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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)**

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO**

**(1) MAJOR TRANSACTION — CAPITAL INCREASE AGREEMENT  
FAILURE TO SATISFY THE INCOME GUARANTEE**

**FOR THE YEAR 2022; AND**

**(2) ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

References are made to the annual report of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2022 (the “**2022 Annual Report**”), the circular of the Company dated 21 June 2021 in respect of the Capital Increase Agreement (the “**Circular**”) and the supplemental announcement of the Company dated 3 November 2022 (the “**Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the 2022 Annual Report and the Circular.

In addition to the information disclosed in the section headed “Income Guarantee” on pages 42 and 43 of the 2022 Annual Report, the Board of Directors, pursuant to Rule 14.36B to the Listing Rules and paragraph 6.3(i) of Appendix 16 (Disclosure of Financial Information) of the Listing Rules, hereby provides further information in relation to the failure of the Target Company to satisfy the income guarantee for the year 2022.

**FAILURE TO SATISFY THE INCOME GUARANTEE FOR THE YEAR 2022**

As disclosed in the section headed “Performance of Income Guarantee” in the Announcement, pursuant to the Capital Increase Agreement, upon Completion, the Target Company is required to guarantee (the “**Income Guarantee**”) that its subsequent annual (i) operating revenue after tax will not be less than the amount as audited in the previous accounting year and (ii) the return on net assets (i.e. net profit/net assets) will

not be less than 12%. The guarantee period under the Capital Increase Agreement covers each corresponding period and year after the Completion date (i.e. commencing from 23 June 2021).

Set out below are the corresponding financial information extracted from (i) the unaudited management accounts of the Target Company for the five months ended 30 May 2021; and (ii) the audited financial statements of the Target Company for the year ended 31 December 2022 and the requirements of the Income Guarantee under the Capital Increase Agreement:

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>
Operating revenue after tax	Not less than approximately RMB686,692,000.00 <sup>1</sup>	approximately RMB794,901,000
	<b>Requirements of the Income Guarantee for return on net assets ratio under the Capital Increase Agreement</b>	<b>Return on net assets ratio for the year ended 31 December 2022</b>
Return on net assets ratio	12%	4.460% <sup>2</sup>

<sup>1</sup> The figures represent the sum of (i) the unaudited operating revenue after tax of the Target Company for the five months ended 30 May 2021 (approximately RMB230,497,000); and (ii) the audited operating revenue after tax of the Target Company for the year ended 31 December 2021 in respect of the period from June to December 2021 (approximately RMB456,195,000).

<sup>2</sup> The return on net assets ratio is calculated based on the net profit of the Target Company for the year ended 31 December 2022 (approximately RMB590,600) divided by the net asset value of the Target Company as at 31 December 2022 (approximately RMB13,243,000).

The return on net assets ratio of the Target Company for the year ended 31 December 2022 was not achieved. Pursuant to the Capital Increase Agreement, the Company shall be entitled to (i) request for the transfer of its 34.06% equity interest in the Target Company to either Ms. Deng or Mr. Li, while Ms. Deng and Mr. Li shall unconditionally accept the entire equity interest transferred by the Company (the “**Transfer of Equity Interests in the Target Company**”); or (ii) require Ms. Deng and Mr. Li to undertake the obligation to reimburse the Company in cash an amount not lower than the amount of the Capital Increase of RMB4,581,200 multiplied by the bank loan interest rate for the same period of the Capital Increase (the “**Cash Repayment Obligation**”).

In the event that the Company elects the Transfer of Equity Interests in the Target Company, the price shall be calculated based on the higher of:

- (i) the transfer price = the valuation of the transferred equity interest in the new valuation report published on or around 30 April of each calendar year to be issued by an independent valuer appointed by the Company  $\times (1 + 10\%)$ ; or
- (ii) the transfer price = the valuation of the transferred equity interest in the new valuation report published on or around 30 April of each calendar year to be issued by an independent valuer appointed by the Company + 10% of the proceeds from the capital contribution by the Company (representing the sum of the Capital Increase amount of RMB4,581,200 and the borrowings to the Target Company in the amount of RMB6,800,000).

In the event that the Company requires Ms. Deng and Mr. Li to fulfill their Cash Repayment Obligations to reimburse the Company in cash an amount not lower than the amount of the Capital Increase of RMB4,581,200 multiplied by the bank loan interest rate for the same period (the “**Interest Rate for the Cash Repayment Obligation**”) of the Capital Increase, reference to the valuation of the transferred equity interest is not required.

Based on the loan prime rate published by the National Inter-bank Funding Centre under the authorisation of the People’s Bank of China, the interest rate of the one-year bank loan for the Capital Increase Amount as at 31 December 2022 is 3.65% (the Interest Rate for the Cash Repayment Obligation). As at the date of this announcement, Ms. Deng has fulfilled her Cash Repayment Obligation by paying RMB167,200 in full to the Company.

#### **REASONS FOR WAIVING THE OPTION TO EXERCISE THE TRANSFER OF EQUITY INTERESTS IN THE TARGET COMPANY**

In the second half of 2022, certain areas implemented static management measures in the wake of a large-scale outbreak of the COVID-19 pandemic in the Xinjiang region of China, and therefore there was no guarantee for logistics operations. As a result, the Target Company experienced a decline in sales and profits in the second half of the year. The Target Company, as a Class A distributor for PetroChina Northwest Chemical Company Limited\* (中石油西北化工公司), is primarily engaged in the sales of polyethylene and polypropylene petrochemical products. Due to its mature business model, the Group is provided with a stable supply of raw materials for our production, as well as a strong sales network that contributes to the growth of the Company’s business and market share. The Company believes that it is in the interests of the Company to continue holding the equity interests in the Target Company for its future development. Therefore, the Company has accepted Ms. Deng’s cash repayment obligation. It is fair and reasonable for the Company to exercise the option to receive cash repayment instead of transferring the equity interests of the Target Company, which is in the interests of the Company and our shareholders as a whole.

The Board of Directors believes that (i) Ms. Deng and Mr. Li have fulfilled their obligations under the Capital Increase Agreement, and (ii) it is fair and reasonable for waiving the option to exercise the Transfer of Equity Interests in the Target Company, and in the interests of the shareholders as a whole. The Board will continue to review the performance of the Target Company and exercise appropriate rights when necessary. The actual performance of the Target Company in relation to the income guarantee will be disclosed in the next annual report of the Company.

#### **ABOUT CLARIFICATION OF THE 2022 ANNUAL REPORT**

The Company hereby wishes to clarify that there was an inadvertent clerical error on the section headed “Income Guarantee” on pages 42 to 43, and that the last paragraph of the said section shall read as follows (the relevant amendments have been underlined):

“...following negotiations between the parties to the Capital Increase Agreement subject to the terms and conditions thereto, Ms. Deng Hongwen (鄧紅文) agreed to repay the amount not less than the Increased Amount multiplied by the lending interest rate for the Increased Amount as published by the bank prevailing over the same period, being RMB167,200.”

**Shareholders and prospective investors of the Company are reminded to exercise caution when dealing in the shares of the Company.**

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

Xinjiang, PRC, 21 August 2023

*As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Li He (Chairman), Ms. Yang Ling and Mr. Jiang Dayong, and four independent non-executive Directors, namely Mr. Li Lianjun, Ms. Gu Li, Mr. Hung Ee Tek and Mr. He Xinlin.*

\* For identification purposes only