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新疆天業節水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 840)

**MAJOR TRANSACTION AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE AND DISPOSAL OF TARGET
EQUITY (THROUGH CONTRIBUTION IN KIND)**

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



INCUC Corporate Finance Limited

The Board is pleased to announce that on 6 August 2024 (after trading hours), the Company and the Eighth Division SASAC entered into, among other things, (1) the Capital Contribution Agreement; (2) the Entrusted Voting Right Agreement (as one of the annexes to the Capital Contribution Agreement); and (3) the Entrusted Nomination Right for Directors Agreement (as one of the annexes to the Capital Contribution Agreement).

Pursuant to the Capital Contribution Agreement, the Company and the Eighth Division SASAC have agreed to jointly form the Joint Venture, and the registered capital of the Joint Venture is RMB800,000,000. Of which, the Company shall contribute RMB80,000,000 to the registered capital of the Joint Venture by way of paid-up capital in kind and in cash to acquire 10% equity interest in the Joint Venture; and the Eighth Division SASAC shall contribute RMB720,000,000 to the registered capital of the Joint Venture by way of paid-up capital in cash and in kind to acquire 90% equity interest in the Joint Venture.

Pursuant to the Entrusted Voting Right Agreement, the Eighth Division SASAC has agreed to entrust the exercise of its voting rights in respect of the 41% equity interest in the Joint Venture partially enjoyed and held by it as a shareholder of the Joint Venture to the Company for a period of 5 years. As a result, it is expected that the Company will be able to exercise an aggregate of 51% of the voting rights of the Joint Venture. The Joint Venture will become a subsidiary of the Company and its financial statements will be consolidated into the consolidated financial statements of the Company.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Capital Contribution Agreement constitute the formation of joint venture and disposal of target equity (through contribution in kind) under the Listing Rules. As one or more applicable percentage ratios (as defined in the Listing Rules) in respect of the formation of the Joint Venture exceed 25% but are all less than 100%, pursuant to Chapter 14 of the Listing Rules, the formation of the Joint Venture constitutes a major transaction of the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company transfers the Target Equity to the Joint Venture as its capital contribution under the Capital Contribution Agreement, and one or more applicable percentage ratios (as defined in the Listing Rules) in respect thereof exceed 25% but are all less than 75%, the disposal of the Target Equity (through contribution in kind) also constitutes a major transaction of the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Tianye Group is directly interested in approximately 60.42% of the issued share capital of the Company and is the controlling shareholder of the Company. The Eighth Division SASAC holds 90% of the equity interest in Tianye Group and is therefore an associate of the connected person of the Company. Accordingly, pursuant to Chapter 14 of the Listing Rules, the formation of the Joint Venture and the disposal of the Target Equity (through contribution in kind) constitute connected transactions of the Company, and are subject to the reporting, announcement, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the transactions contemplated under the Capital Contribution Agreement. INCU has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the transactions contemplated under the Capital Contribution Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the transactions contemplated under the Capital Contribution Agreement; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Capital Contribution Agreement; and (iv) a notice of convening the extraordinary general meeting, is expected to be published on the websites of the Stock Exchange and the Company on or before 27 August 2024, and despatched in printed form to Shareholders upon request.

The formation of the Joint Venture and the disposal of the Target Equity (through contribution in kind) are subject to the fulfillment of certain conditions precedent set out in the Capital Contribution Agreement, and may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 6 August 2024 (after trading hours), the Company and the Eighth Division SASAC entered into, among other things, (1) the Capital Contribution Agreement; (2) the Entrusted Voting Right Agreement (as one of the annexes to the Capital Contribution Agreement); and (3) the Entrusted Nomination Right for Directors Agreement (as one of the annexes to the Capital Contribution Agreement).

Pursuant to the Capital Contribution Agreement, the Company and the Eighth Division SASAC have agreed to jointly form the Joint Venture, and the registered capital of the Joint Venture is RMB800,000,000. Of which, the Company shall contribute RMB80,000,000 to the registered capital of the Joint Venture by way of paid-up capital in kind and in cash to acquire 10% equity interest in the Joint Venture; and the Eighth Division SASAC shall contribute RMB720,000,000 to the registered capital of the Joint Venture by way of paid-up capital in cash and in kind to acquire 90% equity interest in the Joint Venture.

Pursuant to the Entrusted Voting Right Agreement, the Eighth Division SASAC has agreed to entrust the exercise of its voting rights in respect of the 41% equity interest in the Joint Venture partially enjoyed and held by it as a shareholder of the Joint Venture to the Company for a period of 5 years. As a result, it is expected that the Company will be able to exercise an aggregate of 51% of the voting rights of the Joint Venture. The Joint Venture will become a subsidiary of the Company and its financial statements will be consolidated into the consolidated financial statements of the Company.

I. OVERVIEW OF THE TRANSACTION

1. Major Terms of the Capital Contribution Agreement in relation to the Formation of the Joint Venture and the Annexes thereto

Date	6 August 2024 (after trading hours)
Parties	The Company; and The Eighth Division SASAC
Subject matter	The Company and the Eighth Division SASAC have agreed to jointly form the Joint Venture.
Business scope of the Joint Venture	<p>Production and supply of tap water; collection and distribution of natural water; construction engineering design; construction engineering (projects that require approval according to the law can only be carried out after approval by the relevant authorities, with specific business projects subject to the approval documents or permits from the relevant authorities)</p> <p>General projects: water resource management; water conservancy-related consultation services; irrigation services; investment activities with own funds; water pollution control; water environment pollution prevention services; soil erosion prevention services; engineering and technology research and experimental development; engineering management services; manufacturing of special machinery and equipment for water resources (except for projects that require approval according to the law, business activities can be carried out independently with a business license according to the law)</p>
Registered capital and way of capital contribution of the Joint Venture	<p>The registered capital of the Joint Venture is RMB800,000,000. Of which:</p> <p>(1) the Company shall contribute RMB80,000,000 to the registered capital of the Joint Venture by way of paid-up capital in kind and in cash to acquire 10% equity interest in the Joint Venture; and</p>

- (2) the Eighth Division SASAC shall contribute RMB720,000,000 to the registered capital of the Joint Venture by way of paid-up capital in cash and in kind to acquire 90% equity interest in the Joint Venture.

The amount of capital contribution by each of the Company and the Eighth Division SASAC is determined after arm's length negotiations between both parties having taken into account, among other things, the business prospect of the Joint Venture and the proposed amount of investment into the Joint Venture as agreed between the Company and the Eighth Division SASAC. The total cash portion of the capital contribution by the Company and the Eighth Division SASAC will be used as working capital of the Joint Venture to expand its water conservancy infrastructure business.

Details of the capital contribution by the Company

Details of the paid-up capital in kind and in cash by the Company are set out below:

- (1) RMB22,526,139.00 shall be settled through the transfer of the Target Equity 1 (i.e., 51% equity interest in Xiyu Water Conservancy and Hydropower) to the Joint Venture. Based on the Asset Valuation Report 1 completed and prepared by the PRC Independent Valuer for Xiyu Water Conservancy and Hydropower on 29 July 2024, as at the Valuation Benchmark Date, the appraised value of the entire equity interest held by the shareholders of Xiyu Water Conservancy and Hydropower calculated using the asset-based approach was approximately RMB44,168,900.00. Please refer to Appendix I for details of the valuation;

- (2) RMB1,479,459.00 shall be settled through the transfer of the Target Equity 2 (i.e., 51% equity interest in Wisdom Agriculture) to the Joint Venture. Based on the Asset Valuation Report 2 completed and prepared by the PRC Independent Valuer for Wisdom Agriculture on 29 July 2024, as at the Valuation Benchmark Date, the appraised value of the entire equity interest held by the shareholders of Wisdom Agriculture calculated using the asset-based approach was approximately RMB2,900,900.00. Please refer to Appendix II for details of the valuation; and
- (3) The remaining balance of RMB55,994,402.00 shall be settled in cash.

The Company shall complete the paid-up capital contribution corresponding to the 10% equity interest in the Joint Venture held by it by 31 December 2027 in the manner described above.

It is expected that the capital commitment to be settled in cash by the Company will be funded by internal resources of the Group.

Details of the capital contribution by the Eighth Division SASAC

Details of the paid-up capital in cash and in kind by the Eighth Division SASAC are set out below:

- (1) RMB50,000,000 shall be settled in cash; and
- (2) The remaining balance of RMB670,000,000 shall be settled in the form of other assets in kind (including but not limited to equity contribution and rights contribution).

The Eighth Division SASAC shall complete the paid-up capital contribution corresponding to the 90% equity interest in the Joint Venture held by it by 31 December 2027 in the manner described above.

As the Eighth Division SASAC is expected to contribute the registered capital of the Joint Venture in the form of other assets in kind (including but not limited to equity contribution and rights contribution), these arrangements may constitute acquisitions of the Company under the Listing Rules. As at the date of this announcement, as additional time is required for the Eighth Division SASAC to prepare and finalize certain information regarding “the form of other assets in kind (including but not limited to equity contribution and rights contribution)”, the final form of which has not yet been determined and is subject to further negotiation between the parties. Further announcement(s) will be made by the Company regarding the progress of the capital contribution by the Eighth Division SASAC as and when appropriate in compliance with the Listing Rules.

**Board of directors,
board of supervisors
and other
management of the
Joint Venture**

Pursuant to the Capital Contribution Agreement and the Entrusted Nomination Right for Directors Agreement, the board of directors of the Joint Venture will comprise 5 members, including 1 director who will serve as the legal representative of the Joint Venture (to be recommended by the Eighth Division SASAC and elected by the board of directors), 1 employee-representative director (to be elected by the employees of the Joint Venture through democratic election), and 3 directors who will be nominated by the Eighth Division SASAC (the nomination right for 3 directors has been entrusted to the Company for a term of 5 years).

The Joint Venture will not establish a board of supervisors, and only 1 supervisor will be appointed.

The Joint Venture will have 1 general manager, who will be nominated by the Eighth Division SASAC and employed or dismissed by the board of directors.

Entrusted voting right arrangement of the Joint Venture

Pursuant to the Entrusted Voting Right Agreement, the Eighth Division SASAC has agreed to entrust the exercise of its voting rights in respect of the 41% equity interest in the Joint Venture enjoyed and held by it as a shareholder of the Joint Venture to the Company for a period of 5 years. Upon the Entrusted Voting Right Agreement becoming effective, the Company will be able to exercise an aggregate of 51% of the voting rights of the Joint Venture. The Joint Venture will become a subsidiary of the Company and its financial statements will be consolidated into the consolidated financial statements of the Company.

Conditions precedent

The Capital Contribution Agreement shall take effect upon fulfilment of all of the following conditions:

1. the Capital Contribution Agreement having been duly executed and sealed by the Company and the Eighth Division SASAC;
2. the signing of the Capital Contribution Agreement having been approved by the respective internal decision-making bodies of the Company and the Eighth Division SASAC;
3. the signing of the Capital Contribution Agreement having been approved by the respective competent authorities of the Company and the Eighth Division SASAC; and
4. the Company having complied with the relevant requirements under the Listing Rules in respect of the Capital Contribution Agreement and the transactions contemplated thereunder, including but not limited to reporting to the Stock Exchange, issuing an announcement, and obtaining approval from the Independent Shareholders in respect of the Capital Contribution Agreement.

As at the date of this announcement, the conditions precedent 1–3 above have been fulfilled.

2. Disposal of the Target Equity (through Contribution in Kind)

As disclosed above, for the formation of the Joint Venture, the paid-up capital contribution by the Company will include contribution in kind. Specifically, the Company will contribute by way of the Target Equity 1 (i.e., 51% equity interest in Xiyu Water Conservancy and Hydropower) and the Target Equity 2 (i.e., 51% equity interest in Wisdom Agriculture), respectively.

Disposal of the Target Equity 1

Basis of determination of consideration

The consideration for the transfer of the Target Equity 1 of RMB22,526,139.00 was determined on normal commercial terms after arm's length negotiations between the Company and the Eighth Division SASAC and with reference to the appraised value of the entire equity interest held by the shareholders of Xiyu Water Conservancy and Hydropower as at the Valuation Benchmark Date of RMB44,168,900.00 (of which, the corresponding appraised value of the 51% equity interest in Xiyu Water Conservancy and Hydropower, i.e., the Target Equity 1, was RMB22,526,139.00) based on the valuation by the PRC Independent Valuer using the asset-based approach as the basis of pricing.

Based on the basis and reasons above, the Board considers that the consideration for the transfer of the Target Equity 1 to the Joint Venture is fair and reasonable.

Background information about Xiyu Water Conservancy and Hydropower

Xiyu Water Conservancy and Hydropower is a company established in the PRC with limited liability and is mainly engaged in construction engineering, machinery and equipment leasing, construction labor subcontracting, engineering management services, construction engineering surveying; construction engineering design; landscaping and greening engineering, irrigation services; technical services, technical development, technical consultation, technical exchange, technical transfer, technical promotion, planning and design management; municipal facility management; information system integration services, engineering technical services (excluding planning management, surveying, design, and supervision), water conservancy-related consultation services, software development and other businesses. As at the date of this announcement, Xiyu Water Conservancy and Hydropower is a wholly-owned subsidiary of the Company.

Upon completion of the disposal of the Target Equity 1, the Company will indirectly hold Xiyu Water Conservancy and Hydropower through the Joint Venture. In addition, pursuant to the Entrusted Voting Right Agreement, it is expected that the Company will be able to exercise an aggregate of 51% of the voting rights of the Joint Venture. The Joint Venture will become a subsidiary of the Company and its financial statements will be consolidated into the consolidated financial statements of the Company. Accordingly, Xiyu Water Conservancy and Hydropower will remain as a subsidiary of the Company, and its results will continue to be consolidated into the financial statements of the Group.

Financial information about Xiyu Water Conservancy and Hydropower

The financial information of Xiyu Water Conservancy and Hydropower for the two years ended 31 December 2022 and 2023 is set out below:

	For the year ended 31 December 2022	For the year ended 31 December 2023
	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)
Net profit before tax	2,291,508.81	1,727,646.97
Net profit after tax	2,109,832.12	1,428,281.58

As at 31 May 2024, the audited book values of total assets and net assets of Xiyu Water Conservancy and Hydropower were RMB274,279,169.16 and RMB44,264,668.89, respectively.

Based on the valuation of Xiyu Water Conservancy and Hydropower by the PRC Independent Valuer, the appraised market value of the 51% equity interest in Xiyu Water Conservancy and Hydropower (i.e., the Target Equity 1) as at the Valuation Benchmark Date was RMB22,526,139.00.

Financial effects of disposal of the Target Equity 1 and intended use of proceeds

Upon disposal of the Target Equity 1, Xiyu Water Conservancy and Hydropower is a non-wholly owned subsidiary of the Company and its results of operations and financial position will continue to be consolidated in the consolidated financial statements of the Group. The disposal is not expected to result in any material gain or loss to the consolidated statement of profit or loss and other comprehensive income of the Company. However, Shareholders are reminded that the actual profit and financial effects as a result of the disposal of the Target Equity 1 to be recorded by the Group will be subject to the final review and audit by the auditor of the Company.

The Company will contribute to the Joint Venture by transferring the Target Equity 1 to the Joint Venture.

Disposal of the Target Equity 2

Basis of determination of consideration

The consideration for the transfer of the Target Equity 2 of RMB1,479,459.00 was determined on normal commercial terms after arm's length negotiations between the Company and the Eighth Division SASAC and with reference to the appraised value of the entire equity interest held by the shareholders of Wisdom Agriculture as at the Valuation Benchmark Date of RMB2,900,900.00 (of which, the corresponding appraised value of the 51% equity interest in Wisdom Agriculture, i.e., the Target Equity 2, was RMB1,479,459.00) based on the valuation by the PRC Independent Valuer using the asset-based approach as the basis of pricing.

Based on the basis and reasons above, the Board considers that the consideration for the transfer of the Target Equity 2 to the Joint Venture is fair and reasonable.

Background information about Wisdom Agriculture

Wisdom Agriculture is a company established in the PRC with limited liability and is mainly engaged in the research and development, design, manufacturing, installation and sales of water saving irrigation automation, intelligent equipment and control systems, as well as other businesses. As at the date of this announcement, Wisdom Agriculture is a wholly-owned subsidiary of the Company.

Upon completion of the disposal of the Target Equity 2, the Company will indirectly hold Wisdom Agriculture through the Joint Venture. In addition, pursuant to the Entrusted Voting Right Agreement, it is expected that the Company will be able to exercise an aggregate of 51% of the voting rights of the Joint Venture. The Joint Venture will become a subsidiary of the Company and its financial statements will be consolidated into the consolidated financial statements of the Company. Accordingly, Wisdom Agriculture will remain as a subsidiary of the Company, and its results will continue to be consolidated into the financial statements of the Group.

Financial information about Wisdom Agriculture

The financial information of Wisdom Agriculture for the two years ended 31 December 2022 and 2023 is set out below:

	For the year ended 31 December 2022	For the year ended 31 December 2023
	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)
Net profit before tax	430,298.86	2,748,727.96
Net profit after tax	431,371.78	2,758,340.54

As at 31 May 2024, the audited book values of total assets and net assets of Wisdom Agriculture were RMB30,777,314.34 and RMB2,756,102.32, respectively.

Based on the valuation of Wisdom Agriculture by the PRC Independent Valuer, the appraised market value of the 51% equity interest in Wisdom Agriculture (i.e., the Target Equity 2) as at the Valuation Benchmark Date was RMB1,479,459.00.

Financial effects of disposal of the Target Equity 2 and intended use of proceeds

Upon disposal of the Target Equity 2, Wisdom Agriculture is a non-wholly owned subsidiary of the Company and its results of operations and financial position will continue to be consolidated in the consolidated financial statements of the Group. The disposal is not expected to result in any material gain or loss to the consolidated statement of profit or loss and other comprehensive income of the Company. However, Shareholders are reminded that the actual profit and financial effects as a result of the disposal of the Target Equity 2 to be recorded by the Group will be subject to the final review and audit by the auditor of the Company.

The Company will contribute to the Joint Venture by transferring the Target Equity 2 to the Joint Venture.

II. REASONS FOR AND BENEFITS OF THE FORMATION OF JOINT VENTURE AND DISPOSAL OF TARGET EQUITY (THROUGH CONTRIBUTION IN KIND)

In accordance with the “product + engineering” strategic plan of the Company, the water conservancy engineering segment will be the main business development direction in the future. Upon formation, the Joint Venture will primarily engage in services related to water conservancy infrastructure and engineering, which aligns with the nature of the Company’s main business. This will help ensure the Company’s water conservancy infrastructure construction business, achieve steady improvement in the Company’s water conservancy infrastructure business, preserve and increase the value of water conservancy assets, and enable a reasonable and orderly expansion of water conservancy capital. At the same time, it will enhance the Company’s core competitiveness and economic benefits, and fully promote the high-quality development of the Company’s engineering business.

The main business of the Joint Venture synergizes with the high-standard farmland construction and water saving irrigation construction business of the Company, thereby creating a closed-loop model for the Company to become a comprehensive service provider in modern water-saving agriculture and achieving sustainable development goals. At the same time, the Company can fully leverage market advantages to continuously enhance its water conservancy engineering business, form a water conservancy engineering operation system that meets the needs of the national modern agricultural and economic development, and promoting high-quality development for the Company.

In light of the above, the Directors (excluding the independent non-executive Directors, whose views will be set out in the circular of the Company upon receipt of the opinion from the Independent Financial Adviser) consider that the terms of the Capital Contribution Agreement (including its annexes) are entered into on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

III. ABSTENTION FROM VOTING ON BOARD RESOLUTIONS AND ABSTENTION FROM VOTING AT EXTRAORDINARY GENERAL MEETING

As Mr. Han Gen (who serves as the vice general manager and director of agriculture of Tianye Group) and Mr. Jiang Dayong (who serves as the assistant to the general manager of Tianye Group), both are executive Directors of the Company, have material interests therein, they have abstained from voting on the approval of the transactions contemplated under the Capital Contribution Agreement at the Board meeting. Save as disclosed above, none of the Directors have material interests in the transactions contemplated under the Capital Contribution Agreement.

Since Tianye Group has interests in the transactions contemplated under the Capital Contribution Agreement and its annexes, Tianye Group (the controlling shareholder of the Company holding approximately 60.42% of the issued share capital of the Company as at the date of this announcement) and its associates will abstain from voting on the resolutions to be proposed at the extraordinary general meeting to approve the transactions contemplated under the Capital Contribution Agreement and its annexes.

IV. INFORMATION ON THE PARTIES

The Company

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

Eighth Division SASAC

The Eighth Division SASAC is a specialized institution authorized by the government of the Eighth Division to represent the government of the Eighth Division in performing the duties of a state-owned capital contributor and carrying out the supervision and management of state-owned assets. Under the leadership of the Party Committee of the Eighth Division, the Eighth Division SASAC supervises and manages the operational state-owned assets of the government of the Eighth Division as the representative of state-owned capital contributor. As at the date of this announcement, (1) Tianye Group is directly interested in approximately 60.42% of the issued share capital of the Company; and (2) Tianye Group is owned as to 90% and 10% by the Eighth Division SASAC and Corps SASAC, respectively. Accordingly, the Eighth Division SASAC is the ultimate beneficial owner and associate of the connected person of the Company.

V. LISTING RULES IMPLICATIONS

The transactions contemplated under the Capital Contribution Agreement constitute the formation of joint venture and disposal of target equity (through contribution in kind) under the Listing Rules. As one or more applicable percentage ratios (as defined in the Listing Rules) in respect of the formation of the Joint Venture exceed 25% but are all less than 100%, pursuant to Chapter 14 of the Listing Rules, the formation of the Joint Venture constitutes a major transaction of the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company transfers the Target Equity to the Joint Venture as its capital contribution under the Capital Contribution Agreement, and one or more applicable percentage ratios (as defined in the Listing

Rules) in respect thereof exceed 25% but are all less than 75%, the disposal of the Target Equity (through contribution in kind) also constitutes a major transaction of the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Tianye Group is directly interested in approximately 60.42% of the issued share capital of the Company and is the controlling shareholder of the Company. The Eighth Division SASAC holds 90% of the equity interest in Tianye Group and is therefore an associate of the connected person of the Company. Accordingly, pursuant to Chapter 14 of the Listing Rules, the formation of the Joint Venture and the disposal of the Target Equity (through contribution in kind) constitute connected transactions of the Company, and are subject to the reporting, announcement, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

VI. EXTRAORDINARY GENERAL MEETING

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the transactions contemplated under the Capital Contribution Agreement. INCU has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the transactions contemplated under the Capital Contribution Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the transactions contemplated under the Capital Contribution Agreement; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Capital Contribution Agreement; and (iv) a notice of convening the extraordinary general meeting, is expected to be published on the websites of the Stock Exchange and the Company on or before 27 August 2024, and despatched in printed form to Shareholders upon request.

The formation of the Joint Venture and the disposal of the Target Equity (through contribution in kind) are subject to the fulfillment of certain conditions precedent set out in the Capital Contribution Agreement, and may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

VII. DEFINITIONS

Unless the context otherwise requires, the following terms in this announcement shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Asset Valuation Report 1”	the Value of the Entire Equity Interest Held by the Shareholders of Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* Involved in the Equity Contribution Proposed by Xinjiang Tianye Water Saving Irrigation System Company Limited* (Jingkun Ping Bao Zi [2024] No. 0624) (《新疆天業節水灌溉股份有限公司擬進行股權出資涉及的石河子西域水利水電建築安裝工程有限責任公司股東全部權益價值》京坤評報字[2024]0624號)
“Asset Valuation Report 2”	the Value of the Entire Equity Interest Held by the Shareholders of Xinjiang Tianye Wisdom Agriculture Technology Company Limited* Involved in the Equity Contribution Proposed by Xinjiang Tianye Water Saving Irrigation System Company Limited* (Jingkun Ping Bao Zi [2024] No. 0625) (《新疆天業節水灌溉股份有限公司擬進行股權出資涉及的新疆天業智慧農業科技有限公司股東全部權益價值》京坤評報字[2024]0625號)
“Board”	the board of directors of the Company
“Capital Contribution Agreement”	the equity capital contribution agreement and its annexes dated 6 August 2024 entered into between the Company and the Eighth Division SASAC in relation to the formation of the Joint Venture
“Company”	Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司), a joint stock company established in the PRC with limited liability, whose H Shares are listed and traded on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corps SASAC”	the State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps

“Directors”	the directors of the Company
“Eighth Division”	the Xinjiang Production and Construction Corps Eighth Agricultural Division
“Eighth Division SASAC”	the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division
“Entrusted Nomination Right for Directors Agreement”	the entrusted nomination right for directors agreement dated 6 August 2024 entered into between the Company and the Eighth Division SASAC in relation to the nomination right for directors of the Joint Venture, as one of the annexes to the Capital Contribution Agreement
“Entrusted Voting Right Agreement”	the entrusted voting right agreement dated 6 August 2024 entered into between the Company and the Eighth Division SASAC in relation to the voting rights of the Joint Venture, as one of the annexes to the Capital Contribution Agreement
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock Exchange and subscribed for and traded in HK\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Financial Adviser” or “INCU”	INCU Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, 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 formation of the Joint Venture and the disposal of the Target Equity (through contribution in kind)

“Independent Shareholders”	the Shareholders who are not required to abstain from voting on relevant resolutions at the extraordinary general meeting due to their material interests in the Capital Contribution Agreement
“Joint Venture”	Xinjiang Tianze Water Conservancy Investment and Development Co., Ltd.* (新疆天澤水利投資發展有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan region
“PRC Independent Valuer”	Beijing KYSIN Assets Appraisal Co., Ltd.
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	H Shares, domestic shares and all shares of other class(es) resulting from sub-division, consolidation or reclassification thereof from time to time in the share capital of the Company
“Shareholder(s)”	the holder(s) of H Shares and domestic shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Target Equity”	the Target Equity 1 and the Target Equity 2
“Target Equity 1”	51% equity interest in Xiyu Water Conservancy and Hydropower
“Target Equity 2”	51% equity interest in Wisdom Agriculture
“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 as to 90% and 10% by the Eighth Division SASAC and Corps SASAC. Tianye Group is directly interested in approximately 60.42% of the issued share capital of the Company as at the date of this announcement

“Valuation Benchmark Date”	31 May 2024
“Voting Rights”	the voting rights, nomination rights, proposal rights, rights to convene and hold general meetings, attendance rights, and other related rights corresponding to the equity interest. The following rights are excluded: ownership of equity interest; and the rights to benefits, disposal, information, exercising party construction, performance evaluation, and salary management due to ownership, as well as other rights
“Wisdom Agriculture”	Xinjiang Tianye Wisdom Agriculture Technology Company Limited* (新疆天業智慧農業科技公司), a wholly-owned subsidiary of the Company as at the date of this announcement
“Xiyu Water Conservancy and Hydropower”	Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (石河子西域水利水電建築安裝工程有限責任公司), a wholly-owned subsidiary of the Company as at the date of this announcement
“%”	per cent.

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

Xinjiang, the PRC, 6 August 2024

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Zhou Gang (Chairman), Mr. Han Gen 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 purpose only*

APPENDIX I XIYU WATER CONSERVANCY AND HYDROPOWER — VALUATION DETAILS

I. VALUATION METHODS ADOPTED BY THE VALUER AND THE REASONS FOR THEIR SELECTION

When conducting an enterprise value appraisal, asset appraisers should prudently analyze the applicability of the three basic asset appraisal approaches, i.e. income approach, market approach, and asset-based approach, based on relevant factors such as the purpose of the appraisal, appraised subject, type of value, nature of the enterprise, asset scale, and adequacy of the appraisal information obtained, before properly selecting one or more basic asset appraisal approaches for appraisal.

1. Applicability analysis of appraisal approaches

(1) Applicability analysis of income approach

- ① The Appraised Entity has been established for many years. Based on its operation in recent years, the company has been operating normally, but its profitability has been quite volatile. On one hand, the business sources from related parties are influenced by their relationships, and on the other hand, the market business sources are quite sporadic. Therefore, the historical operation of the Appraised Entity, especially the business performance in the past 3 years, cannot be used as reference data for predicting its income in future years.

From an overall perspective, although most of the assets of the Appraised Entity in relation to the Appraised Subject are operating assets, which have basically clear property rights and are in good condition. However, there is still uncertainty about whether its operations can generate enough cash flow to ensure the continuous renewal and compensation of various assets, maintain its overall profitability, and enable the Appraised Entity to maintain its operations.

- ② The audited financial statements of the Appraised Entity in recent years indicate that financial indicators such as operating income, operating profit, net profit, and net cash flow in recent years have shown significant fluctuations with market changes. The primary source of income originally relied on related companies. In 2023 and this year, the company undertook high-standard farmland projects and extended some projects in other regions, leading to high uncertainty in income sources. Based on its actual operation in recent years, it is difficult to reasonably predict the future income of the Appraised Subject.

- ③ The information provided by the Principal and the Appraised Entity, as well as the information collected by the asset appraisers related to this appraisal, do not meet the sufficiency requirements of the income approach for appraisal information.
- ④ The main risks of the Appraised Entity include industry risk, operational risk, financial risk, policy risk, and other risks. After analysis, the asset appraisers believe that the above risks cannot be qualitatively assessed or roughly quantified, and therefore cannot provide a basis for estimating the discount rate.

Based on the above analysis and conclusion, the asset appraisers are of the view that the income approach is not suitable for this appraisal both in theory and practice.

(2) Applicability analysis of market approach

Among the listed companies operating in the same industry as the Appraised Entity, based on the comparison with the Appraised Entity or the Appraised Subject in terms of the dates of establishment and listing, business scope, business scale, main products, business composition, business indicator, business model, operation stage, financial data or the purpose, time, circumstances, price and other factors in their transaction cases, it is concluded that there are significant differences between the listed companies and the Appraised Entity in terms of main products, business scale, and business composition. Therefore, the Appraised Entity is basically not comparable to the comparable listed companies, which cannot meet the comparability requirements of the market approach for a sufficient number of comparable companies.

Based on the above analysis and conclusion, the asset appraisal professionals are of the view that the market approach is not suitable for this appraisal both in theory and practice.

(3) Applicability analysis of asset-based approach

- ① The Appraised Entity can actively cooperate on appraisal and has a sound accounting and audit system as well as orderly management in place. The quantity of assets subject to appraisal can be determined based on financial information and construction data and can be verified through on-site investigation.
- ② The industry to which the assets subject to appraisal belong is relatively mature with relatively complete industrial data; the replacement cost of appraised assets can be obtained from various sources including the relevant websites of manufacturers of equipment, suppliers of inventory, and other suppliers.

- ③ The residual rate of assets included in the Appraised Subject can be calculated by estimating the remaining usable life of the assets based on their economic useful life and thus estimating the commonly acknowledged residual rate. Based on the on-site investigation and the relevant information collected, the residual rate is therefore estimated with reference to the actual depreciation rate, the functional depreciation rate, and the economic depreciation rate.

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

2. Selection of appraisal approach

The Appraised Subject is the value of the entire equity interests held by the shareholders of the Appraised Entity on the Valuation Benchmark Date. Based on the purpose of this appraisal, the appraised subject, type of value, the relevant information provided by the Principal and the Appraised Entity, information collected through on-site investigation and other channels, and details of the Appraised Subject and other relevant conditions, coupled with comprehensive judgment such as the aforementioned applicability analysis of appraisal approaches, this appraisal was conducted using the asset-based approach.

II. SCOPE OF WORK OF THE VALUER, ANY LIMITATIONS, AND REASONS FOR SUCH LIMITATIONS

1. Scope of work of the valuer

The purpose of this appraisal is to provide a value reference for the valuation of the entire equity interest held by the shareholders of Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd. involved in the equity contribution proposed by Xinjiang Tianye Water Saving Irrigation System Company Limited. The Appraised Subject is the value of the entire equity interest held by the shareholders of the Target Company. The scope of appraisal includes all assets and liabilities of the Target Company, specifically including the current assets, fixed assets, and deferred income tax assets and liabilities reflected in the balance sheet of the Target Company as at the Valuation Benchmark Date. As at the Valuation Benchmark Date, the book value of the entire equity interest held by the shareholders of the Target Company, as stated in the audited asset appraisal declaration form, was RMB44,264,600.

2. Limitations and reasons

Since this appraisal is to provide an opinion on the value of the entire equity interest held by the shareholders of the Target Company, the appraisers believe that the entire equity interest has relatively good liquidity in the market. Therefore, it is not necessary to consider the potential impact of a liquidity discount on the value of the Appraised Subject in this appraisal.

This appraisal is to provide an opinion on the value of the entire equity interest of the shareholders, and the appraisal conclusion does not involve premium or discount arising from factors such as controlling shareholding interest and minority shareholding interest.

In the appraisal scope of this appraisal, there are no limitations that may adversely affect the appraised value of the Appraised Subject.

III. NATURE AND SOURCES OF THE DATA ON WHICH IT IS BASED

1. Basis of ownership

- ① business license and articles of association of the Target Company;
- ② shareholders' capital contribution certificates;
- ③ vehicle registration certificates and driving licenses, equipment purchase invoices;
- ④ other relevant supporting documents.

2. Pricing and reference

- ① the unqualified audit report Xin Kuai Shi Bao Zi [2024] No. ZG223724 issued by BDO China SHU LUN PAN Certified Public Accountants LLP;
- ② Common Data and Parameter Manual for the Asset Appraisal published by China Machine Press;
- ③ China Automobile Network;
- ④ Provisions on Compulsory Scrapping Standards for Motor Vehicles (Ministry of Commerce, NDRC, Ministry of Public Security, Ministry of Environmental Protection Order No.12 in 2012);
- ⑤ Mechanical and Electrical Products Quotation Manual prepared by the Machinery Industry Information Research Institute* (機械工業信息研究院);
- ⑥ information from interviews with the management of the Target Company;

- ⑦ on-site investigation records, market inquiries, and other relevant information obtained by appraisers.

IV. KEY INPUT PARAMETERS AND ASSUMPTIONS, AND HOW TO DETERMINE AND CONVERT THEM INTO APPRAISED VALUE

(I) Appraisal approach

The asset-based approach is adopted for this appraisal. The asset-based approach refers to an appraisal approach where the values of assets and liabilities in the balance sheet and identifiable off-balance sheet of an enterprise are reasonably appraised on the basis of the balance sheet of the appraised entity on the valuation benchmark date for the purposes of determining the value of the appraised subject.

(II) Key assumptions under the asset-based approach

1. It is assumed that the information (basic information, financial information, operational information, etc.) provided by the Principal and the Appraised Entity is true, accurate and complete, and that the disclosure of relevant material matters is adequate.
2. It is assumed that the Appraised Entity (including the Appraised Subject and its assets) continues to operate according to its current model, scale, frequency, environment, etc.

(III) Calculation of appraised value

I. Calculation of appraised value of each asset

A. Current assets

The current assets of the Target Company include cash, trade receivables, receivables financing, prepayments, other receivables, inventories, contract assets, and other current assets.

1. Cash

The appraised value is the audited and verified book value.

2. Trade receivables

The appraisal professionals understand the timing and reasons for the occurrence of trade receivables and the nature of the business. They verify the authenticity of the book value of trade receivables through procedures such as examining original accounting vouchers, checking general and subsidiary ledgers, reconciling with related parties, and issuing confirmation letters. They also analyze the aging of the receivables to

determine the appraised value based on the estimated recoverable amount for each receivable. For receivables without conclusive evidence of loss, the appraised value is determined by multiplying the expected credit loss rate of receivables by the book balance. No credit loss is considered for amounts due from related parties. The bad-debt provision already made on the books is assessed to be zero.

3. Receivables financing

The appraisal professionals verify the ledger records, review the register of notes receivable, and conduct a physical count of the notes receivable. For some larger amounts of notes receivable, they also check the original records such as corresponding sales contracts and delivery notes. Since the possibility of not being able to recover the full amount upon the maturity of the bank acceptance bill is remote, the appraised value is determined based on the verified book value.

4. Prepayments

The appraisal professionals verify that the general ledger balance of prepayments matches the appraisal declaration form, collect original accounting documents such as payment vouchers and purchase contracts, check the original accounting vouchers for prepayments like payment vouchers, and examine the post-period delivery and settlement status. After verification, the aging of prepayments is mainly within 2 years, and there is no evidence indicating that the goods cannot be recovered upon maturity or that corresponding rights cannot be formed. Therefore, the appraised value is determined based on the verified book value.

5. Other receivables

The appraisal professionals firstly verify the detailed items to understand the specific reasons for their occurrence and the collection status; secondly, they issue confirmation letters for large amounts and analyze the nature and aging of other receivables; finally, they determine the appraised value based on the recoverable amount of each debt. For deposits in the settlement center, the appraised value is confirmed based on the verified book value regardless of the age of the account. For other receivables without conclusive evidence of loss, the expected credit loss rate for other receivables is referenced and multiplied by the book balance to determine the estimated loss. The appraised value is confirmed after deducting the estimated loss from the balance of other receivables. The bad-debt provision already made on the books is assessed to be zero.

6. Inventories

The inventories subject to appraisal are inventory goods. The asset appraisers verify the inventory declaration forms against the subsidiary ledgers, general ledgers, and financial statements, review relevant ledger records and original vouchers to confirm the actual existence and ownership status of the inventory. The internal control system for the company's inventory, the inventory in-and-out and storage accounting system, and the regular inventory check system are reviewed. By examining the most recent inventory in-and-out records, the turnover of inventory is understood, and a focused investigation on the quality of inventory is conducted. Upon verification, it is confirmed that the company's internal control system is strict and sound, and the documents and ledger records for inventory receipt, issuance, and storage are complete and clear. The asset appraisers conduct a spot check on the inventory and back-calculate the actual quantity of inventory as at the Valuation Benchmark Date based on the in-and-out records during the period.

For the inventory goods, the appraisal is conducted using the replacement cost approach, which is based on the current market prices, plus reasonable transportation sundries and other reasonable expenses, multiplied by the actual quantity to determine the appraised value. For the period from the purchase date of inventory goods to the benchmark date, market prices have not fluctuated significantly. The book value basically reflects the recent market purchase prices, so the appraised value will be the audited and verified book value.

7. Contract assets

The asset appraisers firstly verify the detailed items, conduct spot check on project contracts and payment vouchers, and verify the authenticity and accuracy of the book balance. They also analyze the nature and aging of contract assets. For contract assets that can be substantively confirmed as receivables but lack conclusive evidence of loss, the appraised value is determined by multiplying the expected credit loss rate of receivables by the book balance of the contract assets. No impairment provision is made for contract assets that do not yet qualify for recognition as trade receivables, and the impairment provision already made on the books is assessed to be zero.

8. Other current assets

Other current assets include deductible VAT and overpaid income tax by the parent and subsidiary companies after audit adjustments. The asset appraisal professionals understand the applicable tax types and rates for the

company, verify the accuracy and authenticity of the other current assets in conjunction with the tax returns, and use the verified and audited book value as the appraised value.

B. Non-current assets

Non-current assets include fixed assets and deferred income tax assets.

1. Fixed assets

The fixed assets of the Target Company subject to appraisal include electronic equipment and vehicles. Based on the purpose of this appraisal, the information provided by the Appraised Entity, and the specific conditions of the equipment subject to appraisal, this appraisal uses the market approach for electronic equipment and vehicles for which the second-hand market prices can be easily obtained, and the cost approach for electronic equipment and vehicles for which the new equipment prices can be easily obtained. The appraised values do not include value-added tax.

(1) Cost approach

a. Estimation of original appraised value

① Estimation of original appraised value of vehicles

For transport equipment, the full replacement cost is determined based on the current purchase price of the vehicle, the vehicle purchase tax, and the license handling fee. The calculation formula is:

Full replacement cost of transport vehicles = vehicle purchase price exclusive of tax + vehicle purchase tax + license handling fee

② Estimation of original appraised value of electronic equipment

For electronic equipment, the appraisers determine the original price of the equipment by checking the Mechanical and Electrical Products Quotation Manual and websites such as “PConline” and “ZOL”, with appropriate adjustments. The calculation formula for the replacement cost of electronic equipment is as follows:

Replacement cost = Original price of the equipment ÷ (1 + VAT rate)

b. Estimation of residual rate:

Generally, based on the features and usage of various types of equipment, the remaining usable life is estimated by taking into comprehensive consideration the economic useful life and technical life of the equipment.

- ① For general equipment and equipment of lesser value, the residual rate is estimated using the useful life approach, taking into comprehensive consideration the maintenance status and current appearance of the equipment. The estimation formula is as follows:

$$\text{Residual rate} = (\text{economic useful life} - \text{used life}) \div \text{economic useful life} \times 100\%$$

- ② For transport vehicles, according to the relevant requirements of the Provisions on Compulsory Scrapping Standards for Motor Vehicles (Ministry of Commerce, NDRC, Ministry of Public Security, Ministry of Environmental Protection Order No.12 in 2012) and the specific conditions of the vehicles subject to appraisal, the theoretical residual rate is determined based on the principle of prudence by taking the lower of the residual rate of useful life and the residual rate of mileage. At the same time, the residual rate of investigation is considered, and a weighted calculation is made to determine the appraised comprehensive residual rate of the vehicles subject to appraisal, which is:

$$\text{Theoretical residual rate} = \text{Min} (\text{residual rate of useful life, residual rate of mileage})$$

$$\text{Appraised comprehensive residual rate} = \text{theoretical residual rate} \times 0.5 + \text{residual rate of investigation} \times 0.5$$

$$\text{Residual rate of useful life} = (1 - \text{used life} \div \text{specified or economic useful life}) \times 100\%$$

$$\text{Residual rate of mileage} = (1 - \text{mileage used} \div \text{specified mileage}) \times 100\%$$

$$\text{Residual rate of on-site investigation} = (\text{engine system score} \times 0.4 + \text{chassis score} \times 0.3 + \text{body and decoration score} \times 0.1 + \text{electrical equipment score} \times 0.2) / 100 \times 100\%$$

Of which: the steps to estimate the residual rate of on-site investigation are as follows: firstly, evaluate the quality of each part of the vehicle on a 100-point scale, then determine the weight coefficient based on the importance of each part (i.e., 0.4 for engine system, 0.3 for chassis, 0.1 for body and decoration, 0.2 for electrical equipment, with the total weight coefficient being 1), and use the weighted average to determine the residual rate of on-site investigation.

(2) Market approach

a. Vehicles

For vehicles that are no longer in production, since there are many comparable transaction cases in the second-hand market with the same model, similar purchase years, and similar conditions as the vehicles subject to appraisal, and sufficient comparable cases can be found, the market approach is adopted for this appraisal.

The market approach refers to various appraisal techniques that estimate asset value by using recent transaction prices of the same or similar assets in the market, through direct comparison or analogous analysis. The specific appraisal procedures are as follows:

① Identification of comparable transaction cases

When conducting a vehicle market approach appraisal, the appraised value is determined by comparing the transaction situations of similar vehicles in the second-hand market and directly analyzing the second-hand prices of market transactions. During the vehicle market approach appraisal, based on the characteristics of the appraised vehicles, transaction cases that meet certain conditions are selected from numerous vehicle transaction cases collected from current market transactions to serve as examples of comparative reference transactions.

② Factor adjustments

Factor adjustments include: transaction condition adjustment, date adjustment, regional factor adjustment, dynamic factor adjustment, static factor adjustment, etc.

- I. The transaction condition adjustment considers whether both parties have any special interests, special transaction motives, understanding of market conditions, and other special transaction circumstances and transaction methods. Through the transaction condition adjustment, comparable transaction cases can be adjusted to prices under normal transaction conditions.
- II. The transaction date adjustment revises the transport equipment price of the transaction case to the market price of the equipment on the Valuation Benchmark Date.
- III. The regional factor adjustment modifies the transaction market conditions of the region where the transaction case is located to match the transaction market conditions of the region where the Appraised Subject is located.
- IV. The static indicator adjustment involves comparing the examination results of various static indicators of the appraised transport equipment with those of the transaction cases. This helps identify the price differences caused by the variations in static indicators between the appraised equipment and the equipment in transaction cases, and then adjust the prices of equipment in transaction cases accordingly.
- V. The dynamic indicator adjustment involves comparing the examination results of various dynamic indicators of the appraised transport equipment with those of transaction cases. This helps identify the price differences caused by the variations in dynamic indicators between the equipment in transaction cases and the appraised equipment, and then adjust the prices of equipment in transaction cases accordingly.

Calculation of the appraised value

$$P = P' \times A \times B \times C \times D$$

P — Appraised price of appraised equipment

P' — Price of comparable transaction case

A — Transaction condition adjustment factor

B — Transaction date adjustment factor

C — Static indicator adjustment factor

D — Dynamic indicator adjustment factor

b. Electronic equipment

For electronic equipment that has been in use for a long time and is no longer available in the current market, the appraised value is determined directly by the second-hand market price or the realizable value.

2. Deferred income tax assets

Asset appraisal professionals use procedures such as checking accounting vouchers, reconciling the general and subsidiary ledgers to verify the authenticity and accuracy of deferred income tax assets, and determine the appraised value based on the verified book value.

II. Calculation of appraised value of each liability

On top of checking and verification, the appraised value is determined by the audited and verified book value after actual need for payment is taken into consideration.

V. APPRAISED VALUE OF TRANSACTION TARGET AND MAIN REASONS FOR REACHING THE CONCLUSION

1. Appraised value of transaction target

The appraised market value of the entire equity interest held by the shareholders of the Target Company is RMB44,168,900.

2. Main reasons for reaching the appraisal conclusion

The asset-based approach is adopted for the market value appraisal of the entire equity interest held by the shareholders of the Target Company. The appraisal conclusion is determined by subtracting the value of total liabilities from the value of total assets.

Total assets include current assets and non-current assets. There are no changes to the current assets based on the audit, and the appraised value is consistent with the book value. Non-current assets include fixed assets and deferred income tax assets. There are no changes to the deferred income tax assets based on the audit, and the appraised value is consistent with the book value. However, for fixed assets, since some vehicles are second-hand vehicles transferred at cost, the book value after depreciation is higher than the current second-hand market price of the vehicles. Additionally, the increasingly mature manufacturing technology of electronic equipment has led to a decrease in purchase prices, resulting in the appraised value of fixed assets being lower than the book value. Based on the above, total assets are assessed to be impaired.

Total liabilities are current liabilities. There are no changes to the current liabilities based on the audit, and the appraised value is consistent with the book value.

The audited book value of the Target Company reported for appraisal is RMB44,264,600, the appraised value is RMB44,168,900, and the appraised impairment is RMB95,700, all of which are determined based on the above factors.

VI. EFFECTIVE DATE OF VALUATION

The effective date of valuation is 30 June 2024.

VII. IDENTITY, QUALIFICATION AND INDEPENDENCE OF THE VALUER

The two appraisers for this evaluation, namely Fu Ping (ID number: 652325196610260242) and Wang Qingyun (ID number: 65030019651203092X), are both full practicing members of the China Appraisal Society. They are registered practitioners with Xinjiang Branch of Beijing KYSIN Assets Appraisal Co., Ltd. (membership numbers: Fu Ping 65120002, Wang Qingyun 65050019). The two appraisers are independent third parties who are independent of the Principal, the Target Company, and their respective associates, and there are no relationships or interests between them and the Principal, the Target Company, or any other parties to the capital increase. In this appraisal, apart from the appraisal service fee payable by the Principal, there are no other special arrangements causing the appraisers to receive any additional fees or benefits.

APPENDIX II WISDOM AGRICULTURE — VALUATION DETAILS

I. VALUATION METHODS ADOPTED BY THE VALUER AND THE REASONS FOR THEIR SELECTION

When conducting an enterprise value appraisal, asset appraisers should prudently analyze the applicability of the three basic asset appraisal approaches, i.e. income approach, market approach, and asset-based approach, based on relevant factors such as the purpose of the appraisal, appraised subject, type of value, nature of the enterprise, asset scale, and adequacy of the appraisal information obtained, before properly selecting one or more basic asset appraisal approaches for appraisal.

1. Applicability analysis of appraisal approaches

(1) Applicability analysis of income approach

- ① Established in 2016, the Appraised Entity is a high-tech enterprise specializing in automated control systems for water saving irrigation. The industry it belongs to is science and technology promotion and application services. Based on its operation in recent years, the company has been operating normally in general. Given the sales-driven production model, the production and sales of the company's technology and products are relatively passive. The company's initial purpose and operational stance are to reserve agricultural technology digitalization technical services for the future, with a certain responsibility for scientific research. According to the audited financial statements of the Appraised Entity for recent years, the gross profit level of the Appraised Entity is unstable. Additionally, after communicating with the Principal and the Appraised Entity, it was found that the cost and revenue arising from the land allocated by the government to its parent company have been included in the Appraised Entity from 2022. However, with this transfer of equity interest, the parent company has reclaimed the operating income from the land, while the costs and expenses still remain with the Appraised Entity. Also, the Appraised Entity undertook the high-standard farmland project of the Eighth Division in 2023, bringing significant changes in revenue. Whether it will expand to more markets in the future or return to its main business direction remains uncertain, therefore, the future revenue situation of the Appraised Entity is uncertain and difficult to reasonably predict. As a result, the expected revenue from the overall profitability of the Appraised Subject cannot be objectively and reasonably predicted.

- ② The information provided by the Principal and the Appraised Entity, as well as the information collected by the asset appraisal professionals related to this appraisal, cannot meet the sufficiency requirements of the income approach for appraisal information.
- ③ The main risks of the Appraised Entity include industry risk, operational risk, financial risk, policy risk, and other risks. After analysis, the asset appraisal professionals believe that the above risks cannot be qualitatively assessed or roughly quantified, and therefore cannot provide a basis for estimating the discount rate.

Based on the above analysis and conclusion, the asset appraisers are of the view that the income approach is not suitable for this appraisal both in theory and practice.

(2) Applicability analysis of market approach

Among the listed companies operating in the same industry as the Appraised Entity, based on the comparison with the Appraised Entity or the Appraised Subject in terms of the dates of establishment and listing, business scope, business scale, main products, business composition, business indicator, business model, operation stage, financial data or the purpose, time, circumstances, price and other factors in their transaction cases, it is concluded that there are significant differences between the listed companies and the Appraised Entity in terms of main products, business scale, and business composition. Therefore, the Appraised Entity is basically not comparable to the comparable listed companies, which cannot meet the comparability requirements of the market approach for a sufficient number of comparable companies.

Based on the above analysis and conclusion, the asset appraisal professionals are of the view that the market approach is not suitable for this appraisal both in theory and practice.

(3) Applicability analysis of asset-based approach

- ① The Appraised Entity can actively cooperate on appraisal and has a sound accounting and audit system as well as orderly management in place. The quantity of assets subject to appraisal can be determined based on financial information and construction data and can be verified through on-site investigation.
- ② The industry to which the assets subject to appraisal belong is relatively mature with relatively complete industrial data; the replacement cost of appraised assets can be obtained from various sources including the relevant websites of manufacturers of equipment, suppliers of inventory, and other suppliers.

- ③ The residual rate of assets included in the Appraised Subject can be calculated by estimating the remaining usable life of the assets based on their economic useful life and thus estimating the commonly acknowledged residual rate. Based on the on-site investigation and the relevant information collected, the residual rate is therefore estimated with reference to the actual depreciation rate, the functional depreciation rate, and the economic depreciation rate.

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

2. Selection of appraisal approach

The Appraised Subject is the value of the entire equity interests held by the shareholders of the Appraised Entity on the Valuation Benchmark Date. Based on the purpose of this appraisal, the appraised subject, type of value, the relevant information provided by the Principal and the Appraised Entity, information collected through on-site investigation and other channels, and details of the Appraised Subject and other relevant conditions, coupled with comprehensive judgment such as the aforementioned applicability analysis of appraisal approaches, this appraisal was conducted using the asset-based approach.

II. SCOPE OF WORK OF THE VALUER, ANY LIMITATIONS, AND REASONS FOR SUCH LIMITATIONS

1. Scope of work of the valuer

The purpose of this appraisal is to provide a value reference for the valuation of the entire equity interest held by the shareholders of Xinjiang Tianye Wisdom Agriculture Technology Company Limited involved in the equity contribution proposed by Xinjiang Tianye Water Saving Irrigation System Company Limited. The Appraised Subject is the value of the entire equity interest held by the shareholders of the Target Company. The scope of appraisal includes all assets and liabilities of the Target Company, specifically including the current assets, fixed assets, intangible assets, long-term deferred expenses and deferred income tax assets and liabilities reflected in the balance sheet of the Target Company as at the Valuation Benchmark Date. As at the Valuation Benchmark Date, the book value of the entire equity interest held by the shareholders of the Target Company, as stated in the audited asset appraisal declaration form, was RMB2,756,100.

2. Limitations and reasons

Since this appraisal is to provide an opinion on the value of the entire equity interest held by the shareholders of the Target Company, the appraisers believe that the entire equity interest has relatively good liquidity in the market. Therefore, it is not necessary to consider the potential impact of a liquidity discount on the value of the Appraised Subject in this appraisal.

This appraisal is to provide an opinion on the value of the entire equity interest of the shareholders, and the appraisal conclusion does not involve premium or discount arising from factors such as controlling shareholding interest and minority shareholding interest.

In the appraisal scope of this appraisal, there are no limitations that may adversely affect the appraised value of the Appraised Subject.

III. NATURE AND SOURCES OF THE DATA ON WHICH IT IS BASED

1. Basis of ownership

- ① business license and articles of association of the Target Company;
- ② shareholders' capital contribution certificates;
- ③ vehicle registration certificates and driving licenses;
- ④ other relevant supporting documents.

2. Pricing and reference

- ① the unqualified audit report Xin Kuai Shi Bao Zi [2024] No. ZG223725 issued by BDO China SHU LUN PAN Certified Public Accountants LLP;
- ② Provisions on Compulsory Scrapping Standards for Motor Vehicles (Ministry of Commerce, NDRC, Ministry of Public Security, Ministry of Environmental Protection Order No.12 in 2012);
- ③ China Automobile Network;
- ④ information from interviews with the management of the Target Company;
- ⑤ on-site investigation records, market inquiries, and other relevant information obtained by appraisers.

IV. KEY INPUT PARAMETERS AND ASSUMPTIONS, AND HOW TO DETERMINE AND CONVERT THEM INTO APPRAISED VALUE

(I) Appraisal approach

The asset-based approach is adopted for this appraisal. The asset-based approach refers to an appraisal approach where the values of assets and liabilities in the balance sheet and identifiable off-balance sheet of an enterprise are reasonably appraised on the basis of the balance sheet of the appraised entity on the valuation benchmark date for the purposes of determining the value of the appraised subject.

(II) Key assumptions under the asset-based approach

1. It is assumed that the information (basic information, financial information, operational information, etc.) provided by the Principal and the Appraised Entity is true, accurate and complete, and that the disclosure of relevant material matters is adequate.
2. It is assumed that the Appraised Entity (including the Appraised Subject and its assets) continues to operate according to its current model, scale, frequency, environment, etc.

(III) Calculation of appraised value

I. Calculation of appraised value of each asset

A. Current assets

The current assets of the Target Company include cash, trade receivables, receivables financing, prepayments, other receivables, inventories, contract assets, and other current assets.

1. Cash

The appraised value is the audited and verified book value.

2. Trade receivables

The appraisal professionals understand the timing and reasons for the occurrence of trade receivables and the nature of the business. They verify the authenticity of the book value of trade receivables through procedures such as examining original accounting vouchers, checking general and subsidiary ledgers, reconciling with related parties, and issuing confirmation letters. They also analyze the aging of the receivables to determine the appraised value based on the estimated recoverable amount for each receivable. For receivables without conclusive evidence of loss, the appraised value is determined by multiplying the expected credit loss rate of

receivables by the book balance. No credit loss is considered for amounts due from related parties. The bad-debt provision already made on the books is assessed to be zero.

3. Prepayments

The appraisal professionals verify that the general ledger balance of prepayments matches the appraisal declaration form, collect original accounting documents such as payment vouchers and purchase contracts, check the original accounting vouchers for prepayments like payment vouchers, and examine the post-period delivery and settlement status. After verification, the aging of prepayments is mainly within 2 years, and there is no evidence indicating that the goods cannot be recovered upon maturity or that corresponding rights cannot be formed. Therefore, the appraised value is determined based on the verified book value.

4. Other receivables

The appraisal professionals firstly verify the detailed items to understand the specific reasons for their occurrence and the collection status; secondly, they issue confirmation letters for large amounts and analyze the nature and aging of other receivables; finally, they determine the appraised value based on the recoverable amount of each debt. For deposits in the settlement center, the appraised value is confirmed based on the verified book value regardless of the age of the account. For other receivables without conclusive evidence of loss, the expected credit loss rate for other receivables is referenced and multiplied by the book balance to determine the estimated loss. The appraised value is confirmed after deducting the estimated loss from the balance of other receivables. The bad-debt provision already made on the books is assessed to be zero.

5. Inventories

The inventories subject to appraisal are raw materials, inventory goods, work in progress, and construction in progress.

① Raw materials and inventory goods

The appraisal of raw materials and inventory goods (which are products purchased for projects, essentially equivalent to raw materials) is conducted using the replacement cost approach, which is based on the current market price of various materials, plus reasonable transportation sundries and other reasonable expenses, multiplied by the actual quantity to determine the appraised value.

② Work in progress

After verifying the cost composition and accounting treatment, the appraisal professionals believe that the book value can basically reflect the current value of the products. Therefore, the appraised value is determined based on the verified book value.

③ Construction in progress

After verifying the cost composition and accounting treatment, the appraisal professionals believe that the book value can basically reflect the current value of the products. Therefore, for normal construction projects, the appraised value is determined based on the verified book value.

B. Non-current assets

Non-current assets include fixed assets, intangible assets, long-term prepaid expenses and deferred income tax assets.

1. Fixed assets

The fixed assets of the Target Company subject to appraisal are vehicles. Based on the purpose of this appraisal, the information provided by the Appraised Entity, and the specific conditions of the equipment subject to appraisal, this appraisal uses the market approach for vehicles for which the second-hand market prices can be easily obtained. The appraised value does not include value-added tax.

The market approach refers to various appraisal techniques that estimate asset value by using recent transaction prices of the same or similar assets in the market, through direct comparison or analogous analysis. The specific appraisal procedures are as follows:

① Identification of comparable transaction cases

When conducting a vehicle market approach appraisal, the appraised value is determined by comparing the transaction situations of similar vehicles in the second-hand market and directly analyzing the second-hand prices of market transactions. During the vehicle market approach appraisal, based on the characteristics of the appraised vehicles, transaction cases that meet certain conditions are selected from numerous vehicle transaction cases collected from current market transactions to serve as examples of comparative reference transactions.

② Factor adjustments

Factor adjustments include: transaction condition adjustment, date adjustment, regional factor adjustment, dynamic factor adjustment, static factor adjustment, etc.

- I. The transaction condition adjustment considers whether both parties have any special interests, special transaction motives, understanding of market conditions, and other special transaction circumstances and transaction methods. Through the transaction condition adjustment, comparable transaction cases can be adjusted to prices under normal transaction conditions.
- II. The transaction date adjustment revises the transport equipment price of the transaction case to the market price of the equipment on the Valuation Benchmark Date.
- III. The regional factor adjustment modifies the transaction market conditions of the region where the transaction case is located to match the transaction market conditions of the region where the Appraised Subject is located.
- IV. The static indicator adjustment involves comparing the examination results of various static indicators of the appraised transport equipment with those of the transaction cases. This helps identify the price differences caused by the variations in static indicators between the appraised equipment and the equipment in transaction cases, and then adjust the prices of equipment in transaction cases accordingly.
- V. The dynamic indicator adjustment involves comparing the examination results of various dynamic indicators of the appraised transport equipment with those of transaction cases. This helps identify the price differences caused by the variations in dynamic indicators between the equipment in transaction cases and the appraised equipment, and then adjust the prices of equipment in transaction cases accordingly.

Calculation of the appraised value

$$P = P' \times A \times B \times C \times D$$

P — Appraised price of appraised equipment

- P' — Price of comparable transaction case
- A — Transaction condition adjustment factor
- B — Transaction date adjustment factor
- C — Static indicator adjustment factor
- D — Dynamic indicator adjustment factor.

2. Intangible assets

For the intangible assets declared and appraised this time, the company provided an explanation, clarifying that the intangible assets subject to appraisal are unlikely to bring future benefits to the company or have greater uncertainties regarding potential benefits. Therefore, in this appraisal, the appraised value of the patent right assets is determined based on the audited and amortized book value of the intangible assets, while the appraised value of the ERP management system for material procurement is determined based on the current market prices.

3. Long-term prepaid expenses

By reviewing the relevant documents and financial information such as original vouchers and amortization vouchers for long-term prepaid expenses, the appraisers understand the remaining amortization period and future benefit status of various long-term prepaid expenses. For those long-term prepaid expenses that can still benefit in the future, the appraised value is determined based on the amount to be amortized over the remaining benefit period.

4. Deferred income tax assets

Asset appraisal professionals use procedures such as checking accounting vouchers, reconciling the general and subsidiary ledgers to verify the authenticity and accuracy of deferred income tax assets, and determine the appraised value based on the verified book value.

II. Calculation of appraised value of each liability

On top of checking and verification, the appraised value is determined by the audited and verified book value after actual need for payment is taken into consideration.

V. APPRAISED VALUE OF TRANSACTION TARGET AND MAIN REASONS FOR REACHING THE CONCLUSION

1. Appraised value of transaction target

The appraised market value of the entire equity interest held by the shareholders of the Target Company is RMB2,900,900.

2. Main reasons for reaching the appraisal conclusion

The asset-based approach is adopted for the market value appraisal of the entire equity interest held by the shareholders of the Target Company. The appraisal conclusion is determined by subtracting the value of total liabilities from the value of total assets.

Total assets include current assets and non-current assets. There are no changes to current assets based on the audit, and the appraised value is consistent with the book value. Non-current assets include fixed assets, intangible assets, long-term prepaid expenses and deferred income tax assets. There are no changes to long-term prepaid expenses and deferred income tax assets based on the audit, and the appraised values are consistent with the book values. However, for fixed assets, the appraised value of fixed assets is lower than the book value due to the lower second-hand market prices of vehicles compared to their depreciated balance; and for intangible assets, since the appraised value of usable system software is determined by the current market purchase value and the market value has not declined, it is greater than the amortized balance. Based on the above, total assets are assessed to be impaired.

Total liabilities include current liabilities and non-current liabilities. The tender agent fee amounting to RMB5,462.00 of Xinjiang Yongxin Guojin Engineering Management Consulting Co., Ltd.* (新疆永信國金工程管理諮詢有限公司), which is accounted for in other payables under current liabilities, has actually been paid with explanation provided by the company. It is recognized as zero value in the appraisal, leading to impairment of this item; the special funds in the deferred revenue under non-current liabilities are all tax-exempt special subsidies that result in revenue. It is recognized as zero value in the appraisal, leading to impairment of this item; and there are no changes in other items under liabilities based on the audit, and the assessed value is consistent with the book value.

Based on the above, total liabilities are assessed to be impaired.

The audited book value of the Target Company reported for appraisal is RMB2,756,100, the appraised value is RMB2,900,900, and the appraised appreciation is RMB144,800, all of which are determined based on the above factors.

VI. EFFECTIVE DATE OF VALUATION

The effective date of valuation is 30 June 2024.

VII. IDENTITY, QUALIFICATION AND INDEPENDENCE OF THE VALUER

The two appraisers for this evaluation, namely Fu Ping (ID number: 652325196610260242) and Wang Qingyun (ID number: 65030019651203092X), are both full practicing members of the China Appraisal Society. They are registered practitioners with Xinjiang Branch of Beijing KYSIN Assets Appraisal Co., Ltd. (membership numbers: Fu Ping 65120002, Wang Qingyun 65050019). The two appraisers are independent third parties who are independent of the Principal, the Target Company, and their respective associates, and there are no relationships or interests between them and the Principal, the Target Company, or any other parties to the capital increase. In this appraisal, apart from the appraisal service fee payable by the Principal, there are no other special arrangements causing the appraisers to receive any additional fees or benefits.