant terms under the Original Project Construction Services Framework Agreement set out in the paragraph headed “c. Term” and “d. Annual caps adjustment” below, all other terms and conditions under the Original Project Construction Services Framework Agreement remain unchanged. For details of terms and pricing under the Original Project Construction Services Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROJECT CONSTRUCTION SERVICES FRAMEWORK AGREEMENT” of the circular of the Company dated 14 November 2022.

The principal terms of the 2023–2025 Project Construction Services Framework Agreement are summarized as follows:

a. Date

15 September 2023 (after trading hours of the Stock Exchange)

b. Parties

- (1) the Company (for itself and on behalf of its subsidiaries), as the vendor;
and
- (2) Tianye Group (for itself and on behalf of its subsidiaries), as the purchaser.

c. Term

The services term under the Original Project Construction Services Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by one year to 31 December 2025.

LETTER FROM THE BOARD

d. Annual caps adjustment

The existing annual caps for the transactions contemplated under the Original Project Construction Services Framework Agreement for the years ending 31 December 2023, 2024 and 2025 will be adjusted as follows:

	For the year ending 31 December 2023 (RMB)	For the year ending 31 December 2024 (RMB)	For the year ending 31 December 2025 (RMB)
Existing annual caps under the Original Project Construction Services Framework Agreement	310,000,000	310,000,000	N/A
Adjusted annual caps under the 2023–2025 Project Construction Services Framework Agreement	510,000,000	510,000,000	510,000,000

Pricing basis

The following pricing principles are the same as those under the Original Project Construction Services Framework Agreement, and shall apply to pricing for services to be provided under the 2023–2025 Project Construction Services Framework Agreement in the following order:

(i) Government-mandated and government-suggested prices:

Where the government prescribes that pricing applies to products, technologies, or services of any specific type (at any time), supply/provision of such products, technologies, or services shall be based on the applicable government-mandated prices. In case of applicable government-suggested pricing standards, the relevant prices shall refer to government-suggested pricing agreements. In accordance with the requirements under the national standard GB50500–2013 Code of Valuation with Bill of Quantities of Construction Works* (《建設工程工程量清單計價規範》), any construction project subject to the invitation to tender as required by law must implement the invitation to tender for bill of quantities and prepare pricing limits for the invitation to tender; and

LETTER FROM THE BOARD

This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, turnkey project services, engineering project management services, and tender management services. Among which, the relevant government-mandated and government-suggested prices for pre-construction engineering services, turnkey project services, and engineering project management services currently and mainly refer to the Regulations on Construction Project Supervision and Associated Service Fees Management* (《建設工程監理與相關服務收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for survey, design and technical services currently and mainly refer to the Project Survey and Design Fee Management Regulations* (《工程勘察設計收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for tender management services currently and mainly refer to the Provisional Measures on the Administration of Service Fees Charged for Tender Agency Services* (《招標代理服務收費管理暫行辦法》) issued by the National Development and Reform Commission.

(ii) Market prices:

Prices quoted by independent third parties for comparable or similar products or services on general commercial terms in the ordinary course of business; and

This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, and turnkey project services. Mainly in reference to the Regulations on the Implementation of the Tender and Bidding Law of the PRC* (《中華人民共和國招標投標法實施條例》), prices for equipment, materials, services, and others in relation to project construction are obtained in the market by way of public tender or independent third-party markets.

(iii) Agreed prices: prices are determined by reasonable costs plus specific reasonable profits.

This pricing principle mainly applies to service items under project construction services that are not subject to public tender, primarily covering management fees (including staff costs, travel expenses and communication expenses) and construction safety fees (generally agreed upon by both parties to the 2023–2025 Project Construction Services Framework Agreement). Costs of these service items mainly include (i) service costs related to purchase activities in the market or service costs as listed in the internal pricing standards of Tianye Group and the Group; and (ii) staff costs and travel expenses incurred over the course

LETTER FROM THE BOARD

of services management of the Group (which are determined according to staff costs and travel standards of the Group). Profits of these services are mainly derived from management fees charged to the aforesaid costs. The management rate, which is generally ranging from 8% to 15% is mainly affected by (i) the market share of similar services (a higher market share of similar services of the Company usually means lesser competitors, for which the management fee rates generally increase); and (ii) changes in costs due to inflation, which is determined by the transaction parties through negotiations on general commercial terms.

The final price shall be determined after arms' length negotiations and on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, no governmental pricing policies apply to the 2023–2025 Project Construction Services Framework Agreement. Where any governmental pricing or suggested pricing applies to the relevant transactions in the future, the parties to the 2023–2025 Project Construction Services Framework Agreement shall first implement such governmental pricing or suggested pricing. As for market prices, the Company will mainly take into consideration the fair prices quoted by third parties for comparable or similar project construction services in, or in areas in proximity to, Shihezi City.

Historical transaction amount

The actual transaction amounts incurred for the year ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Project Construction Services Framework Agreement are set out below:

	For the year ended 31 December 2022 (RMB)	For the six months ended 30 June 2023 (RMB)
Actual transaction amounts incurred	47,955,963.32	27,811,848.34

LETTER FROM THE BOARD

Basis of determination of the proposed annual caps

The proposed annual caps were arrived at after an arm's length negotiation between the Company and Tianye Group with reference to, among other things, the following:

- (i) the historical transaction amounts incurred under the Original Project Construction Services Framework Agreement;
- (ii) the number of tenders won by the Company from Tianye Group (as at the Latest Practicable Date, the Company has won the tenders for 34 projects of Tianye Group), with total contract sum of approximately RMB562.11 million, including the total of two projects in respect of the general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group, with the total contract sum amounted to approximately RMB260.81 million, subject to the entry of the formal agreement between the Company and Tianye Group regarding the said successful tenders, as well as the future transaction plans;
- (iii) The Company is expected to participate in the construction and maintenance plans for 14 projects of Tianye Group in the next three years, including projects as contemplated under the letter of intent for strategic cooperation with governments at all levels, as well as the expected service demands of Tianye Group. The potential total contract sums of which could reach approximately RMB960.17 million. In the event that all the aforementioned 14 tenders are won by the Group, the cumulative number of tenders won by the Company as stipulated in paragraph (ii) above plus the number of projects in which the Company is expected to participate will be 48. The potential contract sum of the 48 tenders could reach approximately RMB1,522.28 million, which would provide an average of transactions amount of approximately RMB507.43 million per year to the Group for the three years ending 31 December 2025, which is just below the corresponding adjusted annual caps under the 2023–2025 Project Construction Services Framework Agreement;
- (iv) the impact of the contract signing time and performance progress on the expense recognition, as such construction works in general will take around three months to one year to complete;

LETTER FROM THE BOARD

- (v) the buffer (being approximately 5%) budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services due to expected increase in costs caused by inflation; and
- (vi) the relatively unstable historical transaction amounts incurred for the year ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Project Construction Services Framework Agreement were primarily due to the unexpected delay in construction projects caused by the pandemic and restrictive quarantine measures imposed by the government. As the tendering process and construction schedule for PRC construction projects return to normal, the Group expects that the transactions contemplated under the 2023–2025 Project Construction Services Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

If the aggregate transaction amounts under the 2023–2025 Project Construction Services Framework Agreement are expected to exceed the proposed annual caps, the Company will be required to re-comply with the relevant requirements in accordance with the Listing Rules, such as making a separate announcement and seeking approval from Independent Shareholders, if applicable.

As the transactions contemplated under the 2023–2025 Project Construction Services Framework Agreement constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the proposed annual caps are subject to the approval of the Independent Shareholders, the 2023–2025 Project Construction Services Framework Agreement is conditional upon the passing of the relevant resolution(s) at the EGM.

(ii) 2023–2025 Purchase Framework Agreement

Except for the changes to relevant terms under the Original Purchase Framework Agreement as detailed in the paragraphs “c. Purchased goods”, “d. Term” and “e. Annual caps adjustment” below, all other terms and conditions under the Original Purchase Framework Agreement remain unchanged. For details on the terms and pricing policies under the Original Purchase Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROPOSED CONTINUING CONNECTED TRANSACTIONS — (1) New Master Purchase Agreement” of the circular of the Company dated 14 January 2021.

LETTER FROM THE BOARD

The principal terms of the 2023–2025 Purchase Framework Agreement are summarized as follows:

a. Date

15 September 2023 (after trading hours of the Stock Exchange)

b. Parties

(1) the Company (for itself and on behalf of its subsidiaries), as the purchaser; and

(2) Tianye Group (for itself and on behalf of its subsidiaries), as the vendor.

c. Purchased goods

Purchase of PVC resins, light calcium carbonate, other chemical products and agricultural products, with light calcium carbonate, other chemical products and agricultural products as newly added products.

d. Term

The service period under the Original Purchase Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by two years to 31 December 2025.

e. Annual caps adjustment

The existing annual caps for the transactions contemplated under the Original Purchase Framework Agreement for the years ending 31 December 2023, 2024 and 2025 will be extended as follows (the amount of the annual caps remains unchanged):

	For the year ending 31 December 2023 (RMB)	For the year ending 31 December 2024 (RMB)	For the year ending 31 December 2025 (RMB)
Existing annual caps under the Original Purchase Framework Agreement	250,000,000	N/A	N/A
Adjusted annual caps under the 2023–2025 Purchase Framework Agreement	250,000,000	250,000,000	250,000,000

LETTER FROM THE BOARD

Pricing basis

The prices are to be determined by reference to the price promulgated by the PRC government and if not applicable by the fair market price charged by independent third parties at Shihezi or region near Shihezi from time to time and pursuant to the terms set out in the 2023–2025 Purchase Framework Agreement by the parties after arm’s length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, there is no government pricing policy in place which is applicable to PVC resins, light calcium carbonate, other chemical products and agricultural products.

Pursuant to the purchase control procedure, the Company currently procures the purchase of PVC resins, light calcium carbonate, other chemical products and agricultural products by reference to the prevailing market price by obtaining quotations from at least three suppliers at Shihezi or region near Shihezi, which includes Tianye Group (excluding the Group) and at least two independent third party suppliers. The Company will normally choose the supplier with the most favourable quotation, in most cases, of the lowest price. The Company will record (1) the review process and (2) the result upon each purchase. Each purchase contract will be reviewed by the department head in charge and reassessed by the purchase management department. The purchase contract will not be entered into without the approval of general manager and the chairman of the Company.

There is no standard market price for PVC resins, and market price varies by regions. In relation to the average market price of PVC resins, the average purchase price under the Original Purchase Framework Agreement was approximately RMB8,507/ton, RMB7,382/ton and RMB5,915/ton for the financial years 2021 and 2022 and for the six months ended 30 June 2023 respectively.

There is no standard market price for light calcium carbonate, and market price varies by regions. In relation to the average market price of light calcium carbonate, the average purchase price for the six months ended 30 June 2023 was approximately RMB5,300/ton.

There are no standard market prices for agricultural products, and market prices vary by regions. In relation to the average market prices of agricultural products, the average purchase prices for the six months ended 30 June 2023 was approximately RMB13,825/ton.

LETTER FROM THE BOARD

There is no standard market price for other chemical products, and market price varies by regions. In relation to the average market price of other chemical products, the average purchase price for the six months ended 30 June 2023 was approximately RMB9,700/ton.

The Directors believe that the above procurement process will ensure that the terms of the 2023–2025 Purchase Framework Agreement are on normal commercial terms and in the ordinary course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Historical transaction amount

The actual transaction amounts incurred for the year ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Purchase Framework Agreement are set out below:

	For the year ended 31 December 2021 (RMB)	For the year ended 31 December 2022 (RMB)	For the six months ended 30 June 2023 (RMB)
Actual transaction amounts incurred	138,665,924.00	55,091,747.00	55,408,595.50

Basis of determination of the proposed annual caps

The proposed annual caps were determined between the Company and Tianye Group after arm's length negotiations with reference to, among other things, the following factors:

- (i) the historical transaction amounts incurred under the Original Purchase Framework Agreement;
- (ii) the estimated growing demand of the Group's customers for various goods to be purchased based on the supportive policies from the PRC government, for instance, (i) the National Water Conservation Action Plan* (《國家節水行動方案》) as introduced by the National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會) and the Ministry of Water Resources of the PRC* (中華人民共和國水利部) in 2019, which explicitly outlines the overall control objectives for the near- and long-term organic convergence, i.e., by 2020, the water conservation policies, regulations, market mechanisms, standards, and systems are expected to be more refined, and the initial results of water conservation efforts will become evident, with a reduction

LETTER FROM THE BOARD

of 23% in water consumption per RMB10,000 of GDP and a decrease of 20% in water consumption per RMB10,000 of industrial value-added compared to the levels in 2015; by 2022, the total water consumption will be controlled within 670 billion cubic meters at the end of the “13th Five-Year Plan” period, and a preliminary framework for water-saving production and lifestyle practices will be established; by 2035, the total water consumption nationwide will be strictly managed within 700 billion cubic meters, and water resource conservation and recycling will reach a level that meets the world’s advanced standards; (ii) the State Council of the PRC approved the National High-standard Farmland Construction Plan (2021–2030)* (《全國高標準農田建設規劃(2021–2030年)》) in 2022, which focuses on the goal of food production and specifies the overall requirements, construction standards and construction content, construction zoning and construction tasks, construction supervision and post-construction management, benefit analysis, and implementation guarantees for the construction of high-standard farmland in the coming period, 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 and transformation, ensuring the completion of 1 billion mu of high-standard farmland by 2022, 1.075 billion mu by 2025, and 1.2 billion mu by 2030; and (iii) Notice of the Ministry of Agriculture and Rural Affairs regarding the Assignment of Farmland Construction Tasks for the year 2023* (農業農村部關於下達2023年農田建設任務的通知), which states that in the Xinjiang region, there will be the establishment of 4.10 million mu of high-standard farmland and the enhancement and renovation of 1.35 million mu of high-standard farmland, and local governments are required to strengthen and improve diversified investment mechanisms and secure funds from multiple sources to ensure the smooth progress of high-standard farmland construction tasks. Based on the above favorable policies of the PRC government, the Company expects an annual increase of approximately 6%–10% in customer bases of Tianye Group and the Group, and that the demand of the Group’s customers for various goods will increase;

- (iii) the expanded scope of various products to be purchased under the 2023–2025 Purchase Framework Agreement;

LETTER FROM THE BOARD

- (iv) the anticipated demand and expected market price trend of the Group and its customers for various products to be purchased during the term of the 2023–2025 Purchase Framework Agreement, and the Group’s cumulative winning of tenders for the supply of pipes for the construction of high-standard farmland of approximately 1,320,000 mu as at the Latest Practicable Date, which has led to a significant increase in demand for raw materials for PVC, with reference to, among other things, the current discussions with Tianye Group and the business and production plans of the Group; and
- (v) the relatively unstable historical transaction amounts incurred for the two years ended 31 December 2021, 31 December 2022, and for the six months ended 30 June 2023 under the Original Purchase Framework Agreement were primarily due to the unexpected delay in construction projects caused by the pandemic and restrictive quarantine measures imposed by the government, which affected the purchase of PVC resins under the Original Purchase Framework Agreement. As the tendering process and construction schedule for PRC construction projects return to normal, as well as the increase in the types of products purchased, the Group expects that the transactions contemplated under the 2023–2025 Sales Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

The above factors are assumptions made solely for determining the proposed annual caps and should not be regarded as any direct or indirect indicators of the revenue, profitability or trading prospects of the Company or the Group.

If the aggregate transaction amount under the 2023–2025 Purchase Framework Agreement is expected to exceed the proposed annual caps, the Company will be required to re-comply with the relevant requirements under the Listing Rules, such as making a separate announcement and seeking the approval of the Independent Shareholders (as applicable).

As the transactions contemplated under the 2023–2025 Purchase Framework Agreement constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the proposed annual caps are subject to the approval of the Independent Shareholders, the 2023–2025 Purchase Framework Agreement is conditional upon the passing of the relevant resolution(s) at the EGM.

LETTER FROM THE BOARD

(iii) 2023–2025 Sales Framework Agreement

Except for the changes to relevant terms under the Original Sales Framework Agreement as detailed in the paragraphs “c. Items for sale”, “d. Term” and “e. Annual caps adjustment” below, all other terms and conditions under the Original Sales Framework Agreement remain unchanged. For details on the terms and pricing policies under the Original Sales Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROPOSED CONTINUING CONNECTED TRANSACTIONS — (2) New Master Sales Agreement” of the circular of the Company dated 14 January 2021.

The principal terms of the 2023–2025 Sales Framework Agreement are summarized as follows:

a. Date

15 September 2023 (after trading hours of the Stock Exchange)

b. Parties

- (1) the Company (for itself and on behalf of its subsidiaries), as the vendor;
and
- (2) Tianye Group (for itself and on behalf of its subsidiaries), as the purchaser.

c. Items for sale

Sales of PVC/PE pipelines, drip tapes and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products, with automation products, filters, water pumps, fertilizer applicators and other related products as newly added products.

d. Term

The service period under the Original Sales Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by two years to 31 December 2025.

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e. Annual caps adjustment

The existing annual caps for the transactions contemplated under the Original Sales Framework Agreement for the years ending 31 December 2023, 2024 and 2025 will be adjusted as follows:

	For the year ending 31 December 2023 (RMB)	For the year ending 31 December 2024 (RMB)	For the year ending 31 December 2025 (RMB)
Existing annual caps under the Original Sales Framework Agreement	30,000,000	N/A	N/A
Adjusted annual caps under the 2023–2025 Sales Framework Agreement	250,000,000	250,000,000	250,000,000

Pricing basis

The prices are to be determined by reference to the market price promulgated by the PRC government, and if not applicable, by the fair market price charged by independent third parties at Shihezi or region near Shihezi from time to time and pursuant to the terms set out in the 2023–2025 Sales Framework Agreement by the parties after arm's length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, there is no government pricing policy in place which is applicable to PVC/PE pipelines, drip tapes and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products.

Based on the current price fluctuation of raw materials in the market and with reference to the product costs, the Group set the sales prices of the Company's products by comparing with the sales prices of its peers in the market. In determining the selling price for each product, a standard price list will be jointly determined by finance department, sales department and management of the Group at a price evaluation meeting held on a monthly basis, with reference to the prevailing market prices of similar products and cost of raw materials. The price list provides a pricing standard which is applicable to all sales transactions including those with Tianye Group (excluding the Group).

LETTER FROM THE BOARD

In relation to the average market price of PVC pipelines, the average sale price under the Original Sales Framework Agreement was approximately RMB9,871/ton, RMB7,823/ton and RMB6,376/ton for the financial years 2021 and 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of PE pipelines, the average sale price under the Original Sales Framework Agreement was approximately RMB10,550/ton, RMB11,260/ton and RMB10,902/ton for the financial years 2021 and 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of drip tapes, the average sale price under the Original Sales Framework Agreement was approximately RMB0.9/meter, RMB0.9/meter and RMB0.9/meter for the financial years 2021 and 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of automation products, the average sale price was approximately RMB400/mu for the six months ended 30 June 2023.

In relation to the average market price of filters, the average sale price was approximately RMB22,000/unit for the six months ended 30 June 2023.

In relation to the average market price of water pumps, the average sale price was approximately RMB9,000/unit for the six months ended 30 June 2023.

In relation to the average market price of fertilizer applicators, the average sale price was approximately RMB30,000/unit for the six months ended 30 June 2023.

The Directors believe that the above sales process will ensure that the terms of the 2023–2025 Sales Framework Agreement are on normal commercial terms and in the ordinary course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Historical transaction amount

The actual transaction amounts incurred under the Original Sales Framework Agreement for the year ended 31 December 2022 and for the six months ended 30 June 2023 are set out below:

	For the year ended 31 December 2021 (RMB)	For the year ended 31 December 2022 (RMB)	For the six months ended 30 June 2023 (RMB)
Actual transaction amounts incurred	1,592,989.45	716,046.05	318,689.40

Basis of determination of the proposed annual caps

The proposed annual caps were determined between the Company and Tianye Group after arm's length negotiations with reference to, among other things, the following factors:

- (i) the historical transaction amounts incurred under the Original Sales Framework Agreement;
- (ii) the supportive government policies and the expected increase in the customer base of Tianye Group as well as the estimated growth in demand expected from Tianye Group and its customers;
- (iii) the expanded scope of various products to be sold under the 2023–2025 Sales Framework Agreement;
- (iv) the anticipated demand and expected market price trend of Tianye Group and its customers for various products to be sold by the Group during the term of the 2023–2025 Sales Framework Agreement with reference to, among other things, the current discussions with Tianye Group and the business and production plans of the Group;
- (v) the Group has won the tenders for a procurement project for equipment and materials required for high-standard farmland project of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group, as well as general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group (in total of two projects), the total procurement amount could reach to more than RMB192 million. In addition, the Company

LETTER FROM THE BOARD

expects to participate and to aim for winning tenders for a total of three additional high-standard farmland material and equipment procurement projects of Tianye Group in the next three years, with an aggregate procurement amount expecting to reach RMB526 million. If all the aforementioned three new tenders are won by the Group, the total potential procurement amount of the Company may reach approximately RMB718 million, which would provide an average of transactions amount of approximately RMB239.33 million (excluding a buffer of approximately 5%) per year to the Group for the three years ending 31 December 2025, which is just below the corresponding adjusted annual caps under the 2023–2025 Sales Framework Agreement;

- (vi) the buffer (being approximately 5%) budgeted to cope with potential increase in the relevant demands of Tianye Group and estimated increase in average market prices for similar services and products as a result of inflation and expected increase in costs; and
- (vii) the relatively unstable historical transaction amounts incurred for the two years ended 31 December 2021, 31 December 2022, and for the six months ended 30 June 2023 under the Original Sales Framework Agreement were primarily due to the unexpected delay in construction projects under the pandemic and restrictive quarantine measures imposed by the government, which affected the sale of the items under the Original Sales Framework Agreement (including PVC/PE pipelines, drip tapes and drip assemblies). As the tendering process and construction schedule for PRC construction projects resume normal as well as the increase in the types of products sold, the Group expects that the transactions contemplated under the 2023–2025 Sales Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

The above factors are assumptions made solely for the purpose of determining the proposed annual caps and should not be regarded as any direct or indirect indicators of the revenue, profitability or trading prospects of the Company or the Group.

If the aggregate transaction amount under the 2023–2025 Sales Framework Agreement is expected to exceed the proposed annual caps, the Company will be required to re-comply with the relevant requirements under the Listing Rules, such as making a separate announcement and seeking the approval of the Independent Shareholders (as applicable).

LETTER FROM THE BOARD

As the transactions contemplated under the 2023–2025 Sales Framework Agreement constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the proposed annual caps are subject to the approval of the Independent Shareholders, the 2023–2025 Sales Framework Agreement is conditional upon the passing of the relevant resolution(s) at the EGM.

3. REASONS AND BENEFITS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTION AGREEMENTS

In relation to the 2023–2025 Project Construction Services Framework Agreement, the Group intends to extend the term and increase the annual caps mainly due to (i) the increased synergy between the Group and Tianye Group after years of cooperation; (ii) the expansion of business operations and production capacity of the Group, and the continuous increase in the demand of Tianye Group for various infrastructure construction services of the Group. As at the Latest Practicable Date, the Company has won the tenders for 34 projects of Tianye Group (subject to the entering into of the formal agreement between the Company and Tianye Group regarding the said successful tenders), which will exceed the existing annual caps for the years ending 2023 and 2024 under the Original Project Construction Services Framework Agreement within a short period; (iii) the Company's expected participation in the construction and maintenance plans for 14 projects of Tianye Group in the next three years, including projects as contemplated under the letter of intent for strategic cooperation with governments at all levels, as well as the expected service demands of Tianye Group. The cumulative number of tenders won by the Company as stated in paragraph (ii) above plus the number of projects in which the Company is expected to participate totaled 48; and (iv) the buffer (i.e. approximately 5%) budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services and products due to expected increase in costs caused by inflation.

In relation to the 2023–2025 Purchase Framework Agreement, the Group intends to extend the term and increase the number of products to be purchased due to the facts that (i) the factory of Tianye Group is located nearby, so that the Group can lower the transportation costs if it purchases PVC resins, light calcium carbonate, other chemical products and agricultural products from Tianye Group; (ii) the synergy between the Group and Tianye Group has been strengthened after years of cooperation; and (iii) Tianye Group agrees that in case of a shortage of PVC resin, light calcium carbonate, other chemical products, and agricultural products in the market, the Group may have priority to purchasing these products at market prices. In such circumstances, the Directors believe that the Group will maintain its competitiveness in the market with lower purchasing costs and stable supply of the products to be purchased. On the other hand, the Group shall not be obliged to purchase the above-said products if the Group is offered with a more favorable price with similar quality by independent third parties.

LETTER FROM THE BOARD

In relation to the 2023–2025 Sales Framework Agreement, the Group intends to extend the term and increase the annual caps and the number of items for sale due to (i) the expansion of business operations and production capacity of the Group, and the continuous increase in the demand of Tianye Group for various products to be sold by the Group; (ii) the increased synergy between the Group and Tianye Group after years of cooperation; (iii) the supply of the drip tapes, PVC/PE pipelines and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products by the Group to Tianye Group and its customers, which will increase the Group's source of revenue; (iv) the Group has won the tenders for a procurement project for equipment and materials required for high-standard farmland project of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group as well as general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group (in total of two projects); and (v) the buffer budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services and products due to expected increase in costs caused by inflation. The Directors believe that it is in the interest of the Group to enter into the 2023–2025 Sales Framework Agreement as sales to Tianye Group will increase the volume of sales on the Group's products and the profit of the Group.

The Directors (including the independent non-executive Directors) believe that the Continuing Connected Transaction Agreements were entered into in the ordinary and usual course of business of the Group on normal commercial or better terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. INTERNAL CONTROL PROCEDURES

In order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following internal control procedures to standardize and prescribe pricing policies, mechanism, terms of reference, and decision-making agencies and to monitor the transactions under each of the Continuing Connected Transactions Agreements so that the transactions under Continuing Connected Transactions Agreements are assured in strict compliance with the relevant pricing policies.

Particularly for the purposes of the continuing connected transactions as contemplated under the Continuing Connected Transaction Agreements and the annual caps (non-exempt continuing connected transactions), the guiding principles will apply and the relevant internal control procedures are as follows:

- (i) The finance department of the Company will closely monitor and record actual transaction amounts of the continuing connected transactions contemplated under the Continuing Connected Transaction Agreements to ensure the annual caps therein will not be exceeded;
- (ii) In relation to the 2023–2025 Project Construction Services Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Project Construction Services Framework

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Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (i) 2023–2025 Project Construction Services Framework Agreement — Pricing basis” in this circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices quoted to Tianye Group will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as provision of services to Tianye Group is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered to Tianye Group will be favorable to the Group and no less favorable to terms offered by the Group to independent third parties; (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered to Tianye Group will be determined in reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be less favorable than those offered by independent third parties;

- (iii) In relation to the 2023–2025 Purchase Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Purchase Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (ii) 2023–2025 Purchase Framework Agreement — Pricing basis” in this circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices of products to be purchased will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as procurement of Tianye Group’s products is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered by Tianye Group to the Group will be favorable to the Group and no less favorable to terms offered by Tianye Group to independent third parties; (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered by Tianye Group will be determined in reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be higher than those offered by independent third parties to Tianye Group;

LETTER FROM THE BOARD

- (iv) In relation to the 2023–2025 Sales Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Sales Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (iii) 2023–2025 Sales Framework Agreement — Pricing basis” in this circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices of products to be sold will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as sale of products to Tianye Group is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered to Tianye Group will be favorable to the Group and no less favorable to terms offered by the Group to independent third parties; (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered by the Group will be determined in reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be less favorable than those offered by independent third parties;
- (v) In accordance with the Listing Rules, the auditor of the Company will review the continuing connected transactions (which shall be subject to annual review and disclosure requirements under the Listing Rules) on an annual basis, and confirm whether (a) the transactions contemplated under the Continuing Connected Transaction Agreements are approved by the Board; (b) these transactions are in compliance with the pricing policies of the Group in all material aspects; (c) these transactions are entered into in accordance with the Continuing Connected Transaction Agreements; and (d) annual caps are exceeded; and
- (vi) In accordance with the Listing Rules, the independent non-executive Directors shall conduct annual reviews (which shall be subject to annual review and disclosure requirements under the Listing Rules) to confirm that the transactions contemplated under the Continuing Connected Transaction Agreements are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial or better terms; and (c) in accordance with the Continuing Connected Transaction Agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Where the proposed annual caps in respect of each of the Continuing Connected Transaction Agreements mentioned above are exceeded, or renewed or materially changed, the Company will be required to re-comply with the reporting, announcement, and Independent Shareholders’ approval (if applicable) requirements under Rules 14A.35 to 14A.47 of the Listing Rules.

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The Directors (including the independent non-executive Directors) believe that the above internal control procedures adopted by the Company in relation to the Continuing Connected Transaction Agreements are appropriate, which can ensure that the above continuing connected transactions will be executed in accordance with the pricing principles established under the Continuing Connected Transaction Agreements respectively and are properly monitored.

5. OPINIONS OF DIRECTORS ON THE CONTINUING CONNECTED TRANSACTION AGREEMENTS AND ABSTENTION FROM VOTING ON RESOLUTIONS OF THE BOARD

The Directors (including the independent non-executive Directors) believe that the terms of the Continuing Connected Transaction Agreements are determined in the ordinary and usual course of business on normal commercial or better terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Ms. Yang Ling, an executive Director of the Company (who has resigned as an executive Director on 28 September 2023, details of which are set out in the announcement of the Company dated 28 September 2023) and Mr. Jiang Dayong, an executive Director, have abstained from voting on the approval of the Continuing Connected Transaction Agreements at the meeting of the Board, as they have material interests therein as a member of the Party Committee and the assistant to the general manager of Tianye Group, respectively. Save as disclosed above, none of the Directors have material interests in the Continuing Connected Transaction Agreements.

6. INFORMATION ABOUT THE COMPANY AND TIANYE 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 system, and is also engaged in the provision of installation services of water saving irrigation system for its customers as well as engaged in land circulation and engineering business, and strategic developing digital agriculture and agriculture service business.

Tianye Group is mainly engaged in the manufacturing and sales of chlor-alkali; sales of sulfuric acid, hydrochloric acid, sodium hydroxide (protopine, alkali, solid caustic soda, caustic soda) calcium hypochlorite, sodium hypochlorite, lime, high boiling materials (dichloroethane); transportation of in-road general cargos; manufacturing and sale of 1,4-butanediol, glycol, chemicals, solid mercury catalysts, cement and cement products, plastic products, calcium carbonate and sodium carbonate; sale of steel, building materials, livestock products, machinery and equipment and chemical products; promotion of farming, aquaculture, water-saving agriculture technologies, research of water-saving agriculture technologies, import and export, international freight forwarding, property management, rail transportation through self-built railways; loading and unloading and handling, testing equipment technology consulting and services, machinery and equipment leasing services, processing and manufacturing of moulds and spare parts; advertisement design, production, publishing and agency; warehousing services (other than for hazardous chemicals), domestic freight forwarding agency services, customs clearance and inspection services, development and sale of computer software, information technology services and

LETTER FROM THE BOARD

consultation, information system integration engineering, network cabling engineering, automation control system, sales, installation and maintenance of industrial monitoring equipment, design, production and maintenance of websites; agricultural planning and design, agricultural technology research and promotion, plantation and sales of crops, agricultural product processing and sales; engineering design, construction, contracting, and technology transfer; thermal power generation; heat supply; sales of electricity and steam; electrical testing; vehicle leasing; catering services; sales of calcium carbide, coal and coal products; and sales of mineral products and metal materials. As at the date of this announcement, the registered capital of Tianye Group is owned by the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division* (新疆生產建設兵團第八師國有資產監督管理委員會) and the State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps* (新疆生產建設兵團國有資產監督管理委員會) as to 90% and 10% of the equity interest, respectively.

7. LISTING RULES IMPLICATIONS

According to Rule 14A.54 of the Listing Rules, if the Company intends to revise the existing annual cap of continuing connected transactions, update the Continuing Connected Transaction Agreements, or substantially revise the terms of the Continuing Connected Transaction Agreements, the Company shall be required to re-comply with the requirements of Chapter 14A of the Listing Rules in relation to relevant connected transactions.

As at the Latest Practicable Date, Tianye Group is a controlling shareholder of the Company holding approximately 60.42% of the issued share capital of the Company directly, and Tianye Group is therefore a connected person of the Company. The transactions under the Continuing Connected Transaction Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the respective annual caps of each of the Continuing Connected Transaction Agreements is more than 5%, the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company, and are subject to the reporting, announcement, annual approval and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. EGM AND ABSTENTION FROM VOTING AT EGM

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 terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

An EGM of the Company will be held to consider and approve, among other things, the ordinary resolution in respect of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps).

INCU Corporate Finance Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) are fair and reasonable, and whether they are 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 and its associates (as stated in Appendix III of this circular, as at the Latest Practicable Date, holding 313,886,921 Domestic Shares, representing approximately 60.42% of the total issued share capital of the Company), 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 Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) shall be conducted by poll.

9. EGM

The EGM will be held on Thursday, 9 November 2023 at 10:30 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.

The notice for convening the EGM at which the resolutions mentioned above will be proposed is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM will be despatched on Wednesday, 25 October 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, at 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. 10:30 a.m. on Wednesday, 8 November 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 delivery 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.

LETTER FROM THE BOARD

10. 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.

11. CLOSURE OF REGISTER OF MEMBERS

For the purpose of the EGM, the register of the members of the Company will be closed from Monday, 6 November 2023 to Thursday, 9 November 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, 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 Friday, 3 November 2023.

12. 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 terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps). 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 32 to 67 of this circular.

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

13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

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

* For identification purposes only



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

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

(Stock Code: 840)

25 October 2023

To the Independent Shareholders

Dear Sir or Madam,

**ADVICE ON THE TERMS OF THE CONTINUING CONNECTED
TRANSACTION AGREEMENTS AND THE TRANSACTIONS
CONTEMPLATED THEREUNDER (INCLUDING THE REVISION
OF SCOPE AND/OR EXISTING ANNUAL CAPS)**

We have been appointed as members of the Independent Board Committee to give our advice on the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps), details of which are set out in the letter from the Board (the “**Letter from the Board**”) included in the circular dated 25 October 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 terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps). The letter from the Independent Financial Adviser is set out on pages 32 to 67 of the Circular.

* *For identification purposes only*

LETTER FROM INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Continuing Connected Transaction Agreements, the reasons for and benefits of entering into the Continuing Connected Transaction Agreements, 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 Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms or better terms. The Continuing Connected Transaction Agreements are in the interests of the Company and the Shareholders taken as a whole, and the terms and conditions of the continuing connected transactions are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps).

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*

LETTER FROM INCU

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 Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps).



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

25 October 2023

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

Dear Sir or Madam,

**(1) REVISION OF THE EXISTING SCOPE AND/OR
ANNUAL CAPS FOR THE EXISTING CONTINUING
CONNECTED TRANSACTIONS; AND
(2) EXTENSION OF THE EXISTING CONTINUING
CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) (the “**Proposed Continuing Connected Transactions**”). Details of the which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company dated 25 October 2023 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

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Reference is made to the announcement of the Company dated 15 September 2023, due to the expansion of business operations and production capacity of the Group, the increase in the Group's demand for various types of products to be purchased by Tianye Group and the continuous growth in demand of Tianye Group for the Group's various infrastructure construction services and products to be sold, on 15 September 2023, the Company and Tianye Group respectively entered into:

- (i) 2023–2025 Project Construction Services Framework Agreement, to (a) revise the annual cap amounts of the continuing connected transactions between the parties as of 31 December 2023 and 31 December 2024 under the Original Project Construction Services Framework Agreement; and (b) extend the term of the Original Project Construction Services Framework Agreement to 31 December 2025;
- (ii) 2023–2025 Sales Framework Agreement, to (a) revise the annual cap amounts of the continuing connected transactions between the parties as of 31 December 2023 under the Original Sales Framework Agreement; (b) increase in the types of products sold under the Original Sales Framework Agreement; and (c) extend the term of the Original Sales Framework Agreement to 31 December 2025; and
- (iii) 2023–2025 Purchase Framework Agreement, to (a) increase the types of products purchased under the Original Purchase Framework Agreement; and (b) extend the term of the Original Purchase Framework Agreement to 31 December 2025.

According to Rule 14A.54 of the Listing Rules, if the Company intends to revise the existing annual caps of continuing connected transactions, update the Continuing Connected Transaction Agreements, or substantially revise the terms of the Continuing Connected Transaction Agreements, the Company shall be required to re-comply with the requirements of Chapter 14A of the Listing Rules in relation to relevant connected transactions.

As at the Latest Practicable Date, Tianye Group is a controlling shareholder of the Company holding approximately 60.42% of the issued share capital of the Company directly, and Tianye Group is therefore a connected person of the Company. In light that Tianye Group is a connected person of the Company, the transactions under the Continuing Connected Transaction Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the respective annual caps of each of the Continuing Connected Transaction Agreements is more than 5%, the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company, and are subject to the reporting, announcement, annual approval and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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To the best knowledge, information, and belief of the Directors, as at the Latest Practicable Date, save for Tianye Group 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 Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) shall be conducted by poll.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Li Lianjun, Ms. Gu Li, Mr. Hung Ee Tek and Mr. He Xinlin, has been established to advise and provide recommendation to the Independent Shareholders in relation to fairness and reasonableness of the Proposed Continuing Connected Transactions.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole.

Except for the major and connected transaction in relation to the disposal of assets of the Group, which the circular has been despatched on 15 March 2023 and the discloseable and connected transaction in relation to the acquisition of 51% of 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 has not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Continuing Connected Transactions. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Proposed Continuing Connected Transactions, and accordingly, are eligible to give independent advice and recommendations on the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps). 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 to the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps).

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the 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. We have relied on such information and consider 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. However, we have not conducted any in-depth independent investigation into the businesses, affairs and financial positions of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the continuing connected transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Proposed Continuing Connected Transactions, and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Information of the Group and Tianye Group

(a) Information 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 system, and is also engaged in the provision of installation services of water saving irrigation system for its customers as well as engaged in land circulation and engineering business, and strategic developing digital agriculture and agriculture service business.

(b) Information of Tianye Group

Tianye Group is mainly engaged in the manufacturing and sales of chlor-alkali; sales of sulfuric acid, hydrochloric acid, sodium hydroxide (protopine, alkali, solid caustic soda, caustic soda) calcium hypochlorite, sodium hypochlorite, lime, high boiling materials (dichloroethane); transportation of in-road general cargos; manufacturing and sale of 1,4-butanediol, glycol, chemicals, solid mercury catalysts, cement and cement products, plastic products, calcium carbonate and sodium carbonate; sale of steel,

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building materials, livestock products, machinery and equipment and chemical products; promotion of farming, aquaculture, water-saving agriculture technologies, research of water-saving agriculture technologies, import and export, international freight forwarding, property management, rail transportation through self-built railways; loading and unloading and handling, testing equipment technology consulting and services, machinery and equipment leasing services, processing and manufacturing of moulds and spare parts; advertisement design, production, publishing and agency; warehousing services (other than for hazardous chemicals), domestic freight forwarding agency services, customs clearance and inspection services, development and sale of computer software, information technology services and consultation, information system integration engineering, network cabling engineering, automation control system, sale, installation and maintenance of industrial monitoring equipment, design, production and maintenance of websites; agricultural planning and design, agricultural technology research and promotion, plantation and sales of crops, agricultural product processing and sales; engineering design, construction, contracting, and technology transfer; thermal power generation; heat supply; sales of electricity and steam; electrical testing; vehicle leasing; catering services; sales of calcium carbide, coal and coal products; and sales of mineral products and metal materials. As at the Latest Practicable Date, the registered capital of Tianye Group is owned as to 90% by the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division* (新疆生產建設兵團第八師國有資產監督管理委員會), and as to 10% by the State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps* (新疆生產建設兵團國有資產監督管理委員會).

2. 2023–2025 Project Construction Services Framework Agreement

2.1 Principal terms of 2023–2025 Project Construction Services Framework Agreement

According to the Letter from the Board, save for the changes to the relevant terms under the Original Project Construction Services Framework Agreement set out in the paragraph headed “c. Term” and “d. Annual caps adjustment” under the section headed “2(i) 2023–2025 Project Construction Services Framework Agreement” in the Letter from the Board, all other terms and conditions under the Original Project Construction Services Framework Agreement remain unchanged. For details of terms and pricing under the Original Project Construction Services Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROJECT CONSTRUCTION SERVICES FRAMEWORK AGREEMENT” of the circular of the Company dated 14 November 2022.

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The principal terms of the 2023–2025 Project Construction Services Framework Agreement are summarized as follows:

- Date of agreement : 15 September 2023 (after trading hours of the Stock Exchange)
- Parties : (i) the Company (for itself and on behalf of its subsidiaries), as the vendor; and
(ii) Tianye Group (for itself and on behalf of its subsidiaries), as the purchaser.
- Term : The services term under the Original Project Construction Services Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by one year to 31 December 2025.
- Annual caps adjustment : The existing annual caps for the transactions contemplated under the Original Project Construction Services Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 will be adjusted as follows:

	For the year ending 31 December 2023 <i>(RMB)</i>	For the year ending 31 December 2024 <i>(RMB)</i>	For the year ending 31 December 2025 <i>(RMB)</i>
Existing annual caps under the Original Project Construction Services Framework Agreement	310,000,000	310,000,000	N/A
Adjusted annual caps under the 2023–2025 Project Construction Services Framework Agreement	510,000,000	510,000,000	510,000,000

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Pricing basis : The following pricing principles are the same as those under the Original Project Construction Services Framework Agreement, and shall apply to pricing for services to be provided under the 2023–2025 Project Construction Services Framework Agreement in the following order:

- (i) Government-mandated and government-suggested prices

Where the government prescribes that pricing applies to products, technologies, or services of any specific type (at any time), supply/provision of such products, technologies, or services shall be based on the applicable government-mandated prices. In case of applicable government-suggested pricing standards, the relevant prices shall refer to government-suggested pricing agreements. In accordance with the requirements under the national standard GB50500–2013 Code of Valuation with Bill of Quantities of Construction Works* (《建設工程工程量清單計價規範》), any construction project subject to the invitation to tender as required by law must implement the invitation to tender for bill of quantities and prepare pricing limits for the invitation to tender; and

This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, turnkey project services, engineering project management services, and tender management services. Among which, the relevant government-mandated and government-suggested prices for pre-construction engineering services, turnkey project services, and engineering project management services currently and mainly refer to the Regulations on Construction Project Supervision and Associated Service Fees Management* (《建設工程監理與相關服務收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for survey, design and technical services currently and mainly refer to the Project Survey and Design Fee Management Regulations* (《工程勘察設計收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for tender management services currently and mainly refer to the Provisional Measures on the Administration of Service Fees Charged for Tender Agency Services* (《招標代理服務收費管理暫行辦法》) issued by the National Development and Reform Commission.

(ii) Market prices

Prices quoted by independent third parties for comparable or similar products or services on general commercial terms in the ordinary course of business; and

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This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, and turnkey project services. Mainly in reference to the Regulations on the Implementation of the Tender and Bidding Law of the PRC* (《中華人民共和國招標投標法實施條例》), prices for equipment, materials, services, and others in relation to project construction are obtained in the market by way of public tender or independent third-party markets.

- (iii) Agreed prices: prices are determined by reasonable costs plus specific reasonable profits

This pricing principle mainly applies to service items under project construction services that are not subject to public tender, primarily covering management fees (including staff costs, travel expenses and communication expenses) and construction safety fees (generally agreed upon by both parties to the 2023–2025 Project Construction Services Framework Agreement). Costs of these service items mainly include (a) service costs related to purchase activities in the market or service costs as listed in the internal pricing standards of Tianye Group and the Group; and (b) staff costs and travel expenses incurred over the course of services management of the Group (which are determined according to staff costs and travel standards of the Group). Profits of these services are mainly derived from management fees charged to the aforesaid costs. The management rate, which is generally ranging from 8% to 15% is mainly affected by (a) the market share of similar services (A higher market share of similar services of the Company usually means lesser competitors, for which the management fee rates generally increase); and (b) changes in costs due to inflation, which is determined by the transaction parties through negotiations on general commercial terms.

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The final price shall be determined after arms' length negotiations and on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, no governmental pricing policies apply to the 2023–2025 Project Construction Services Framework Agreement. Where any governmental pricing or suggested pricing applies to the relevant transactions in the future, the parties to the 2023–2025 Project Construction Services Framework Agreement shall first implement such governmental pricing or suggested pricing. As for market prices, the Company will mainly take into consideration the fair prices quoted by third parties for comparable or similar project construction services in, or in areas in proximity to, Shihezi City.

- Basis of determination of the proposed annual caps : The proposed annual caps were arrived at after an arm's length negotiation between the Company and Tianye Group with reference to, among other things, the following:
- (i) the historical transaction amounts incurred under the Original Project Construction Services Framework Agreement;

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- (ii) the number of tenders won by the Company from Tianye Group (as at the Latest Practicable Date, the Company has won the tenders for 34 projects of Tianye Group), with total contract sum of approximately RMB562.11 million, including the total of two projects in respect of the general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group, with the total contract sum amounted to approximately RMB260.81 million, subject to the entering into of the formal agreement between the Company and Tianye Group regarding the said successful tenders, as well as the future transaction plans;
- (iii) the Company is expected to participate in the construction and maintenance plans for an additional 14 projects of Tianye Group in the next three years, including projects as contemplated under the letter of intent for strategic cooperation with governments at all levels, as well as the expected service demands of Tianye Group. The potential total contract sums of which could reach approximately RMB960.17 million. In the event that all the aforementioned 14 tenders are won by the Group, the cumulative number of tenders won by the Company as stipulated in paragraph (ii) above plus the number of projects in which the Company is expected to participate will be 48. The potential contract sum of the 48 tenders could reach approximately RMB1,522.28 million, which would provide an average of transactions amount of approximately RMB507.43 million per year to the Group for the three years ending 31 December 2025, which is just below the corresponding adjusted annual caps under the 2023–2025 Project Construction Services Framework Agreement;
- (iv) the impact of the contract signing time and performance progress on the expense recognition, as such construction works in general will take around three months to one year to complete;

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- (v) the buffer (being approximately 5%) budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services due to expected increase in costs caused by inflation; and
- (vi) the relatively unstable historical transaction amounts incurred for the year ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Project Construction Services Framework Agreement were primarily due to the unexpected delay in construction projects under the pandemic and restrictive quarantine measures imposed by the government. As the tendering process and construction schedule for PRC construction projects resume normal, the Group expects that the transactions contemplated under the 2023–2025 Project Construction Services Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

We have reviewed and compared the terms of the 2023–2025 Project Construction Services Framework Agreement and the Original Project Construction Services Framework Agreement and note that, other than (a) revision of the annual caps amounts of the continuing connected transactions between the parties as of 31 December 2023 and 31 December 2024 under the Original Project Construction Services Framework Agreement; and (b) extension of the term of the Original Project Construction Services Framework Agreement to 31 December 2025, there has been no material change between the terms of the two aforesaid agreements.

As confirmed by the management of the Company, the price and terms of the tenders submitted by the Group to Tianye Group regarding Tianye Group's construction works in the PRC are subject to the standard and systematic tender submission procedures maintained by the Group, which apply to tenders submitted to both connected persons and independent third parties. The Group prepares and generates the tender documents and construction bill of quantities* (工程量清單) through the construction cost management software named "New Point costing list Xinjiang version*" (新點清單造價新疆版) with complete and latest national construction fixed-rate database and the local government pricing standard in Xinjiang. We have compared the principal terms of the 2023–2025 Project Construction Services Framework Agreement and samples of construction service contracts entered into between the Group and other independent third parties for each of the two years ended 31 December 2022 and for the six months

ended 30 June 2023 (the “**Independent Construction Services Contracts**”) with the nature of construction services provided to other independent third parties under the contracts similar to the project construction services to be provided under the 2023–2025 Project Construction Services Framework Agreement. Samples of construction service contracts between the Group and Tianye Group and the Independent Construction Services Contracts have been selected based on the materiality, which represent the top 3 projects of each category in respect of the contract sum for each of the two years ended 31 December 2022 and the six months ended 30 June 2023. We are of the view that the selection basis and sample copies reviewed are fair and representative in view of materiality. We observed that the major terms of the Independent Construction Service Contracts are similar to the 2023–2025 Project Construction Services Framework Agreement. As (i) the tender submission with both connected persons and independent third parties followed the same procedure; and (ii) the major terms of the Independent Construction Service Contracts are similar to the 2023–2025 Project Construction Services Framework Agreement, we are of the view that the terms of the 2023–2025 Project Construction Services Framework Agreement are on normal commercial terms and fair and reasonable.

2.2 Our assessment on the proposed annual caps of 2023–2025 Project Construction Services Framework Agreement

As disclosed in the Letter from the Board, the Group proposed to extend the term and increase the annual caps mainly due to (i) the increased synergy between the Group and Tianye Group after years of cooperation; (ii) the expansion of business operations and production capacity of the Group, and the continuous increase in the demand of Tianye Group for various infrastructure construction services of the Group. As at the Latest Practicable Date, the Company has won the tenders for 34 projects of Tianye Group (subject to the entering into of the formal agreement between the Company and Tianye Group regarding the said successful tenders), which will exceed the existing annual caps for the years ending 31 December 2023 and 31 December 2024 under the Original Project Construction Services Framework Agreement within a short period; (iii) the Company is expected to participate in the construction and maintenance plans for an additional 14 projects of Tianye Group in the next three years, including projects as contemplated under the letter of intent for strategic cooperation with governments at all levels, as well as the expected service demands of Tianye Group. The cumulative number of tenders won by the Company as stipulated in paragraph (ii) above plus the number of projects in which the Company is expected to participate totalled 48; and (iv) the buffer budgeted (i.e. approximately 5%) to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services and products due to expected increase in costs caused by inflation.

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The following table shows the actual transaction amounts incurred for the year ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Project Construction Services Framework Agreement as stated in the Letter from the Board:

	For the year ended 31 December 2022 (RMB)	For the six month ended 30 June 2023 (RMB)
Actual transaction amounts incurred	47,955,963.32	27,811,848.34

We have discussed with the management of the Company in respect of the actual transaction amounts as shown in the above table and the Company informed that the actual transaction amounts under the Original Project Construction Services Framework Agreement were adversely affected by the outbreak of the COVID-19 pandemic and restrictive measures imposed by the government, such as lockdowns, social distancing and home quarantine, to control the spreading of COVID-19. As the tendering process and construction schedule for PRC construction projects resume normal, the Group expects that the transactions contemplated under the 2023–2025 Project Construction Services Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount. In determining the annual caps under the 2023–2025 Project Construction Services Framework Agreement, the Company has taken into account future prospect of the construction services provided by the Group to Tianye Group.

Based on the project list provided by the Company, due to the two sizeable tenders of general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corp Eighth Agricultural Division of Tianye Group* (天業集團新疆生產建設兵團第八師高標準農田建設項目設計採購施工一體化總承包) (the “**Two New Construction Projects**”) won by the Group in May 2023 with the total contract sum amounted to approximately RMB260.81 million, the estimated transaction amount for the year ending 31 December 2023 may exceed the existing annual cap for the year ending 31 December 2023 under the Original Project Construction Services Framework Agreement. For our due diligence purpose, we have reviewed the construction services contracts of the Two New Construction Projects and cross checked the information in the project list as they are selected from our sample review as mentioned above.

From our review of the project list, we also note that, as at the Latest Practicable Date, the Group has 34 existing construction projects with total contract sum of approximately RMB562.11 million, of which 24 construction projects (including the Two New Construction Projects) with total contract sum of approximately RMB538.72 million were awarded in year of 2023. In addition,

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the Group plans to participate in the tenders of 14 projects from Tianye Group in the coming years, which the potential total contract sum could reach approximately RMB960.17 million. In the event that all the 14 tenders are won by the Group, the sum of the actual contract sum of existing construction projects and the potential contract sum of the tenders could reach approximately RMB1,522.28 million. As discussed with the management of the Company, the construction works in general will take around three months to one year to complete, therefore, the total contract sum of RMB1,522.28 million would provide an average of transactions amount of approximately RMB507.43 million per year to the Group for the three years ending 31 December 2023, 31 December 2024 and 31 December 2025.

After considering (i) the contract sum of the Two New Construction Projects as awarded to the Group in May 2023; and (ii) the estimated transaction amount for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 with reference to the contract sum of the existing projects and the tenders to be participated in by the Company would exceed the existing annual caps under the Original Project Construction Services Framework Agreement, we consider that the adjustment to the annual cap under the 2023–2025 Project Construction Services Framework Agreement is fair and reasonable.

3. 2023–2025 Sales Framework Agreement

3.1 Principal terms of 2023–2025 Sales Framework Agreement

According to the Letter from the Board, except for the changes to relevant terms under the Original Sales Framework Agreement as detailed in the paragraphs “c. Items for sale”, “d. Term” and “e. Annual caps adjustment” under the section headed “2(iii) 2023–2025 Sales Framework Agreement” in the Letter from the Board, all other terms and conditions under the Original Sales Framework Agreement remain unchanged. For details on the terms and pricing policies under the Original Sales Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROPOSED CONTINUING CONNECTED TRANSACTIONS — (2) New Master Sales Agreement” of the circular of the Company dated 14 January 2021.

The principal terms of the 2023–2025 Sales Framework Agreement are summarized as follows:

Date of agreement	:	15 September 2023 (after trading hours of the Stock Exchange)
Parties	:	(i) the Company (for itself and on behalf of its subsidiaries), as the vendor; and (ii) Tianye Group (for itself and on behalf of its subsidiaries), as the purchaser.

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- Items for sale : Sales of PVC/PE pipelines, drip tapes and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products, with automation products, filters, water pumps, fertilizer applicators and other related products as newly added products.
- Term : The service period under the Original Sales Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by two years to 31 December 2025.
- Annual caps adjustment : The existing annual caps for the transactions contemplated under the Original Sales Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 will be adjusted as follows:

	For the year ending 31 December 2023 <i>(RMB)</i>	For the year ending 31 December 2024 <i>(RMB)</i>	For the year ending 31 December 2025 <i>(RMB)</i>
Existing annual caps under the Original Sales Framework Agreement	30,000,000	N/A	N/A
Adjusted annual caps under the 2023–2025 Sales Framework Agreement	250,000,000	250,000,000	250,000,000

- Pricing basis : The prices are to be determined by reference to the market price promulgated by the PRC government, and if not applicable, by the fair market price charged by independent third parties at Shihezi or region near Shihezi from time to time and pursuant to the terms set out in the 2023–2025 Sales Framework Agreement by the parties after arm’s length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, there is no government pricing policy in place which is applicable to PVC/PE pipelines, drip tapes and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products.

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Based on the current price fluctuation of raw materials in the market and with reference to the product costs, the Group sets the sales prices of the Company's products by comparing with the sales prices of its peers in the market. In determining the selling price for each product, a standard price list will be jointly determined by finance department, sales department and management of the Group at a price evaluation meeting held on a monthly basis, with reference to the prevailing market prices of similar products and cost of raw materials. The price list provides a pricing standard which is applicable to all sales transactions including those with Tianye Group (excluding the Group).

In relation to the average market price of PVC pipelines, the average sale price under the Original Sales Framework Agreement was approximately RMB9,871/ton, RMB7,823/ton and RMB6,376/ton for the financial years ended 31 December 2021, 31 December 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of PE pipelines, the average sale price under the Original Sales Framework Agreement was approximately RMB10,550/ton, RMB11,260/ton and RMB10,902/ton for the financial years ended 31 December 2021, 31 December 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of drip tapes, the average sale price under the Original Sales Framework Agreement was approximately RMB0.9/meter, RMB0.9/meter and RMB0.9/meter for the financial years ended 31 December 2021, 31 December 2022 and for the six months ended 30 June 2023 respectively.

In relation to the average market price of automation products, the average sale price was approximately RMB400/mu for the six months ended 30 June 2023.

In relation to the average market price of filters, the average sale price was approximately RMB22,000/unit for the six months ended 30 June 2023.

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In relation to the average market price of water pumps, the average sale price was approximately RMB9,000/unit for the six months ended 30 June 2023.

In relation to the average market price of fertilizer applicators, the average sale price was approximately RMB30,000/unit for the six months ended 30 June 2023.

- Basis of determination of the proposed annual caps :
- The proposed annual caps were determined between the Company and Tianye Group after arm's length negotiations with reference to, among other things, the following factors:
- (i) the historical transaction amounts incurred under the Original Sales Framework Agreement;
 - (ii) the supportive government policies and the expected increase in the customer base of Tianye Group as well as the estimated growth in demand expected from Tianye Group and its customers;
 - (iii) the expanded scope of various products to be sold under the 2023–2025 Sales Framework Agreement;
 - (iv) the anticipated demand and expected market price trend of Tianye Group and its customers for various products to be sold by the Group during the term of the 2023–2025 Sales Framework Agreement with reference to, among other things, the current discussions with Tianye Group and the business and production plans of the Group;

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- (v) the Group has won the tenders for a procurement project for equipments and materials required for high-standard farmland project of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group, as well as general contracting for design, procurement and construction for high-standard farmland construction of Xinjiang Production and Construction Corps Eighth Agricultural Division of Tianye Group (in total of two projects), the total procurement amount could reach to more than RMB192 million. In addition, the Company expects to win tenders for a total of three additional high-standard farmland material and equipment procurement projects of Tianye Group in the next three years, with an aggregate procurement amount expecting to reach RMB526 million. If all the aforementioned three new tenders are won by the Group, the total potential procurement amount of the Company may reach approximately RMB718 million, which would provide an average of transactions amount of approximately RMB239.33 million (excluding a buffer of approximately 5%) per year to the Group for the three years ending 31 December 2025, which is just below the corresponding adjusted annual caps under the 2023–2025 Sales Framework Agreement;
- (vi) the buffer (being approximately 5%) budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services and products as a result of inflation and expected increase in costs; and

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(vii) the relatively unstable historical transaction amounts incurred for the two years ended 31 December 2021, 31 December 2022, and for the six months ended 30 June 2023 under the Original Sales Framework Agreement were primarily due to the unexpected delay in construction projects under the pandemic and restrictive quarantine measures imposed by the government, which affected the sale of the items under the Original Sales Framework Agreement (including PVC/PE pipelines, drip tapes and drip assemblies). As the tendering process and construction schedule for PRC construction projects resume normal as well as the increase in the types of products sold, the Group expects that the transactions contemplated under the 2023–2025 Sales Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

As disclosed in the Letter from the Board, the Group proposed to extend the term and increase the annual caps and the number of items to be sold due to (a) the expansion of business operations and production capacity of the Group, and the continuous increase in the demand of Tianye Group for various products to be sold by the Group; (b) the increased synergy between the Group and Tianye Group after years of cooperation; (c) the supply of the drip tapes, PVC/PE pipelines and drip assemblies, automation products, filters, water pumps, fertilizer applicators and other related products by the Group to Tianye Group and its customers, which will increase the Group's source of revenue; (d) the Group has won the tenders for a procurement project for equipments and materials required for high-standard farmland project of Xinjiang Production and Construction Corp Eighth Agricultural Division of Tianye Group* (天業集團新疆生產建設兵團第八師高標準農田項目設備材料採購項目) (the “**New Procurement Project**”) and the Two New Construction Projects; and (e) the buffer budgeted (i.e. approximately 5%) to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services and products due to expected increase in costs caused by inflation. The Directors believe that it is in the interest of the Group to enter into the 2023–2025 Sales Framework Agreement as sales to Tianye Group will increase the volume of sales on the Group's products and the profit of the Group.

We have reviewed and compared the terms of the 2023–2025 Sales Framework Agreement and the Original Sales Framework Agreement and note that, other than (a) the revision of the annual caps amounts of the continuing connected transactions between the parties as of 31 December 2023 under the Original Sales Framework Agreement; (b) the increase in the types of products

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sold under the Original Sales Framework Agreement; and (c) the extension the term of the Original Sales Framework Agreement to 31 December 2025, there has been no material change between the terms of the two aforesaid agreements.

We have discussed with the management of the Company and note that the selling price of the items for sale to Tianye Group is determined and reviewed on a monthly basis and applies to all customers of the Group. The Directors also confirmed that the price charged by the Company to Tianye Group is comparable and no less favourable than the market prices of similar products that the Company sold to other independent customers.

For our due diligence purpose, we have (i) obtained and reviewed the sales control policy and procedures of the Group; (ii) reviewed and compared sample copies of historical transaction records, including sales contracts and/or sales invoices, in respective of the sales made by the Group to independent third parties and Tianye Group; and (iii) obtained and reviewed sample copies of monthly standard price list. We have selected samples based on the materiality of the transaction amount in reviewing the historical transaction records and the corresponding monthly standard price list of that particular month in respective of the sales made by the Group to other independent third parties and Tianye Group. The samples under review represented top 5 sales under the Original Sales Framework Agreement for each of the two years ended 31 December 2022 and the six months ended 30 June 2023. We are of the view that the selection basis and sample copies reviewed are fair and representative in view of materiality.

From our sample review, we note that (i) the sales transactions are made in compliance with the sales control procedures, including the approval procedures, of the Group; (ii) the selling price of the products sold to Tianye Group and independent third parties are determined in accordance with the sales policy of Group; and (iii) other major terms of the sales transactions entered into between the Company and Tianye Group are similar with those offered to other independent customers.

We note that automation products, filters, water pumps, fertilizer applicators and other related products are added to the product category of the 2023–2025 Sales Framework Agreement. As discussed with the management of the Company, due to the Two New Construction Projects and the New Procurement Project won by the Group in May 2023 and June 2023 respectively, the Company expects that there will be an increased demand of automation products, filters, water pumps, fertilizer applicators and other related products from Tianye Group. For our due diligence purpose, we have obtained and reviewed the procurement list of the Two New Construction Projects and the New Procurement Project and note that the procurement list includes all the types of items for sale under the 2023–2025 Sales Framework Agreement. The Company considers that it is in the interests of the Company and the Shareholders to provide the newly added products to Tianye Group as it will broaden the Group's revenue source.

Having considered that (i) the items for sale under 2023–2025 Sales Framework Agreement are in line with the principal business of the Group; (ii) the major terms of the 2023–2025 Sales Framework Agreement, including the payment terms and delivery are comparable to and no less favourable than that offered to other independent parties; and (iii) extension of the product category of the 2023–2025 Sales Framework Agreement can broaden the Group’s revenue source, we are of the view that the terms of the 2023–2025 Sales Framework Agreement are on normal commercial terms, in the ordinary and usual courses of business of the Company and in accordance with the pricing policy of the Group and fair and reasonable so far as the Independent Shareholders are concerned.

3.2 Our assessment on the proposed annual caps of 2023–2025 Sales Framework Agreement

We understand from the Company that when determining the proposed annual caps, the Company has considered the latest market price of various products to be sold under the 2023–2025 Sales Framework Agreement as disclosed in paragraph “pricing basis” under the section headed “3.1 Principal terms of the 2023–2025 Sales Framework Agreement” above. As disclosed above, the average market price of PVC pipelines was approximately RMB9,871/ton, RMB7,823/ton and RMB6,376/ton for the financial years ended 31 December 2021, 31 December 2022 and for the six months ended 30 June 2023 respectively. Although the market price of the PVC pipelines has been decreasing during the two years ended 31 December 2022 and the six months ended 30 June 2023, we have discussed with the management of the Company and the Company considered that the demand of the items for sale under the 2023–2025 Sales Framework Agreement would grow under the government policies of water-saving and the introduction of high-standard agriculture system by the PRC government.

We have conducted desktop research on the supportive government policies of water-saving and the introduction of high-standard agriculture system. According to the “National Water Conservation Action Plan” (國家節水行動方案) (http://big5.www.gov.cn/gate/big5/www.gov.cn/xinwen/2019-04/19/content_5384418.htm) as introduced by the National Development and Reform Commission (國家發展改革委) and the Ministry of Water Resources of the PRC (中華人民共和國水利部) in 2019, the action plan set out explicit goals for agricultural and industrial water-saving measure. On 8 August 2023, nine departments of the PRC government, including the National Development and Reform Commission and the Ministry of Water Resources of the PRC, set out the directions of the water-saving policy (關於推廣合同節水管理的若干措施) (http://big5.www.gov.cn/gate/big5/www.gov.cn/lianbo/bumen/202308/content_6897228.htm), which includes the improvement of irrigation of farmland and promotion of related technology implementation. Therefore, we consider that the water-saving policy has been the key government policy in the PRC in the recent years. Furthermore, according to the press release of Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部) on 8 December 2022 (http://www.moa.gov.cn/ztlz/gdzt/bhyjs/mtbd_28775/mtbd/

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202212/t20221208_6416804.htm), the Xinjiang government has been promoting the transformation of farmland in Xinjiang from traditional agriculture system to high-standard agriculture system. The new irrigation system in the high-standard agriculture system improves the region's environmental protection, water-saving and production. With reference to the above government policies and continuous transformation of farmland in Xinjiang, the Company expects there would be a sustainable growing demand of the items for sale under the 2023–2025 Sales Framework Agreement.

The following table shows the actual transaction amounts incurred for the two years ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Sales Framework Agreement as stated in the Letter from the Board:

	For the year ended 31 December 2021 (RMB)	For the year ended 31 December 2022 (RMB)	For six months ended 30 June 2023 (RMB)
Actual transaction amounts incurred	1,592,989.45	716,046.05	318,689.40

We have discussed with the management of the Company and the Company informed that the actual transaction amounts under the Original Sales Framework Agreement were adversely affected by the slowdown of the construction projects of Tianye Group resulting from the outbreak of the COVID-19 pandemic and restrictive measures imposed by the government, such as lockdowns, social distancing and home quarantine, to control the spreading of COVID-19. As the tendering process and construction schedule for PRC construction projects resume normal as well as the increase in the types of products sold, the Group expects that the transactions contemplated under the 2023–2025 Sales Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount. When determining the annual caps under the 2023–2025 Sales Framework Agreement, the Company considers that the sales amount would increase significantly starting from the second half of the year of 2023 mainly due to the Two New Construction Projects and the New Procurement Project being awarded to the Group in May 2023 and June 2023, respectively. For our due diligence purpose, we have obtained and reviewed the procurement list of the Two New Construction Projects and the New Procurement Project and note that the procurement list includes all the types of items for sale under the 2023–2025 Sales Framework Agreement and the total procurement amount can reach more than RMB192 million, which will exceed the existing annual caps under the Original Sales Framework Agreement. Furthermore, on top of the Two New Construction Projects and the New Procurement Project, the Company expects to win additional tenders for a total of three high-standard farmland material and equipment procurement projects of

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Tianye Group in the next three years, with an aggregate potential procurement amount of approximately RMB526 million. Therefore, the total potential procurement amounts (including the Two New Construction Projects, the New Procurement Project and three potential tenders) may reach approximately RMB718 million, which would provide an average of transactions amount of approximately RMB239.33 million (excluding a buffer of approximately 5%) per year to the Group for the three years ending 31 December 2025, which is just below the corresponding adjusted annual caps under the 2023–2025 Sales Framework Agreement. In order to provide flexibility and opportunity of selling the products to Tianye Group, we agree with the Company the adjustment to the annual caps under the 2023–2025 Sales Framework Agreement.

4. 2023–2025 Purchase Framework Agreement

4.1 *Principal terms of 2023–2025 Purchase Framework Agreement*

According to the Letter from the Board, except for the changes to relevant terms under the Original Purchase Framework Agreement as detailed in the paragraphs “c. Purchased goods”, “d. Term” and “e. Annual caps adjustment” under the section headed “2(ii) 2023–2025 Purchase Framework Agreement” in the Letter from the Board, all other terms and conditions under the Original Purchase Framework Agreement remain unchanged. For details on the terms and pricing policies under the Original Purchase Framework Agreement, please refer to the section headed “Letter from the Board — 2. PROPOSED CONTINUING CONNECTED TRANSACTIONS — (1) New Master Purchase Agreement” of the circular of the Company dated 14 January 2021.

The principal terms of the 2023–2025 Purchase Framework Agreement are summarized as follows:

Date of agreement	:	15 September 2023 (after trading hours of the Stock Exchange)
Parties	:	(i) the Company (for itself and on behalf of its subsidiaries), as the purchaser; and (ii) Tianye Group (for itself and on behalf of its subsidiaries), as the vendor.
Purchased goods	:	Purchase of PVC resins, light calcium carbonate, other chemical products and agricultural products, with light calcium carbonate, other chemical products and agricultural products as newly added products.
Term	:	The service period under the Original Purchase Framework Agreement has been revised from 1 January 2023 to 31 December 2025, extending the original term by two years to 31 December 2025.

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Annual Cap adjustment : The existing annual caps for the transactions contemplated under the Original Purchase Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 will be extended as follows (the amount of the annual caps remains unchanged):

	For the year ending 31 December 2023 <i>(RMB)</i>	For the year ending 31 December 2024 <i>(RMB)</i>	For the year ending 31 December 2025 <i>(RMB)</i>
Existing annual caps under the Original Purchase Framework Agreement	250,000,000	N/A	N/A
Adjusted annual caps under the 2023–2025 Purchase Framework Agreement	250,000,000	250,000,000	250,000,000

Pricing basis : The prices are to be determined by reference to the price promulgated by the PRC government and if not applicable by the fair market price charged by independent third parties at Shihezi or region near Shihezi from time to time and pursuant to the terms set out in the 2023–2025 Purchase Framework Agreement by the parties after arm’s length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge of the Directors, there is no government pricing policy in place which is applicable to PVC resins, light calcium carbonate, other chemical products and agricultural products.

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Pursuant to the purchase control procedure, the Company currently procures the purchase of PVC resins, light calcium carbonate, other chemical products and agricultural products by reference to the prevailing market price by obtaining quotations from at least three suppliers at Shihezi or region near Shihezi, which includes Tianye Group (excluding the Group) and at least two independent third party suppliers. The Company will normally choose the supplier with the most favourable quotation, in most cases, of the lowest price. The Company will record (1) the review process and (2) the result upon each purchase. Each purchase contract will be reviewed by the department head in charge and reassessed by the purchase management department. The purchase contract will not be entered into without the approval of general manager and the chairman of the Company.

There is no standard market price for PVC resins, and market price varies by regions. In relation to the average market price of PVC resins, the average purchase price under the Original Purchase Framework Agreement was approximately RMB8,507/ton, RMB7,382/ton and RMB5,915/ton for the financial years ended 31 December 2021, 31 December 2022 and for the six months ended 30 June 2023 respectively.

There is no standard market price for light calcium carbonate, and market price varies by regions. In relation to the average market price of light calcium carbonate, the average purchase price for the six months ended 30 June 2023 was approximately RMB5,300/ton.

There are no standard market prices for agricultural products, and market prices vary by regions. In relation to the average market prices of agricultural products, the average purchase prices for the six months ended 30 June 2023 was approximately RMB13,825/ton.

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There is no standard market price for other chemical products, and market price varies by regions. In relation to the average market price of other chemical products, the average purchase price for the six months ended 30 June 2023 was approximately RMB9,700/ton.

- Basis of determination of the proposed annual caps :
- The proposed annual caps were determined between the Company and Tianye Group after arm's length negotiations with reference to, among other things, the following factors:
- (i) the historical transaction amounts incurred under the Original Purchase Framework Agreement;
 - (ii) the estimated growing demand of the Group's customers for various goods to be purchased based on the supportive policies from the PRC government, for instance, (i) the National Water Conservation Action Plan* (《國家節水行動方案》) (https://www.gov.cn/xinwen/2019-04/19/content_5384418.htm) as introduced by the National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會) and the Ministry of Water Resources of the PRC* (中華人民共和國水利部) in 2019, which explicitly outlines the overall control objectives for the near- and long-term organic convergence, i.e., by 2020, the water conservation policies, regulations, market mechanisms, standards, and systems are expected to be more refined, and the initial results of water conservation efforts will become evident, with a reduction of 23% in water consumption per RMB10,000 of GDP and a decrease of 20% in water consumption per RMB10,000 of industrial value-added compared to the levels in 2015; by 2022, the total water consumption will be controlled within 670 billion cubic meters at the end of the "13th Five-Year Plan" period, and a preliminary framework for water-saving production and lifestyle practices will be established; by 2035, the total water consumption nationwide will be strictly

managed within 700 billion cubic meters, and water resource conservation and recycling will reach a level that meets the world's advanced standards; (ii) the State Council of the PRC approved the National High-standard Farmland Construction Plan (2021–2030)* (《全國高標準農田建設規劃(2021–2030年)》) in 2022, which focuses on the goal of food production and specifies the overall requirements, construction standards and construction content, construction zoning and construction tasks, construction supervision and post-construction management, benefit analysis, and implementation guarantees for the construction of high-standard farmland in the coming period, 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 and transformation, ensuring the completion of 1 billion mu of high-standard farmland by 2022, 1.075 billion mu by 2025, and 1.2 billion mu by 2030; and (iii) Notice of the Ministry of Agriculture and Rural Affairs regarding the Assignment of Farmland Construction Tasks for the year 2023 (農業農村部關於下達2023年農田建設任務的通知), which states that in the Xinjiang region, there will be the establishment of 4.10 million mu of high-standard farmland and the enhancement and renovation of 1.35 million mu of high-standard farmland, and local governments are required to strengthen and improve diversified investment mechanisms and secure funds from multiple sources to ensure the smooth progress of high-standard farmland construction tasks. Based on the above flavouring policies of the PRC government, the Company expects an annual increase of approximately 6%–10% in customer bases of Tianye Group and the Group, and that the demand of the Group's customers for various goods will increase;

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- (iii) the expanded scope of various products to be purchased under the 2023–2025 Purchase Framework Agreement;
- (iv) the anticipated demand and expected market price trend of the Group and its customers for various products to be purchased by the Group during the term of the 2023–2025 Purchase Framework Agreement and the Group’s cumulative winning of tenders for the supply of pipes for the construction of high-standard farmland of approximately 1,320,000 mu as at the Latest Practicable Date, which has led to a significant increase in demand for raw materials for PVC, with reference to, among other things, the current discussions with Tianye Group and the business and production plans of the Group; and
- (v) the relatively unstable historical transaction amounts incurred for the two years ended 31 December 2021, 31 December 2022, and for the six months ended 30 June 2023 under the Original Purchase Framework Agreement were primarily due to the unexpected delay in construction projects under the pandemic and restrictive quarantine measures imposed by the government, which affected the purchase of PVC resins under the Original Purchase Framework Agreement. As the tendering process and construction schedule for PRC construction projects resume normal, as well as the increase in the types of products purchased, the Group expects that the transactions contemplated under the 2023–2025 Purchase Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount.

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As disclosed in the Letter from the Board, the Group proposed to extend the term and increase the number of products to be purchased due to (a) the fact that the factory of Tianye Group is located nearby, so that the Group can lower the transportation costs if it purchases PVC resins, light calcium carbonate, other chemical products and agricultural products from Tianye Group; (b) the increased synergy between the Group and Tianye Group after years of cooperation; and (c) Tianye Group agrees that in case of a shortage of PVC resin, light calcium carbonate, other chemical products, and agricultural products in the market, the Group may give priority to purchasing these products at market prices. In such circumstances, the Directors believe that the Group will maintain its competitiveness in the market with lower purchasing costs and stable supply of the products to be purchased. On the other hand, the Group shall not be obliged to purchase the above said products if the Group is offered with a more favorable price with similar quality by the independent third parties.

We have reviewed and compared the terms of the 2023–2025 Purchase Framework Agreement and the Original Purchase Framework Agreement and note that, other than (a) the increase in the types of products purchased under the Original Purchase Framework Agreement; and (b) the extension of the term of the Original Purchase Framework Agreement to 31 December 2025, there has been no material change between the terms of the two aforesaid agreements.

We have enquired the management of the Company and were given the understanding that the Group will bear the transportation cost for procurement of the raw materials, hence, apart from the material cost, transportation cost (including time cost) is also the major concern for the Group. The Group will compare the quotations from at least three suppliers including independent suppliers and Tianye Group and select the best one.

For our due diligence purpose, we have (i) obtained and reviewed the purchase control policy and procedures of the Group; (ii) obtained and reviewed a full procurement list for the two years ended 31 December 2022 and the six months ended 30 June 2023; (iii) reviewed and compared sample copies of the quotations obtained by the Group from Tianye Group and independent third parties; and (iv) reviewed sample copies of historical purchase records between the Group and Tianye Group. In reviewing the historical purchase records, we have selected samples based on the materiality of the transaction amount. The samples under review represented top 5 purchases under the Original Purchase Framework Agreement for each of the two years ended 31 December 2022 and for the six months ended 30 June 2023. We are of the view that the selection basis and sample copies reviewed are fair and representative in view of materiality. From our sample review, we note that (i) the purchase was made in compliance with the purchase control policy of the Group for each transaction; (ii) the cost per ton paid for purchase is priced at the market price or more favourable than those offered by other suppliers for each purchase for the two years ended 31 December

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2022 and for the six months ended 30 June 2023; and (iii) other major terms offered by Tianye Group including payment terms and delivery are similar with those offered by other independent suppliers.

In addition, as stated in the Letter from the Board, Tianye Group agrees that in case of a shortage of PVC resin, light calcium carbonate and agricultural products in the market, it will give priority to the Group on purchasing the products under 2023–2025 Purchase Framework Agreement under the same contract terms. The Group also enjoys flexibility on purchase of the products from Tianye Group as the Group is not obliged to purchase the products 2023–2025 Purchase Framework Agreement from Tianye Group exclusively and the Group is free to purchase from other independent third parties for a better offer.

We note that light calcium carbonate and agricultural products are added to the product category of the 2023–2025 Purchase Framework Agreement. As discussed with the management of the Company, those newly added products are mainly for the production of the newly added items for sale under the 2023–2025 Sales Framework Agreement, such as fertilizer applicator and other related products. The reasons for the inclusion of the newly added products under the 2023–2025 Sales Framework Agreement are discussed under section headed “3.1 Principal terms of 2023–2025 Sales Framework Agreement” above in this letter.

Having considered that (i) the purchase from Tianye Group are priced at or more favourable than the market price; (ii) the major terms of the 2023–2025 Purchase Framework Agreement, including payment terms and delivery are comparable to and no less favourable than that offered by other independent suppliers; and (iii) the flexibility in purchasing products and securing stable supply to maintain its competitiveness in the market, we are of the view that the terms of the 2023–2025 Purchase Framework Agreement are on normal commercial terms, in the ordinary and usual courses of business of the Company and in accordance with the pricing policy of the Company, are in the interests of the Company and its Independent Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

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4.2 Our assessment on the proposed annual caps of 2023–2025 Purchase Framework Agreement

The following table shows the actual transaction amounts incurred for the two years ended 31 December 2022 and for the six months ended 30 June 2023 under the Original Purchase Framework Agreement as stated in the Letter from the Board:

	For the year ended 31 December 2021 (RMB)	For the year ended 31 December 2022 (RMB)	For six months ended 30 June 2023 (RMB)
Actual transaction amounts incurred	138,665,924.00	55,091,747.00	55,408,595.50

We have discussed with the management of the Company and the Company informed that the actual transaction amounts under the Original Purchase Framework Agreement were adversely affected by the reduced sales amount of the products under the Original Sales Framework Agreement. Due to the increase in both monetary amount and type of the items for sale under the 2023–2025 Sales Framework Agreement, the Company expects that the purchase amount will increase as the products purchased from Tianye Group under the 2023–2025 Purchase Framework Agreement would be used for the production of the items for sale under the 2023–2025 Sales Framework Agreement. As the tendering process and construction schedule for PRC construction projects resume normal, as well as the increase in the types of products purchased, the Group expects that the transactions contemplated under the 2023–2025 Purchase Framework Agreement will continue to grow steadily as compared to the abovementioned historical transaction amount. In order to maintain flexibility and sufficiency for the purchase amount from Tianye Group to catch up the increase in sales amount under the 2023–2025 Sales Framework Agreement, after considering the factors of (i) the supportive government policies of the introduction of water-saving and introduction of high-standard agriculture system as discussed under the section headed “3.2 Our assessment on the proposed annual caps of 2023–2025 Sales Framework Agreement” above; and (ii) the growing demand of materials for construction and procurement projects, which have been discussed under the section headed “3.2 Our assessment on the proposed annual caps of 2023–2025 Sales Framework Agreement” above, we agree with the Company that the proposed annual caps under the 2023–2025 Purchase Framework Agreement shall be extended with the same annual caps as the Original Purchase Framework Agreement.

5. Internal Control Procedures

As stated in the Letter from the Board, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the internal control procedures to standardize and prescribe pricing policies, mechanism, terms of reference, and decision-making agencies and monitored the transactions under each of the Continuing Connected Transactions Agreements so that the transactions under Continuing Connected Transactions Agreements are assured in strict compliance with the relevant pricing policies.

Particularly for the purposes of the continuing connected transactions as contemplated under the Continuing Connected Transaction Agreements and the annual caps (non-exempt continuing connected transactions), the guiding principles will apply and the relevant internal control procedures are as follows:

- (i) The finance department of the Company will closely monitor and record actual transaction amounts of the continuing connected transactions contemplated under the Continuing Connected Transaction Agreements to ensure the annual caps therein will not be exceeded;
- (ii) In relation to the 2023–2025 Project Construction Services Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Project Construction Services Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (i) 2023–2025 Project Construction Services Framework Agreement — Pricing basis” in the Circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices quoted to Tianye Group will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as provision of services to Tianye Group is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered to Tianye Group will be favorable to the Group and no less favorable to terms offered by the Group to independent third parties; and (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered to Tianye Group will be determined in reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be less favorable than those offered by independent third parties;

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- (iii) In relation to the 2023–2025 Purchase Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Purchase Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (ii) 2023–2025 Purchase Framework Agreement — Pricing basis” in the Circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices of products to be purchased will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as procurement of Tianye Group’s products is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered by Tianye Group to the Group will be favorable to the Group and no less favorable to terms offered by Tianye Group to independent third parties; and (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered by Tianye Group will be determined in reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be higher than those offered by independent third parties to Tianye Group;
- (iv) In relation to the 2023–2025 Sales Framework Agreement, the relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the 2023–2025 Sales Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies and pricing basis (details of which are set out in the section headed “Letter from the Board — 2. CONTINUING CONNECTED TRANSACTION AGREEMENTS — (iii) 2023–2025 Sales Framework Agreement — Pricing basis” in the Circular): (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices of products to be sold will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as sale of products to Tianye Group is concerned, the Group will review terms offered by independent third parties, and ensure principal terms offered to Tianye Group will be favorable to the Group and no less favorable to terms offered by the Group to independent third parties; and (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered by the Group will be determined in reference to reasonable costs plus

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specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be less favorable than those offered by independent third parties;

- (v) In accordance with the Listing Rules, the auditor of the Company will review the continuing connected transactions (which shall be subject to annual review and disclosure requirements under the Listing Rules) on an annual basis, and confirm whether (a) the transactions contemplated under the Continuing Connected Transaction Agreements are approved by the Board; (b) these transactions are in compliance with the pricing policies of the Group in all material aspects; (c) these transactions are entered into in accordance with the Continuing Connected Transaction Agreements; and (d) annual caps are exceeded; and
- (vi) In accordance with the Listing Rules, the independent non-executive Directors shall conduct annual reviews (which shall be subject to annual review and disclosure requirements under the Listing Rules) to confirm that the transactions contemplated under the Continuing Connected Transaction Agreements are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial or better terms; and (c) in accordance with the Continuing Connected Transaction Agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Accordingly, we have reviewed the documents of the internal control procedures in respect of the Proposed Continuing Connected Transactions. Based on our review on documents of the internal control procedures and the documents of the historical transactions of the Proposed Continuing Connected Transactions, which were selected as samples for our assessment on the terms of the Continuing Connected Transaction Agreements as discussed above in this letter, we consider the internal control procedures are adequate and effective to ensure that the transactions as contemplated under the Continuing Connected Transaction Agreements will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the terms of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the revision of scope and/or existing annual caps), are on normal commercial terms and in the ordinary and usual course of business of the Group, and 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.

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Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
INCU Corporate Finance Limited
Gina Leung
Managing Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCU Corporate 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. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard 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 2 and 3, as well as 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 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 2022, being the date to which the latest published audited financial statements of the Group were made up;
- (ii) none of the Directors and Supervisors 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, no other person 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, who is, 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 interests or short positions of the Directors, Supervisors and chief executives of the Company 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 the total issued Domestic Shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Xinjiang Tianye (Group) Limited (“Tianye Group”)	Beneficial owner	313,886,921 (L)	98.98%	60.42%

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).

(B) H Shareholders

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

Notes:

1. The letter “L” denotes the person’s/entity’s long position in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 shares (including Domestic Shares and H Shares).
3. The H Shares held by Long Thrive were equivalent to approximately 7.12% of the total H Shares in issue of the Company.
4. Long Thrive directly held 14,407,000 H Shares. Long Thrive is wholly-owned by Mr. Ding. By virtue of the SFO, Mr. Ding is deemed to be interested in the 14,407,000 H Shares held by Long Thrive.
5. Ms. Wang is the spouse of Mr. Ding. By virtue of the 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 involved 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 2022, being the date to which the latest published audited financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has 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
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As at the Latest Practicable Date, INCU Corporate Finance Limited does not have any equity interest 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.

INCU Corporate Finance Limited 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 Corporate Finance Limited are given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, INCU Corporate Finance Limited does not have or did not have any interest, direct or indirect, in any assets which have been, since 31 December 2022 (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.

9. 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) for a period of 14 days from the date of this circular:

- (a) the Continuing Connected Transaction Agreements;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out from pages 30 to 31 of this circular;
- (c) the letter from INCU to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 32 to 67 of this circular;
- (d) the consent referred to in the paragraph headed “EXPERT AND CONSENT” of this Appendix.

NOTICE OF EGM

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 Thursday, 9 November 2023 at 10:30 a.m. for the following purposes and to pass the following resolutions:

Unless otherwise specified, terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 25 October 2023 (the “**Circular**”).

ORDINARY RESOLUTIONS

1. The 2023–2025 Project Construction Services Framework Agreement dated 15 September 2023 entered into between the Company and Tianye Group (for itself and on behalf of its subsidiaries) (a copy of which is produced to the EGM and marked “A” and initialled by the chairman of the EGM for identification purpose) and the non-exempt continuing connected transactions contemplated thereunder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) be and are hereby approved, confirmed and ratified; the annual caps for each of the three years ending 31 December 2025 (as defined in the announcement of the Company dated 15 September 2023 and the relevant circular dispatched to the Shareholders of the Company in due course, which the notice of EGM forms part thereof, and a copy of which is produced to the EGM and marked “B” and initialled by the chairman of the EGM for identification purpose) be and are hereby approved; and any director of the Company be and is hereby authorized to, for and on behalf of the Company, execute all such other documents, instruments and agreements and to do all such

* *For identification purposes only*

NOTICE OF EGM

acts or things deemed by him/them to be necessary or expedient to implement and/or give effect to the 2023–2025 Project Construction Services Framework Agreement;

2. The 2023–2025 Purchase Framework Agreement dated 15 September 2023 entered into between the Company and Tianye Group (for itself and on behalf of its subsidiaries) (a copy of which is produced to the EGM and marked “C” and initialled by the chairman of the EGM for identification purpose) and the non-exempt continuing connected transactions contemplated thereunder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) be and are hereby approved, confirmed and ratified; the annual caps for each of the three years ending 31 December 2025 (as defined in the announcement of the Company dated 15 September 2023 and the relevant circular dispatched to the Shareholders of the Company in due course, which the notice of EGM forms part thereof, and a copy of which is produced to the EGM and marked “B” and initialled by the chairman of the EGM for identification purpose) be and are hereby approved; and any director of the Company be and is hereby authorized to, for and on behalf of the Company, execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be necessary or expedient to implement and/or give effect to the 2023–2025 Purchase Framework Agreement; and
3. The 2023–2025 Sales Framework Agreement dated 15 September 2023 entered into between the Company and Tianye Group (for itself and on behalf of its subsidiaries) (a copy of which is produced to the EGM and marked “D” and initialled by the chairman of the EGM for identification purpose) and the non-exempt continuing connected transactions contemplated thereunder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) be and are hereby approved, confirmed and ratified; the annual caps for each of the three years ending 31 December 2025 (as defined in the announcement of the Company dated 15 September 2023 and the relevant circular dispatched to the Shareholders of the Company in due course, which the notice of EGM forms part thereof, and a copy of which is produced to the EGM and marked “B” and initialled by the chairman of the EGM for identification purpose) be and are hereby approved; and any director of the Company be and is hereby authorized to, for and on behalf of the Company, execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be necessary or expedient to implement and/or give effect to the 2023–2025 Sales Framework Agreement.

By Order of the Board
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Zhou Gang
Chairman

Xinjiang, the PRC, 25 October 2023

* *For identification purposes only*

NOTICE OF EGM

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 only), 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.
4. The register of the members of the Company will be closed from Monday, 6 November 2023 to Thursday, 9 November 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 and transfer office 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 Friday, 3 November 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 Monday, 30 October 2023.

NOTICE OF EGM

6. Voting of the resolutions 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 is:

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