
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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新疆天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)

I. DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 51% EQUITY INTEREST IN SUBJECT COMPANY;

AND

II. NOTICE OF EXTRAORDINARY GENERAL MEETING

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



INCU Corporate Finance Limited

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from INCU Corporate Finance Limited, the Independent Financial Adviser, containing its recommendation to the Independent Board Committee and the Independent Shareholders, is set out on pages 18 to 35 of this circular.

The notice for convening the extraordinary general meeting ("EGM") of the Company to be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC on Friday, 3 February 2023 at 11:00 a.m. are set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is dispatched on Thursday, 12 January 2023, and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM, please complete and return the forms of proxy in accordance with the instructions printed thereon to the Hong Kong H share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or at the Company's registered office at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares only), as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meetings. Completion and return of the forms of proxy will not preclude you from attending and voting at the meetings or any adjourned meeting(s) should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

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

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

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

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition of the Target Equity Interest as contemplated under the Acquisition Agreement;
“Acquisition Agreement”	the acquisition agreement entered into by the Company and Tianhe Yida on 25 November 2022 in relation to the Acquisition;
“Articles of Association”	the articles of association of the Company as may be amended from time to time;
“Asset Valuation Report”	The Asset Valuation Report (Kaiyuan Ping Bao Zi [2022] No.793) by the PRC Independent Valuer of Market Value on the Valuation Benchmark Date of the Entire Equity Interest Held by the Shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* Involved in the Equity Transfer Proposed by Xinjiang Tianhe Yida Investment Co., Ltd.* (開元評報字[2022] 0793號《新疆天合意達投資有限公司擬股權轉讓涉及的石河子市絲路天楊預拌砂有限公司股東全部權益市場價值資產評估報告》);
“associate(s)”	has the meaning as defined under the Listing Rules;
“Board”	the board of directors of the Company;
“business days”	Any day (other than Saturday, Sunday, or public holiday) on which the banks in Hong Kong and the PRC are open for general commercial business;
“Company”	Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司), a joint stock company established in the PRC with limited liability, whose H Shares are listed and traded on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning as defined under the Listing Rules;
“Date of Completion”	any day within 5 business days after the date on which all the conditions precedent have been fulfilled or such other date as the Company and Tianhe Yida may mutually agree in writing;
“Directors”	the directors of the Company;
“Domestic Shares”	domestic share(s) of nominal value of RMB1.00 each in the registered capital of the Company which are subscribed for in RMB;

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC on Friday, 3 February 2023 at 11:00 a.m., for, among others, the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder;
“Eighth Division SASAC”	the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division;
“Group”	the Company and its subsidiaries;
“H Shares”	the overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock Exchange and subscribed for and traded in HK\$;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors;
“Independent Financial Adviser” or “INCU”	INCU Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Acquisition;
“Independent Shareholders”	Shareholders other than Tianye Group, and Tianye Company and their associates;
“Latest Practicable Date”	6 January 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information as contained therein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, but for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;

DEFINITIONS

“PRC Independent Valuer”	CAREA Assets Appraisal Co., Ltd;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	H Shares, the Domestic Shares and all shares of other class(es) resulting from any sub-division, consolidation or reclassification thereof from time to time in the share capital of the Company;
“Shareholders”	the registered holders of the Shares;
“Shihezi Baiyang”	Shihezi Baiyang Pre-Mixed Concrete Co., Ltd.* (石河子白楊預拌砵有限責任公司), a company with limited liability established in accordance with the laws of the PRC, who held 49% equity interest in the Subject Company as at the Latest Practicable Date;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subject Company”	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砵有限公司), a company with limited liability established in accordance with the laws of the PRC, whose equity interest was held by Tianhe Yida and Shihezi Baiyang as to 51% and 49%, respectively, as at the Latest Practicable Date;
“Substantial Shareholder(s)”	has the meaning as defined under the Listing Rules;
“Target Equity Interest”	51% equity interest in the Subject Company;
“Tianhe Yida”	Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司), a company established in the PRC with limited liability, which is wholly-owned by Tianye Group as at the Latest Practicable Date;
“Tianye Company”	新疆天業股份有限公司 (Xinjiang Tianye Company Limited*), a company established in the PRC with limited liability on 9 June 1997, the A shares of which are listed on the Shanghai Stock Exchange. It owns approximately 38.91% of the registered capital of the Company as at the Latest Practicable Date;
“Tianye Company Group”	Tianye Company and its subsidiaries;

DEFINITIONS

“Tianye Group”	Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司), a company established in the PRC with limited liability, which are owned as to 90% and 10% of its registered capital by 新疆生產建設兵團第八師國資委 (Xinjiang Production and Construction Corps Eighth Division SASAC*) and 新疆生產建設兵團國資委 (Xinjiang Production and Construction Corps SASAC*), respectively. It is directly and indirectly interested in a total of approximately 60.42% of the issued share capital of the Company as at the Latest Practicable Date;
“Transitional Period”	from the Valuation Benchmark Date to the Date of Completion;
“Valuation Benchmark Date”	30 June 2022; and
“%”	per cent.

* *For identification purpose only*



新疆天业节水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

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

(Stock Code: 840)

Executive Directors:

Mr. Li He (*Chairman*)
Ms. Yang Ling
Mr. Jiang Dayong

Independent Non-executive Directors:

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

Supervisors:

Mr. Wang Zhigang
Mr. Chen Cailai
Mr. Xie Xinghui

Registered office:

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

Principal place of business

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

12 January 2023

To the Shareholders

Dear Sir or Madam,

**I. DISCLOSEABLE TRANSACTION AND CONNECTED
TRANSACTION IN RELATION TO ACQUISITION OF 51%
EQUITY INTEREST IN SUBJECT COMPANY;**

AND

II. NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 25 November 2022 and (ii) the supplemental announcement of the Company dated 1 December 2022 in relation to, among other things, the Acquisition Agreement.

* *For identification purpose only*

LETTER FROM THE BOARD

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

2. ACQUISITION AGREEMENT

Major terms of the Acquisition Agreement are set forth as follows:

- Date : 25 November 2022
- Parties : 1. the Company (as the purchaser); and
2. Tianhe Yida (as the vendor)
- Subject Matter : In accordance with the terms and conditions of the Acquisition Agreement, the Company has conditionally agreed to purchase, and Tianhe Yida has conditionally agreed to sell, the Target Equity Interest.
- Target Equity Interest : 51% equity interest in the Subject Company
- Consideration : The consideration of the Target Equity Interest is RMB15,647,200.
- The aforesaid consideration was determined after arm's length negotiations between the Company and Tianhe Yida with reference to the appraised market value of the 100% equity interest of RMB30,680,800 (of which the corresponding appraisal value of the Target Equity Interest was RMB15,647,200) in the Subject Company on the Valuation Benchmark Date, which was appraised by the PRC Independent Valuer using the asset-based valuation approach in the Asset Valuation Report.
- The aforesaid consideration will be financed by the Company's internal resources.
- Payment Terms : The consideration of the Target Equity Interest shall be paid by the Company in a lump sum by cash to such an account as designated by Tianhe Yida within fifteen working days with effect from the Acquisition Agreement.

LETTER FROM THE BOARD

Conditions Precedent : The Acquisition Agreement shall take effect upon fulfilment of all of the following conditions:

1. The Acquisition Agreement has been duly executed and sealed by the Company and Tianhe Yida;
2. Shihezi Baiyang has waived the first right of refusal in respect of the Target Equity Interest;
3. The Acquisition Agreement and the transactions as contemplated thereunder has been approved by the Stock Exchange; and
4. The Company has been in compliance with the relevant requirements under the Listing Rules in respect of the Acquisition Agreement and the transactions as contemplated thereunder, including but not limited to reporting to the Stock Exchange, making announcements and obtaining Independent Shareholders' approval.

Upon satisfaction of the aforesaid conditions precedent, the Company and Tianhe Yida will complete the Acquisition on the Date of Completion, in which case Tianhe Yida shall actively cooperate and assist the Company in completing the filing and registration procedures, including but not limited to, industrial and business registration, and taxation registration.

As at the Latest Practicable Date, the first conditions precedent has been fulfilled, and in respect of the second conditions precedent, Shihezi Baiyang has waived the first right of refusal regarding the Target Equity Interest.

Transitional Period Arrangement : Prior to the Date of Completion, Tianhe Yida continues to be the shareholder of the Subject Company, who is entitled to the relevant shareholder's rights and assumes the corresponding shareholder's obligations. Upon the Date of Completion, the Company shall be entitled to the relevant shareholder's rights and assume the corresponding shareholder's obligations as the shareholder of the Subject Company. In other words, during the Transitional Period, Tianhe Yida shall be responsible for the profit or loss of the Subject Company in proportion to its shareholding percentage.

LETTER FROM THE BOARD

- Termination : In accordance with the Acquisition Agreement, the Acquisition Agreement will forthwith be terminated or canceled in any of the following conditions:
1. Force majeure results in a delay in the performance or failure to perform the Acquisition Agreement;
 2. The Company and Tianhe Yida have agreed to cancel the Acquisition Agreement upon negotiations; and
 3. Without prejudice to other terms and conditions of the Acquisition Agreement, prior to completion of the Target Equity Interest, the Company or Tianhe Yida is in possession of sufficient evidence to prove that the opposing party has given any untruthful or misleading statement, guarantee, and undertaking under, or failed to perform, the Acquisition Agreement, the non-defaulting party shall be entitled to terminate the Acquisition Agreement by serving a written notice to the defaulting party, who shall unconditionally agree to such termination.

3. BASIS OF DETERMINATION OF THE CONSIDERATION

The consideration was determined after arm's length negotiations between the Company and Tianhe Yida with reference to the corresponding appraised market value of the Subject Company on the Valuation Benchmark Date, which was appraised by the PRC Independent Valuer. The Board understands that the asset-based approach was finally adopted by the PRC Independent Valuer for the valuation of the Target Equity Interest. The PRC Independent Valuer has considered all commonly adopted valuation approaches in the market (namely market approach, income approach and asset-based approach) for the purpose of determining the valuation of the Target Equity Interest.

The market approach was not appropriate in the valuation, given that the principal business of the Subject Company is concrete production with an annual output up to 300,000 cubic meters of concrete. Hence, there were only a few comparable companies based on the selection criteria of listed comparable companies with sufficient public information. As a result, the comparability requirement cannot be met.

The income approach was also not appropriate in the valuation as the overall value of the Subject Company is reflected mainly from the perspective of net cash flow generated from the operating activities of the Subject Company in the future. Affected by certain restrictive measures of COVID-19, the production activities of the Subject Company have been greatly restricted in 2022, thereby resulting in great uncertainties in using income approach.

LETTER FROM THE BOARD

As such, the asset-based approach was considered to be the most appropriate valuation approach in the valuation, since under the asset-based approach, the appraised value of the Subject Company is determined based on the balance sheet of the Subject Company, which is more capable of showing the real value of the Subject Company. For details of the valuation methodology and valuation assumptions adopted by the PRC Independent Valuer in preparing the Asset Valuation Report, please refer to the paragraphs headed “VII. APPRAISAL METHODS” and “IX. APPRAISAL ASSUMPTIONS” of the Asset Valuation Report as set out in Appendix I to this circular.

As the PRC Independent Valuer is required under applicable PRC laws and regulations to conduct the valuation of the Subject Company using at least two valuation approaches, apart from the asset-based approach, the PRC Independent Valuer also chose the income approach as an alternative valuation method despite that the asset-based approach was finally adopted. In addition, the Directors were aware that the use of income approach was only to meet relevant PRC regulatory requirements and solely for reference purpose. In light of the above, the Company was not involved in the preparation of Asset Valuation Report and/or the preparation of valuation assumptions based on the income approach in respect of the Subject Company. The Asset Valuation Report and the valuation assumptions based on the income approach in respect of the Subject Company were prepared by the PRC Independent Valuer based on applicable valuation standards and its professional judgment.

Having discussed with the PRC Independent Valuer the basis and rationale for different valuation approaches, and having considered the analysis of the PRC Independent Valuer in relation to the applicability of each appraisal method and approach and assumptions as explained above, the Board concurred with the PRC Independent Valuer’s analysis and adoption of the asset-based approach as the appropriate valuation methodology and considered that the valuation had fairly and reasonably reflected the market value of the Target Equity Interest.

As stated in paragraph headed “8. EXPERTS AND CONSENTS” in Appendix II to this circular, the PRC Independent Valuer, CAREA Assets Appraisal Co., Ltd, is an independent certified PRC valuer with over 20 years of experience in PRC assets valuation. It holds valid PRC qualification certificates for asset valuation and securities and futures related business valuation. Based on the above and having considered that (i) the qualifications and experience of the PRC Independent Valuer in relation to the preparation of the Asset Valuation Report; (ii) the scope of work of the valuation of the Target Equity Interest; (iii) the asset-based approach adopted was an appropriate valuation methodology and the valuation had fairly and reasonably reflected the market value of the Target Equity Interest; and (iv) the assumptions made by the PRC Independent Valuer for the valuation are in line with industry practices, the Directors (including the independent non-executive Directors) are of the view that the consideration for the Acquisition and the terms and conditions of the Acquisition Agreement are on normal commercial terms and are fair and reasonable to the Company and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

4. BACKGROUND INFORMATION ABOUT SUBJECT COMPANY

The Subject Company is a company legally established and subsisting with limited liability in China on 5 October 2017. As at the Latest Practicable Date, its registered capital and paid-in capital are both RMB25,000,000. Its business scope includes pre-mixed concrete and products; vehicle leasing; construction engineering equipment leasing; on-road general cargo transportation, special cargo transportation (tank-based container) (exclusive of hazardous chemicals, flammables and explosives). To the best of our Directors' knowledge, information and belief after making all reasonable enquiries, Tianhe Yida subscribed for the registered capital of RMB12,750,000 in the Subject Company on 31 December 2017, representing a shareholding percentage of 51%.

The Subject Company is a manufacturer specialized in concrete production with an annual output up to 300,000 cubic meters of concrete. Besides two leading specialized automatic double-180 concrete production lines, the Subject Company has more than 22 concrete mixer trucks of various types and 7 concrete pump trucks of various models with advanced performance, which can meet the demand of concrete transportation for various construction projects, as well as ultra-distance and ultra-height projects.

5. FINANCIAL INFORMATION ABOUT SUBJECT COMPANY

The following major financial data is extracted from the audited financial information of the Subject Company for the six months ended 30 June 2022 and the two financial years ended 31 December 2020 and 31 December 2021 based on the latest financial information of the Subject Company available to the Company as at the Latest Practicable Date:

	For the six months ended 30 June 2022 (Audited) RMB	For the year ended 31 December 2021 (Audited) RMB	For the year ended 31 December 2020 (Audited) RMB
Net profit/(loss) before tax	(1,672,621.69)	7,550,183.12	6,206,768.70
Net profit/(loss) after tax	(1,406,128.59)	5,574,331.68	4,533,985.14

As at 30 June 2022, the audited total liabilities, audited total asset, and net asset of the Subject Company were RMB31,416,005.76, RMB60,524,060.34, and RMB29,108,054.58, respectively.

Based on the valuation on the Subject Company by the PRC Independent Valuer, the appraised market value of the Subject Company on the Valuation Benchmark Date was RMB30,680,800.

6. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Immediately following completion of the Acquisition, the Subject Company will become a non-wholly owned subsidiary of the Company. The financial results of the Subject Company will be consolidated into the consolidated financial statements of the Company.

LETTER FROM THE BOARD

7. REASONS AND BENEFITS OF THE ACQUISITION

Currently, the Subject Company is principally engaged in pre-mixed concrete production, construction engineering equipment, cargo transportation, and other business activities related to construction projects. With engineering construction-related experience and equipment, an excellent management team, an outstanding track record and convenient service conditions, the Subject Company is well positioned to provide a full range of engineering construction auxiliary services and work. Due to the unique climate features in the Xinjiang region, the first half of 2022 was an off-season period for construction works, and construction sites commenced the construction work in May, which led to comparatively low demand for commercial concrete. As a result, the Subject Company recorded a minor loss in the first half of 2022. Following full commencement of construction works in the second half of 2022, sales and profitability are improving (as at 31 October 2022, the unaudited profit before tax of Subject Company amounted to RMB1,680,936.64, while the unaudited net profit was RMB1,071,490.94). Pursuant to the terms and conditions of the Acquisition Agreement, Tianhe Yida will be responsible for the profit or loss of the Subject Company prior to the completion of the Acquisition in accordance with its shareholding proportion. On the other hand, in the ordinary course of business of the Company, the Company transacts with various construction project companies for its engineering business, including the Subject Company. The Subject Company has also provided various types of commercial concrete to Tianye Group's projects. The Board believe that, the Acquisition is in line with the Company's strategic planning of "product + engineering" by maintaining stable supplies of quality commercial concrete for the Company's construction projects, integrating upstream and downstream industry chains thereby expanding the Company's engineering business, which is conducive to safeguarding Shareholders' interests and achieve a win-win cooperation for both the Company and the Subject Company.

As the segment of construction projects is a primary orientation under the Company's development strategy, five subsidiaries of the Company are currently in possession of the third-grade qualifications for building construction, water conservancy and hydropower construction, and municipal construction which have the capabilities to engage in infrastructure construction for workshops, houses and water conservancy facilities, as they demonstrate their advantages and qualifications in project construction experiences, technologies, market position, personnel, and other areas. Centering on the strategic planning of "product + engineering" to fulfil its mission of higher quality, higher efficiency and sustainable development, the Company proposes the acquisition of 51% equity interest in the Subject Company held by Tianhe Yida, which aims to build a strong partnership with the Subject Company, share resources, and leverage their respective advantages and synergy, so as to further expand into the engineering market, strengthen the brand influence, expand the business scale and market share. As a result, the Company will continue to enhance operating capacity and profitability, which provides solid guarantee for the Company's rapid engineering business expansion, extends its industry chain, and shore up the weak links of its engineering segment, thereby transforming the Company from a simple engineering construction business into a construction service provider of engineering, procurement, and construction (EPC) turnkey projects integrated with related resources in the future.

LETTER FROM THE BOARD

To the best knowledge of the Company, Tianye Group will proceed with various key project constructions during the 14th Five-year Plan, and therefore the Group expects to participate in such infrastructure projects. To control and ensure that the Group's construction quality as compared to other market players, and to simultaneously safeguard the consistency in construction service by ensuring the supplies of quality concrete (in particular to minimise the volatility of market demands and supplies of commercial concrete), the Company proceeds with the Acquisition so that the close integration of the upstream and downstream sectors may be achieved and the Group will be able to maintain a steady supply of commercial concrete. Eventually, the Group targets to become an advance player in the industry chain, with its engineering business and market size expanding continuously.

In light of the above, despite the Subject Company was loss making in the first half of 2022, the Acquisition is considered by the Directors (including the independent non-executive Directors) as fair and reasonable, on normal commercial terms and in the interests of the Group and of the Shareholders as a whole notwithstanding that the Acquisition is not in the ordinary and usual course of business of the Company.

8. OPINIONS OF DIRECTORS ON THE ACQUISITION AND ABSTENTION FROM VOTING ON THE RESOLUTION BEFORE THE BOARD AND AT THE EGM

The Directors (including the independent non-executive Directors) believe that the Acquisition is determined on normal commercial terms that is fair and reasonable and in the interests of the Company and its Shareholders as a whole, notwithstanding that the Acquisition is not in the ordinary and usual course of business of the Company.

Ms. Yang Ling and Mr. Jiang Dayong, executive Directors of the Company, have abstained from voting on the approval of the Acquisition at the meeting of the Board, as they have material interests therein as a member of the Party Committee and the director of the operation and management department of Tianye Group, respectively. Save as disclosed above, none of the Directors have material interests in the Acquisition.

In light of the interest held by Tianye Group in the Acquisition agreement, Tianye Group, Tianye Company and their associates (which holds 313,886,921 Domestic Shares as at the Latest Practicable Date, representing approximately 60.42% of the total issued share capital of the Company, as set out in Appendix II to this circular) will abstain from voting on the ordinary resolution at the EGM in respect of the Acquisition Agreement and the transactions as contemplated thereunder. To the best knowledge, information, and belief of the Directors, as at the Latest Practicable Date, save for Tianye Group, Tianye Company and their associates, no other Shareholders shall be required to abstain from voting at the EGM.

LETTER FROM THE BOARD

9. INFORMATION ABOUT TIANHE YIDA, SHIHEZI BAIYANG AND THE COMPANY

Tianhe Yida is principally engaged in industrial investments, project investments, investment management and asset restructuring. As at the Latest Practicable Date, Tianhe Yida is wholly owned by Tianye Group, which are owned as to 90% and 10% of its registered capital by 新疆生產建設兵團第八師國資委 (Xinjiang Production and Construction Corps Eighth Division SASAC*) and 新疆生產建設兵團國資委 (Xinjiang Production and Construction Corps SASAC*), respectively.

As at the Latest Practicable Date, (i) Shihezi Baiyang is substantially owned by 新疆天築建工集團有限公司 (Xinjiang TianZhu Construction Group Co. LTD*) (92%) and 石河子南山水泥廠 (Shihezi Nanshan Cement Factory*) (8%); (ii) 新疆天築建工集團有限公司 (Xinjiang TianZhu Construction Group Co. LTD*) is owned by 石河子國有資產經營(集團)有限公司 (Shihezi State-owned Assets Management (Group) Co., Ltd.*) (99.7%) and 新疆天築建工集團有限公司工會委員會 (Xinjiang Tianzhu Group Co., Ltd. Trade Union Committee*) (0.3%); (iii) 石河子國有資產經營(集團)有限公司 (Shihezi State-owned Property Management (Group) Co. LTD*) is owned by 新疆生產建設兵團第八師國資委 (Xinjiang Production and Construction Corps Eighth Division SASAC*) (86.3%), 新疆生產建設兵團國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps*) (8.8%) and 中國農發重點建設基金有限公司 (China Agricultural Development Key Construction Fund Co. LTD*) (4.9%); (iv) 中國農發重點建設基金有限公司 (China Agricultural Development Key Construction Fund Co. LTD*) is an indirect wholly owned subsidiary of the State Council of the PRC; and (v) 石河子南山水泥廠 (Shihezi Nanshan Cement Factory*) is a wholly owned subsidiary of Tianye Group.

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 is also engaged in the provision of installation services of water saving irrigation systems for its customers, as well as land circulation and engineering business, and strategic development of digital agriculture and agriculture service business.

10. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Tianhe Yida is a wholly-owned subsidiary of Tianye Group, the actual controller of the Company, which directly and indirectly holds a total of approximately 60.42% of the issued share capital of the Company, and therefore Tianhe Yida is a connected person (as defined in the Listing Rules) of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and the Acquisition also constitutes a connected transaction of the Company, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee of the Company has been established to advise the Independent Shareholders in relation to the Acquisition. 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.

As stated in paragraph headed “3. BASIS OF DETERMINATION OF THE CONSIDERATION”, although asset-based approach was used for the valuation of the Target Equity Interest, the PRC Independent Valuer has also used income approach in the Asset Valuation Report as an alternative valuation method. As a result, the Company has applied for, and the Stock Exchange has granted, a waiver from the profit forecast requirements under Rules 14.62, 14A.68(7), 14A.70(13) and paragraph 29(2) of Appendix 1B of the Listing Rules in respect of the Acquisition.

11. EGM

The EGM will be held on Friday, 3 February 2023 at 11: 00 a.m. at the conference room of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

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

A form of proxy for use at the EGM will be despatched on Thursday, 12 January 2023, and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM in person, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon to the H share registrar and transfer office of the Company, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM (i.e. 11:00 a.m. on Thursday, 2 February 2023) or not less than 24 hours before the time appointed for the holding of any adjournment thereof or not less than 24 hours before the time appointed for taking the poll. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

12. VOTING BY WAY OF POLL

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

LETTER FROM THE BOARD

13. CLOSURE OF REGISTER OF MEMBERS

For the purpose of the EGM, the register of the members of the Company will be closed from Wednesday, 1 February 2023 to Friday, 3 February 2023 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming extraordinary general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar and the transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on Tuesday, 31 January 2023.

14. ADDITIONAL INFORMATION

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

15. RECOMMENDATION

The Company has appointed INCU as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement. The text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 35 of this circular.

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

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

* *For identification purpose only*



新疆天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)

12 January 2023

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED
TRANSACTION IN RELATION TO ACQUISITION OF 51%
EQUITY INTEREST IN SUBJECT COMPANY**

We have been appointed as members of the Independent Board Committee to give our advice on the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) included in the circular dated 12 January 2023 (the “**Circular**”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular and the letter from the Board unless the context otherwise requires.

INCUB has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders on the Acquisition Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 18 to 35 of the Circular.

* *For identification purpose only*

LETTER FROM INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,

Independent Board Committee

Mr. Li Lianjun

*Independent
non-executive
Director*

Ms. Gu Li

*Independent
non-executive
Director*

Mr. Hung Ee Tek

*Independent
non-executive
Director*

Mr. He Xinlin

*Independent
non-executive
Director*

LETTER FROM INCU

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



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

12 January 2023

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

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 51% EQUITY INTEREST IN SUBJECT COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 January 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the announcements of the Company dated 25 November 2022 and 1 December 2022, on 25 November 2022, the Company (as the purchaser) and Tianhe Yida (as the vendor) entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase, and Tianhe Yida has conditionally agreed to sell, the Target Equity Interest at a consideration of RMB15,647,200.

As at the Latest Practicable Date, Tianhe Yida is a wholly-owned subsidiary of Tianye Group, the actual controller of the Company, which directly and indirectly holds a total of approximately 60.42% of the issued share capital of the Company, and therefore Tianhe Yida is a connected person (as defined in the Listing Rules) of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM INCU

Except for being appointed as independent financial adviser to the Company regarding the renewal of continuing connected transactions of the Company, which the circular has been despatched on 14 January 2021, we have not acted as an independent financial adviser and as not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Acquisition, and accordingly, are eligible to give independent advice and recommendations on the Acquisition Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

INDEPENDENT BOARD COMMITTEE

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

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

BASIS OF OUR OPINION

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

LETTER FROM INCU

omission of which would make any such statement made by them that contained in this Circular misleading in all material respects. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and financial information of the Group

(a) Background of the Group

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

Tianhe Yida is principally engaged in industrial investments, project investments, investment management and asset restructuring. As at the Latest Practicable Date, Tianhe Yida is wholly owned by Tianye Group, which are owned as to 90% and 10% of its registered capital by 新疆生產建設兵團第八師國資委 (Xinjiang Production and Construction Corps Eighth Division SASAC*) and 新疆生產建設兵團國資委 (Xinjiang Production and Construction Corps SASAC*), respectively.

As at the Latest Practicable Date, (i) Shihezi Baiyang is substantially owned by 新疆天築建工集團有限公司 (Xinjiang TianZhu Construction Group Co. LTD*) (92%) and 石河子南山水泥廠 (Shihezi Nanshan Cement Factory*) (8%); (ii) 新疆天築建工集團有限公司 (Xinjiang TianZhu Construction Group Co. LTD*) is owned by 石河子國有資產經營(集團)有限公司 (Shihezi State-owned

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Assets Management (Group) Co., Ltd.*) (99.7%) and 新疆天築建工集團有限公司工會委員會 (Xinjiang Tianzhu Group Co., Ltd. Trade Union Committee*) (0.3%); (iii) 石河子國有資產經營(集團)有限公司 (Shihezi State-owned Property Management (Group) Co. LTD*) is owned by 新疆生產建設兵團第八師國資委 (Xinjiang Production and Construction Corps Eighth Division SASAC*) (86.3%), 新疆生產建設兵團國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps*) (8.8%) and 中國農發重點建設基金有限公司 (China Agricultural Development Key Construction Fund Co. LTD*) (4.9%); (iv) 中國農發重點建設基金有限公司 (China Agricultural Development Key Construction Fund Co. LTD*) is an indirect wholly owned subsidiary of the State Council of the PRC; and (v) 石河子南山水泥廠 (Shihezi Nanshan Cement Factory*) is a wholly owned subsidiary of Tianye Group.

(b) Financial information of the Group

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

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

FY2020 vs FY2021

As stated in the Annual Report 2021, the total operating income of the Group was approximately RMB1,111,618,000 for FY2021, representing an increase of approximately 57.32% from approximately RMB706,558,000 for FY2020. The increase in operating income was mainly attributable to recognition of the operating income of Urumuqi Hongrui Plastic Trade Limited following its acquisition by the Company in 2021.

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The net loss attributable to owners of the parent company for FY2021 was approximately RMB66,836,000 while the net profit attributable to owners of the Group for FY2020 was approximately RMB650,000. The loss making for FY2021 was mainly due to (i) the increase of cost of sales of approximately RMB423,565,000, which mainly comprised direct material costs, direct labour and production overhead; and (ii) the assets impairment loss for FY2021 of approximately RMB47,820,000, which mainly consisted of inventory impairment loss, allowance for fixed assets and bad debt loss. Increase in provision for various impairment losses are attributable to (a) a greater increase in the amount of impairment loss on fixed assets is mainly due to the impairment adjusted by audit, as a result of the market contraction of the drip tape business in 2021, with the majority of fixed assets including drip tapes and drip assemblies being idle and depreciated towards expiration, which cannot generate economic benefits to the Company; (b) credit impairment losses mainly due to the impairment adjusted by audit, as a result of failure to recover some accounts receivable overdue for a long period in 2021 as well as failure to recover the project payment on time due to postponement of the completion and acceptance of some projects; and (c) inventory impairment losses mainly due to provision for impairment losses adjusted by audit in that the existing inventory price is higher than the existing market price.

HY2022 vs HY2021

As stated in the Interim Report 2022, the total operating income of the Group was approximately RMB673,151,000 for HY2022, representing an increase of approximately 75.26% from approximately RMB384,095,000 for HY2021. The increase in the total operating income was mainly due to increase in operating income from engineering projects, including provision of installation services.

The Group recorded the unaudited net loss attributable to owners of the parent company of approximately RMB24,514,000 and RMB127,000 for HY2022 and HY2021 respectively. Such increase was mainly due to (i) greater volatility in the price of raw materials over the period and the decrease in gross profit from the principal business; (ii) the decrease in operating income from the Group's engineering projects in HY2022 as well as the decrease in profit from engineering projects stemmed from the higher product costs due to the impact of raw material prices; and (iii) the higher product costs caused by the lower production volume of the Group.

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Taking into account that (i) the Acquisition is to further expand the business scale and market share of the engineering services of the Group; and (ii) the principal business of the Subject Company can support the Group's construction projects which will be further discussed under the paragraph headed "5. Reasons for and benefits of the Acquisition" of this letter below, we consider that the Acquisition is an expansion of the existing business of the Group and is in line with the Group's business strategy.

2. Background of the Subject Company

The Subject Company is a company legally established and subsisting with limited liability in China on 5 October 2017. As at the Latest Practicable Date, its registered capital and paid-in capital are both RMB25,000,000. Its business scope includes pre-mixed concrete and products; vehicle leasing; construction engineering equipment leasing; on-road general cargo transportation, special cargo transportation (tank-based container) (exclusive of hazardous chemicals, flammables and explosives). To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, Tianhe Yida subscribed for the registered capital of RMB12,750,000 in the Subject Company on 31 December 2017, representing a shareholding percentage of 51%.

The Subject Company is a manufacturer specialized in concrete production with an annual output up to 300,000 cubic meters of concrete. Besides two leading specialized automatic "double-180" concrete production lines, the Subject Company has more than 22 concrete mixer trucks of various types and 7 concrete pump trucks of various models with advanced performance, which can meet the demand of concrete transportation for various construction projects, as well as ultra-distance and ultra-height projects.

The following major financial data is extracted from the audited financial information of the Subject Company for FY2020, FY2021 and HY2022 based on the latest financial information of the Subject Company available to the Company:

	FY2020	FY2021	HY2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(audited)	(audited)	(audited)
Net profit/(loss) before taxation	6,206,768.70	7,550,183.12	(1,672,621.69)
Net profit/(loss) after taxation	4,533,985.14	5,574,331.68	(1,406,128.59)

As at 30 June 2022, the audited total liabilities, audited total asset and net asset of the Subject Company were RMB31,416,005.76, RMB60,524,060.34 and RMB29,108,054.58, respectively.

We have enquired the management of the Company in respect of the loss making of the Subject Company for HY2022 and the management of the Company replied that due to the unique climate features in the Xinjiang region, the first half of 2022 was an off-season period for construction works, and construction sites commenced the construction work in May 2022, which led to comparatively low demand for commercial concrete. Following full commencement of construction works in the second half of 2022, the financial performance of the Subject Company will be improved. According to the Letter from the Board, as at 31 October 2022, the unaudited profit before tax of Subject Company amounted to RMB1,680,936.64, while the unaudited net profit was RMB1,071,490.94.

3. Principal terms of the Acquisition Agreement

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

Date

25 November 2022 (after trading hours)

Parties

1. the Company (as the purchaser); and
2. Tianhe Yida (as the vendor)

Subject Matter

In accordance with the terms and conditions of the Acquisition Agreement, the Company has conditionally agreed to purchase, and Tianhe Yida has conditionally agreed to sell, the Target Equity Interest.

Target Equity Interest

51% equity interest in the Subject Company.

Consideration

The consideration of the Target Equity Interest is RMB15,647,200.

The aforesaid consideration was determined after arm's length negotiations between the Company and Tianhe Yida with reference to the appraised market value of the 100% equity interest of RMB30,680,800 (of which the corresponding appraisal value of the Target Equity Interest was RMB15,647,200) in the Subject Company on the Valuation Benchmark Date, which was appraised by the PRC Independent Valuer using the asset-based valuation approach in the Asset Valuation Report.

The aforesaid consideration will be financed by the Company's internal resources.

LETTER FROM INCU

Payment Terms

The consideration of the Target Equity Interest shall be paid by the Company in a lump sum by cash to such an account as designated by Tianhe Yida within fifteen working days from the date the Acquisition Agreement takes effect.

Conditions Precedent

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

1. The Acquisition Agreement has been duly executed and sealed by the Company and Tianhe Yida;
2. Shihezi Baiyang has waived the first right of refusal in respect of the Target Equity Interest;
3. The Acquisition Agreement and the transactions as contemplated thereunder has been approved by the Stock Exchange; and
4. The Company has been in compliance with the relevant requirements under the Listing Rules in respect of the Acquisition Agreement and the transactions as contemplated thereunder, including but not limited to reporting to the Stock Exchange, making announcements and obtaining Independent Shareholders' approval.

Upon satisfaction of the aforesaid conditions precedent, the Company and Tianhe Yida will complete the Acquisition on the Date of Completion, in which case Tianhe Yida shall actively cooperate and assist the Company in completing the filing and registration procedures, including but not limited to, industrial and business registration, and taxation registration.

As at the Latest Practicable Date, the first conditions precedent has been fulfilled, and in respect of the second conditions precedent, Shihezi Baiyang has waived the first right of refusal regarding the Target Equity Interest.

Transitional Period Arrangement

Prior to the Date of Completion, Tianhe Yida continues to be the shareholder of the Subject Company, who is entitled to the relevant shareholder's rights and assumes the corresponding shareholder's obligations. Upon the Date of Completion, the Company shall be entitled to the relevant shareholder's rights and assume the corresponding shareholder's obligations as the shareholder of the Subject Company. In other words, during the Transitional Period, Tianhe Yida shall be responsible for the profit or loss of the Subject Company in proportion to its shareholding percentage.

Termination

In accordance with the Acquisition Agreement, the Acquisition Agreement will forthwith be terminated or canceled in any of the following conditions:

- (1) Force majeure results in a delay in the performance or failure to perform the Acquisition Agreement;
- (2) The Company and Tianhe Yida have agreed to cancel the Acquisition Agreement upon negotiations; and
- (3) Without prejudice to other terms and conditions of the Acquisition Agreement, prior to Completion of the Target Equity Interest, the Company or Tianhe Yida is in possession of sufficient evidence to prove that the opposing party has given any untruthful or misleading statement, guarantee, and undertaking under, or failed to perform, the Acquisition Agreement, the non-defaulting party shall be entitled to terminate the Acquisition Agreement by serving a written notice to the defaulting party, who shall unconditionally agree to such termination.

Basis of Determination of the Consideration

The consideration was determined after arm's length negotiations between the Company and Tianhe Yida with reference to the corresponding appraised market value of the Subject Company on the Valuation Benchmark Date, which was appraised by the PRC Independent Valuer. The Board understands that the asset-based approach was finally adopted by the PRC Independent Valuer for the valuation of the Target Equity Interest. The PRC Independent Valuer has considered all commonly adopted valuation approaches in the market (namely market approach, income approach and asset-based approach) for the purpose of determining the valuation of the Target Equity Interest.

The market approach was not appropriate in the valuation, given that the principal business of the Subject Company is concrete production with an annual output up to 300,000 cubic meters of concrete. Hence, there were only a few comparable companies based on the selection criteria of listed comparable companies with sufficient public information. As a result, the comparability requirement cannot be met.

The income approach was also not appropriate in the valuation as the overall value of the Subject Company is reflected mainly from the perspective of net cash flow generated from the operating activities of the Subject Company in the future. Affected by certain restrictive measures of COVID-19, the production activities of the Subject Company have been greatly restricted in 2022, thereby resulting in great uncertainties in using income approach.

LETTER FROM INCU

As such, the asset-based approach was considered to be the most appropriate valuation approach in the valuation, since under the asset-based approach, the appraised value of the Subject Company is determined based on the balance sheet of the Subject Company, which is more capable of showing the real value of the Subject Company. For details of the valuation methodology and valuation assumptions adopted by the PRC Independent Valuer in preparing the Asset Valuation Report, please refer to the paragraphs headed “VII. APPRAISAL METHODS” and “IX. APPRAISAL ASSUMPTIONS” of the Asset Valuation Report as set out in Appendix I to this Circular.

As the PRC Independent Valuer is required under applicable PRC laws and regulations to conduct the valuation of the Subject Company using at least two valuation approaches, apart from the asset-based approach, the PRC Independent Valuer also chose the income approach as an alternative valuation method despite that the asset-based approach was finally adopted. In addition, the Directors were aware that the use of income approach was only to meet relevant PRC regulatory requirements and solely for reference purpose. In light of the above, the Company was not involved in the preparation of Asset Valuation Report and/or the preparation of valuation assumptions based on the income approach in respect of the Subject Company. The Asset Valuation Report and the valuation assumptions based on the income approach in respect of the Subject Company were prepared by the PRC Independent Valuer based on applicable valuation standards and its professional judgment.

Having discussed with the PRC Independent Valuer the basis and rationale for different valuation approaches, and having considered the analysis of the PRC Independent Valuer in relation to the applicability of each appraisal method and approach and assumptions as explained above, the Board concurred with the PRC Independent Valuer’s analysis and adoption of the asset-based approach as the appropriate valuation methodology and considered that the valuation had fairly and reasonably reflected the market value of the Target Equity Interest.

As stated in paragraph headed “8. EXPERTS AND CONSENTS” in Appendix II to this Circular, the PRC Independent Valuer, CAREA Assets Appraisal Co., Ltd, is an independent certified PRC valuer with over 20 years of experience in PRC assets valuation. It holds valid PRC qualification certificates for asset valuation and securities and futures related business valuation. Based on the above and having considered that (i) the qualifications and experience of the PRC Independent Valuer in relation to the preparation of the Asset Valuation Report; (ii) the scope of work of the valuation of the Target Equity Interest; (iii) the asset-based approach adopted was an appropriate valuation methodology and the valuation had fairly and reasonably reflected the market value of the Target Equity Interest; and (iv) the assumptions made by the PRC Independent Valuer for the valuation are in line with industry practices, the Directors are of the view that the consideration for the Acquisition and the terms and conditions of the

Acquisition Agreement are on normal commercial terms and are fair and reasonable to the Company and in the interests of the Company and its Shareholders as a whole.

4. Valuation of the Subject Company

As disclosed in the Letter from the Board, the consideration for the Acquisition Agreement was determined after arm's length negotiations between the Company and Tianhe Yida with reference to the appraised market value of the 100% equity interest of RMB30,680,800 (of which the corresponding appraisal value of the Target Equity Interest was RMB15,647,200) in the Subject Company on the Valuation Benchmark Date, which was appraised by the PRC Independent Valuer using the asset-based valuation approach in the Asset Valuation Report.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the PRC Independent Valuer with the Company; (ii) the PRC Independent Valuer's background and qualification in relation to the preparation of the Asset Valuation Report; and (iii) the steps and due diligence measures taken by the PRC Independent Valuer for conducting the Asset Valuation Report. From the information provided by the PRC Independent Valuer and based on our discussion with them, we understand that the responsible officer of the PRC Independent Valuer for the valuation of the Subject Company has over 17 years of experience in valuation. Furthermore, the PRC Independent Valuer has provided a wide range of valuation services to numerous companies, including stated-owned enterprises, A-Share companies and Hong Kong-listed companies. In the past three years, the PRC Independent Valuer has provided 16 valuation services of business similar to the Subject Company in different provinces in the PRC. Therefore, we were satisfied with the PRC Independent Valuer's qualification for preparation of the Asset Valuation Report.

In assessing the fairness and reasonableness of the consideration of the Acquisition, we have reviewed the Asset Valuation Report and upon our further enquiry with the PRC Independent Valuer, we understood that, as the PRC Independent Valuer is required under applicable PRC laws and regulations to conduct the valuation of the Subject Company using at least two valuation approaches, the PRC Independent Valuer has adopted asset-based approach in arriving the appraised value of the Subject Company and selected income approach as an alternative approach to cross check the valuation after considering the following reasons as stated in the Asset Valuation Report:

(1) Asset-based approach

The asset-based approach refers to an appraisal method where the values of assets and liabilities in the financial statement and identifiable off-balance sheet of an enterprise are individually appraised on the basis of the balance sheet of the appraised entity on the benchmark date. The PRC Independent Valuer considered that the Subject Company has a sound accounting and audit system as well as orderly management in place, and 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. Therefore, the PRC Independent Valuer concluded that the asset-based approach can be adopted as primary valuation approach for the valuation of the Subject Company.

(2) Income approach

The income approach refers to a specific model where the expected income is capitalized or discounted to determine the value of the appraised subject. The cash flow discount model is where expected future net cash flow is discounted to determine the value of the appraised subject, which includes the discounted enterprise free cash flow model and the discounted equity free cash flow model. The PRC Independent Valuer considered that, based on the data in the audited accounting statement of the Subject Company, the future income of the Subject Company can be reasonably predicted and measurable by monetary value. Therefore, the PRC Independent Valuer concluded that the income approach can be adopted to cross check the valuation of the Subject Company.

(3) Market approach

The market approach refers to the appraisal method where the appraised subject is compared against comparable listed companies or comparable transactions to determine the value of appraised subject. According to the Asset Valuation Report, based on the publicly released market information, externally audited financial information and other relevant materials of listed companies available on www.cnlist.com (中國上市公司網) and the website of iFinD Information (同花順資訊網站), it is concluded that there are a few comparable listed companies in terms of the date of establishment and listing, business scope, business scale, main products, business composition, operation indexes, operation mode, operation stage, financial data or the purpose, time, situation, price and other factors in their transaction cases to the Subject Company in the capital market of the PRC. The PRC Independent Valuer concluded that the limited sample size of the comparable companies could not reach a meaningful valuation for the Subject Company. Therefore, the market approach was not adopted.

We have also reviewed the appraisal assumptions in the Asset Valuation Report as set out in Appendix I to this Circular and confirm that the assumptions are fair and reasonable and appropriate for valuation of the Subject Company.

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

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As advised by the PRC Independent Valuer, asset-based approach relates to the valuation of assets and liabilities of the Subject Company as at 30 June 2022, which includes current assets, non-current assets, current liabilities and non-current liabilities. Details of which are set forth below:

(a) Current assets

As at 30 June 2022, the current assets of the Subject Company amounted to approximately RMB50.95 million, comprising bank and cash balances of approximately RMB60,000, trade receivables of approximately RMB24.45 million, other receivables of approximately RMB24.42 million and inventories of approximately RMB2.02 million. In view of the nature and liquidity of current assets, the PRC Independent Valuer considered that market value adjustment to the current assets was not necessary. Accordingly, in appraising the market value of the current assets of the Subject Company, the PRC Independent Valuer has based on its audited book value as at 30 June 2022.

(b) Non-current assets

As at 30 June 2022, the non-current assets of the Subject Company amounted to approximately RMB9.58 million, which majority were property, plant and equipment of approximately RMB8.97 million. Other non-current assets included construction-in-progress, deferred and prepaid expenses and deferred tax assets.

Property, plant and equipment of the Subject Company comprised 18 machineries (including mixing plant equipment, loaders and monitor of flow of cement mortar), 24 vehicles (including concrete pump trucks, pickup trucks and heavy tank trucks), 7 electronic devices (including computers and printers) and other fixture and furniture. We understood that the PRC Independent Valuer has performed the following steps to evaluate the market value of the property, plant and machinery:

- (1) request the Company to provide detailed full list of property, plant and machinery;
- (2) collect information of ownership of the property rights;
- (3) perform on-site surveys and inspect the specifications, models, origins, maintenance status of plant and machinery;
- (4) determine the newness rate of each plant and machinery based on the above information; and
- (5) search for and compare with market price and cost of property, plant and machinery, if available.

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As discussed with the PRC Independent Valuer, such appraisal method is a common methodology in establishing the valuation of fixed assets and complies with the relevant professional standard for valuation in the PRC.

The following table set out the breakdown of the value adjustment made by the PRC Independent Valuer to the property, plant and equipment:

	Net book value as at 30 June 2022 (RMB) (audited)	Value adjustment (RMB)	Appraised value of property, plant and equipment (RMB)
Machinery	3,875,988	111,857	3,987,845
Vehicles	5,037,992	1,442,389	6,480,381
Electronic devices and other fixture and furniture	57,541	18,540	76,081
Total	8,971,521	1,572,786	10,544,307

As shown in the above table, the appraised value of the property, plant and equipment increased by approximately RMB1.57 million. For the reason of the increase in appraised value of property, plant and equipment, we were advised by the PRC Independent Valuer that (i) the cost of replacement of machinery as at the Valuation Benchmark Date is higher than the net book value; and (ii) the newness rate was different from the depreciation rate. Details of the calculation and methodology of the newness rate are set out in the Asset Valuation Report in Appendix I to this Circular.

For other non-current assets, according to the Asset Valuation Report, as the book value of construction-in-progress represented only the initial land reclamation fee for early stage and the construction was not commenced, no value adjustment has been made to the construction-in-progress. The PRC Independent Valuer has also reviewed the documents of prepaid expenses and deferred tax and considered no value adjustment would be necessary.

(c) Current and non-current liabilities

According to the Asset Valuation Report, we note that the PRC Independent Valuer has reviewed and verified the contracts, invoices, tax computation, financial breakdown and other supporting documents and financial record in respect of the liabilities of the Group and the PRC Independent Valuer concluded that market value adjustment to the liabilities of the Subject Company was not necessary after performing their due diligence. Accordingly, in appraising the market value of the liabilities of the Subject Company, the PRC Independent Valuer has based on its audited book value as at 30 June 2022.

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We note that the PRC Independent Valuer has conducted the valuation of the Subject Company under the requirements of the applicable PRC laws and regulations, whereby the valuation report prepared using asset-based approach has been cross-checked by income approach. According to the Asset Valuation Report, the appraised equity interests of the Subject Company using asset-based approach and income approach are approximately RMB30.68 million and RMB21.65 million respectively. The difference of valuation results between the asset-based approach and the income approach is approximately RMB9.03 million or approximately 29.43% (representing the difference of the valuation results divided by the valuation result using asset-based approach). Based on the Asset Valuation Report and our discussion with the PRC Independent Valuer, the main reason for the aforesaid difference is that, due to the outbreak of the COVID-19 and various preventive measures implemented by the PRC government, the PRC Independent Valuer considered the valuation using income approach may be subject to limitations and uncertainties of the market condition, while the asset-based approach, which evaluated from the audited accounts of the Subject Company and reflected the value of an enterprise from the perspective of asset replacement, was relatively more representative. Therefore, the valuation using asset-based approach was adopted as the final valuation conclusion.

Based on our review of the Asset Valuation Report and discussion with the PRC Independent Valuer regarding, among others, the scope of work and experiences of the PRC Independent Valuer, the reasons and appropriateness of adopting the asset-based approach for the valuation of the Subject Company, the basis, assumptions and methodology adopted in the Asset Valuation Report, and the valuation work and adjustments performed by the PRC Independent Valuer, nothing has come to our attention that causes us to doubt the fairness and reasonableness of the preparation of the Asset Valuation Report. In the view of the above, we consider that the valuation performed by the PRC Independent Valuer as well as the basis, assumptions and methodology adopted in the Asset Valuation Report are appropriate.

5. Reasons for and benefits of the Acquisition

Immediately following Completion of the Acquisition, the Subject Company will become a non-wholly owned subsidiary of the Company. The financial results of the Subject Company will be consolidated into the consolidated financial statements of the Company.

As stated in the Letter from the Board, the Subject Company is principally engaged in pre-mixed concrete production, construction engineering equipment, cargo transportation, and other business activities related to construction projects. With engineering construction-related experience and equipment, an excellent management team, an outstanding track record and convenient service conditions, the Subject Company is well positioned to provide a full range of engineering construction auxiliary services and work. Due to the unique climate features in the Xinjiang region, the first half of 2022 was an off-season period for construction works, and construction sites commenced the construction work in May 2022, which led to comparatively low demand for commercial concrete. As a result, the Subject Company recorded a minor

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loss in the first half of 2022. Following full commencement of construction works in the second half of 2022, sales and profitability are improving (as at 31 October 2022, the unaudited profit before tax of Subject Company amounted to RMB1,680,936.64, while the unaudited net profit was RMB1,071,490.94). Pursuant to the terms and conditions of the Acquisition Agreement, Tianhe Yida will be responsible for the profit or loss of the Subject Company prior to the completion of the Acquisition in accordance with its shareholding proportion. On the other hand, in the ordinary course of business of the Company, the Company transacts with various construction project companies for its engineering business, including the Subject Company. The Subject Company has also provided various types of commercial concrete to Tianye Group's projects. The Board believe that, the Acquisition is in line with the Company's strategic planning of "product + engineering" by maintaining stable supplies of quality commercial concrete for the Company's construction projects, integrating upstream and downstream industry chains thereby expanding the Company's engineering business, which is conducive to safeguarding Shareholders' interests and achieve a win-win cooperation for both the Company and the Subject Company.

As the segment of construction projects is a primary orientation under the Company's development strategy, five subsidiaries of the Company are currently in possession of the third-grade qualifications for building construction, water conservancy and hydropower construction, and municipal construction which have the capabilities to engage in infrastructure construction for workshops, houses and water conservancy facilities, as they demonstrate their advantages and qualifications in project construction experiences, technologies, market position, personnel, and other areas. Centering on the strategic planning of "product + engineering" to fulfil its mission of higher quality, higher efficiency and sustainable development, the Company proposes the acquisition of 51% equity interest in the Subject Company held by Tianhe Yida, which aims to build a strong partnership with the Subject Company, share resources, and leverage their respective advantages and synergy, so as to further expand into the engineering market, strengthen the brand influence, expand the business scale and market share. As a result, the Company will continue to enhance operating capacity and profitability, which provides solid guarantee for the Company's rapid engineering business expansion, extends its industry chain, and shore up the weak links of its engineering segment, thereby transforming the Company from a simple engineering construction business into a construction service provider of engineering, procurement, and construction (EPC) turnkey projects integrated with related resources in the future.

To the best knowledge of the Company, Tianye Group will proceed with various key project constructions during the 14th Five-year Plan, and therefore the Group expects to participate in such infrastructure projects. To control and ensure that the Group's construction quality as compared to other market players, and to simultaneously safeguard the consistency in construction service by ensuring the supplies of quality concrete (in particular to minimise the volatility of market demands and supplies of commercial concrete), the Company proceeds with the Acquisition so that the close integration of the upstream and downstream sectors may be achieved and

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the Group will be able to maintain a steady supply of commercial concrete. Eventually, the Group targets to become an advance player in the industry chain, with its engineering business and market size expanding continuously.

We have discussed with the management of the Company and the Company considers that the Subject Company possesses qualifications in road transportation of general cargo and specialized transportation of cargo (tank container) with an annual output up to 300,000 cubic meters of concrete. The Subject Company has equipped 18 leading production machineries and equipment, mainly including specialized automatic “double-180” concrete production lines, equipment in batching plants, sand flow meters, loaders, wheel loaders and other advanced equipment; and 24 concrete mixer trucks, mainly including heavy-duty special operation vehicles including concrete pump trucks, pickup trucks, and heavy-duty tank trucks. All of them have advanced performance and can meet the demand of concrete transportation for various construction projects with long distance and ultra-height construction. The Subject Company has a team of 62 personnel, including 7 management personnel and 55 construction personnel. The management team are professional technicians with high professional standard who have been engaged in the industry for more than 10 years, which provides solid guarantee for the performance of the Subject Company. The Subject Company has provided concrete and other related products and services in good quality to large scale construction projects, including the construction of 147 Corps Chemical Industrial Park* (147團化工園區), which is invested by Tianye Group with an annual production capacity of 1 million tons of ethylene glycol (Phase 1 of which have an annual production capacity of 600,000 tons) and was completed in 2019. Furthermore, the revenue of the Subject Company for the year ended 31 December 2020 and 2021 amounted to approximately RMB42.9 million and RMB45.3 million, respectively which was relatively stable. After considering and reviewing (i) the list of the production machineries and equipment and concrete mixer trucks; (ii) the resume of the management personnel of the Subject Company; (iii) the sale and cooperative agreements of the provision of concrete products and other related products and services by the Subject Company to 147 Corps Chemical Industrial Park, and (iv) the financial track record of the Subject Company, we concur with the Company’s view that the Subject Company has possessed engineering construction-related experience and equipment, an excellent management team, an outstanding track record and convenient service conditions as stated in the Letter from Board, and we consider that the well-established business of the Subject Company could provide immediate benefit of creating synergy to the Group after the Acquisition as compared with a newly established concrete business by the Group from scratch.

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We note that the Company recently entered into the project construction services framework agreement (“**Framework Agreement**”) with Tianye Group, pursuant to which, Tianye Group agreed to purchase infrastructure construction services, including but not limited to project construction services and other services related to construction, works, maintenance, and safety rectification, from the Group. Therefore, we consider the Group’s construction business will continue to expand and develop and the Subject Company after the Acquisition could become one of the stable supplies of quality pre-mixed concrete for the construction projects of the Group, including but not limited to the construction projects under the Framework Agreement, and also the Acquisition could share resources and leverage the respective advantages and synergy of the Group and Subject Company.

After considering that (i) the Acquisition was in line with the business strategy of expansion of construction and engineering segment; and (ii) the Subject Company could provide stable supply of pre-mixed concrete to the Group’s construction projects, we consider that the Acquisition is fair and reasonable investment to the Company and the Shareholders as a whole.

RECOMMENDATION

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

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

Yours faithfully,
For and on behalf of
INCU CORPORATE FINANCE LIMITED
Gina Leung
Managing Director

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

The following is the English translation of the Asset Valuation Report prepared for the purpose of incorporation in this circular received from CAREA Assets Appraisal Co., Ltd, an independent certified PRC valuer, in connection with the appraised value of the entire equity interest in Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd. as at 30 June 2022.*

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

ASSET VALUATION REPORT

**THE MARKET VALUE OF THE ENTIRE EQUITY INTEREST HELD
BY THE SHAREHOLDERS OF SHIHEZI SILU TIANYANG PRE-MIXED CONCRETE
CO., LTD.* (石河子市絲路天楊預拌砼有限公司) INVOLVED IN THE EQUITY
TRANSFER PROPOSED BY XINJIANG TIANHE YIDA INVESTMENT CO., LTD.*
(新疆天合意達投資有限公司)**

KAIYUAN PING BAO ZI [2022] NO.0793
(Volume 1 of 1)



開元資產評估有限公司
CAREA Assets Appraisal Co., Ltd
13 November 2022

CHINA APPRAISAL SOCIETY

Filing Receipt for the Asset Valuation Report

Report serial number: 1143020011202200901
Contract number: KY-PG-2022-550
Report type: Asset valuation report involving statutory valuation businesses
Report number: KAIYUAN PING BAO ZI [2022] NO.0793
Report name: The Asset Valuation Report on the Market Value of the Entire Equity Interest Held by the Shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) Involved in the Equity Transfer Proposed by Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司)
Appraisal conclusion: RMB30,680,840.95
Name of valuer: CAREA Assets Appraisal Co., Ltd
Signer: Fu Ping (Asset Appraiser) Membership Number: 65120002
Wang Qingyun (Asset Appraiser) Membership Number: 65050019



(To query filing information, scan the QR code)

Note: the filing receipt for such a report only certifies that such a report has been filed in our business report management system, which shall not be regarded as the bases of certification and recognition by China Appraisal Society on such a report, as well as exemption from relevant legal responsibilities to be assumed by the asset valuer and its signing asset appraiser.

Generation date: 21 November 2022

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DISCLAIMER

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

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

ASSET VALUATION REPORT SUMMARY
ON
THE MARKET VALUE OF THE ENTIRE EQUITY INTEREST HELD
BY THE SHAREHOLDERS OF SHIHEZI SILU TIANYANG PRE-MIXED CONCRETE
CO., LTD.* (石河子市絲路天楊預拌砼有限公司) INVOLVED IN THE EQUITY
TRANSFER PROPOSED BY XINJIANG TIANHE YIDA INVESTMENT CO., LTD.*
(新疆天合意達投資有限公司)

KAIYUAN PING BAO ZI [2022] NO.0793

CAREA Assets Appraisal Co., Ltd is engaged by Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) (hereinafter referred to as the “**Principal**” or “**Tianhe Yida**”) to, subject to the principles of independence, objectivity and fairness, appraise the market value of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) (hereinafter referred to as “**Appraised Entity**” or “**Silu Tianyang**”) involved in the equity transfer proposed by Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) on the Appraisal Reference Date by following the necessary appraisal procedures in accordance with relevant laws, administrative regulations and the standards of asset appraisal. The Asset Valuation Report Summary is as follows:

I. PURPOSE OF APPRAISAL

In accordance with the requirements under the state-owned enterprise reform and the shareholding structure optimization of companies, the board of directors of Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) resolved that Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) transferred its 51% equity interest in Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司), due to which the market value of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) involved in the economic behavior shall be subject to appraisal, providing value reference for the above economic behavior.

II. APPRAISED SUBJECT AND SCOPE OF APPRAISAL

The Appraised Subject is the market value of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) on the Appraisal Reference Date (30 June 2022).

The scope of appraisal is all assets owned by and all liabilities assumed by Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) on the Appraisal Reference Date (30 June 2022).

III. VALUE TYPE

The value type is market value.

IV. APPRAISAL REFERENCE DATE

The Appraisal Reference Date is 30 June 2022.

V. APPRAISAL METHODS

Appraisal methods include the asset-based approach and income approach. The appraisal conclusion eventually adopts the appraisal result under the asset-based approach.

VI. APPRAISAL CONCLUSION AND ITS VALIDITY

As of the Appraisal Reference Date (30 June 2022), the carrying amount of the total assets, total liabilities and entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司), which was filed for appraisal and approved by Beijing Xinghua Certified Public Accountants (Special General Partnership), amounted to RMB60,524,000, RMB31,416,000 and RMB29,108,000, respectively.

The appraisal result of the market value on the Appraisal Reference Date of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) under the income approach amounted to RMB21,650,000, representing a decrease of RMB7,458,100 or 25.62% as compared with the entire equity interest held by the shareholders.

The appraisal result of the market value on the Appraisal Reference Date of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) under the asset-based approach amounted to RMB30,680,800, representing an increase of RMB1,572,800 or 5.40% as compared with the carrying amount of the entire equity interest held by the shareholders.

The final appraisal conclusion adopts the appraisal result under the asset-based approach. **In other words, the final appraisal conclusion on the market value of the Appraised Subject on the Appraisal Reference Date is RMB30,680,800 (in words: RMB THIRTY MILLION SIX HUNDRED EIGHTY THOUSAND AND EIGHT HUNDRED ONLY).**

In accordance with the current regulations, the validity of the appraisal conclusion of this Asset Valuation Report is one year with effect from the Appraisal Reference Date.

Users of the Asset Valuation Report shall take into full consideration and pay attention to the assumptions, limitations, notes on special matters stated in the Asset Valuation Report and their impact on the appraisal conclusion.

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

No reference was made to the conclusions of reports issued by other agencies for this project.

(II) Information about incomplete or defective ownership

Information about incomplete or defective ownership has not been identified for this project.

(III) Other key information that the Principal has not provided or incomplete appraisal data

There is no other key information that the Principal has not provided, nor is there incomplete appraisal data in this project.

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

No pending matters and legal disputes against the Appraised Entity on the Appraisal Reference Date have not been identified for this project.

(V) Significant use of expert work and related reports

Beijing Xinghua Certified Public Accountants (Special General Partnership) conducted an audit of the financial data from January to June 2022 and issued a special audit report ([2022] Jing Hui Xing Zhuan Zi No. 57000117). This appraisal was conducted on the basis of the audit and used the relevant financial data in the aforesaid Audit Report, and the data in this appraisal declaration form is consistent with the data in the audited financial statements.

(VI) Material subsequent matters

No such matters.

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

There are no limitations on the appraisal procedures for this project.

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

1. No mortgage, guarantee and contingent liabilities (contingent assets).
2. Lease.

Set out in the following table is the lease of Appraised Entity as of the Appraisal Reference Date:

No.	Lessee	Lessor	Target	Lease Term
1	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)	Xinjiang Tianji Zhenghe Building Materials Co., Ltd.* (新疆天基正和建材有限公司)	Concrete batching plant ZHZS240E	22 March 2022 to 21 March 2023
2	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)	Shihezi Xinyuan Highway Transportation Co., Ltd.* (石河子鑫源公路運輸有限公司)	A motor vehicle with the license plate Xin — CE9J22	17 May 2022 to 16 May 2023

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

In economic activities corresponding to this asset appraisal, there is no deficiency that may have a material effect on the appraisal result.

(X) Notes on other special matters

Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) has built the “double-180” concrete production lines in the Huihe Park since December 2017. The site occupied by such production line is a planned site for the ethanol project with an annual production of 100,000 tons in 2022, which will expire at the end of 2022. Taking into account the normal production scale of Silu Tianyang in the future, Silu Tianyang selected a separate site for a plant in the surroundings of the 147 Corps Chemical Industrial park* (147團化工園區). According to the Resolution on Site Reselection for a Plant by Silu Tianyang, the cost of site selection for a plant is estimated to be RMB14,956,900.00. The plant will be completed at the end of 2022 and put into use in 2023.

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

ASSET VALUATION REPORT

ON

THE MARKET VALUE OF THE ENTIRE EQUITY INTEREST HELD BY THE SHAREHOLDERS OF SHIHEZI SILU TIANYANG PRE-MIXED CONCRETE CO., LTD.* (石河子市絲路天楊預拌砼有限公司) INVOLVED IN THE EQUITY TRANSFER PROPOSED BY XINJIANG TIANHE YIDA INVESTMENT CO., LTD.* (新疆天合意達投資有限公司)

KAIYUAN PING BAO ZI [2022] NO.0793

To Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司):

CAREA Assets Appraisal Co., Ltd. has been appointed by the Company to, subject to the principles of independence, objectivity and fairness, appraise the market value on the Appraisal Reference Date (30 June 2022) of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) involved in the equity transfer proposed by the Company by adopting the asset-based approach and the income approach and following the necessary appraisal procedures in accordance with the provisions of laws, administrative regulations and the standards of asset appraisal. Details of the asset appraisal are reported as follows:

I. THE PRINCIPAL, THE APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT

(I) Overview of the Principal

The Principal of this appraisal is Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司), the general information of which is set out below:

Unified social credit code:	91659001MA77PL5T9L
Type of Company:	Limited liability company (sole proprietorship invested or controlled by a non-natural person)
Legal representative:	Huang Zongqiu
Registered capital:	RMB200 million
Date of establishment:	1 November 2017
Operating term:	1 November 2017 to non-fixed term
Domicile:	No.36, Bei San Dong Road, Community No. 80, Shihezi City, Xinjiang

Scope of business: real estate investments, project investments, investment management, asset restructuring (operating activities may proceed following approval by relevant authorities, if approval is required).

(II) Overview of the Appraised Entity

The Appraised Entity of this appraisal is Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司), the general information of which is set out below:

1. Key information on industrial and commercial registration of the Appraised Entity

Set forth below are the major registration items of the Appraised Entity contained in its business license on the Appraisal Reference Date:

Unified social credit code:	91659001MA77NB7R70
Company name:	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)
Type of company:	Other limited liability company
Legal representative:	Yang Changming
Registered capital:	RMB25 million
Date of establishment:	5 October 2017
Operating term:	From 5 October 2017 to 4 October 2027
Domicile:	No. 9-A1 & 2, East Fifth Avenue, Shihezi Development Zone, Xinjiang

Scope of business: Pre-mixed concrete and products; automobile leasing; lease of construction equipment; road freight transportation for general purposes, specialized freight transportation (tank containers) (excluding dangerous chemicals, flammables, and explosives) (operating activities may proceed following approval by relevant authorities, if approval is required).

2. History, shareholders and shareholding

(1) Establishment

The company was established in October 2017 with a registered capital of RMB25 million. Shihezi Taian Construction and Engineering Co., Ltd* (石河子市泰安建築工程有限公司) and Shihezi Baiyang Pre-Mixed Concrete Co., Ltd.* (石河子白楊預拌砼有限責任公司) jointly invested in the establishment of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司). Set forth below is the shareholding structure of Silu Tianyang at the time of its establishment:

No.	Type of shareholders	Names of shareholders	Capital contribution (RMB10,000)	Proportion of capital contribution (%)
1	Legal person	Shihezi Baiyang Pre-Mixed Concrete Co., Ltd.* (石河子白楊預拌砼有限責任公司)	1,225.00	49.00
2	Legal person	Shihezi Taian Construction and Engineering Co., Ltd* (石河子市泰安建築工程有限公司)	1,275.00	51.00
Total			2,500.00	100.00

(2) *First equity transfer*

Shihezi Taian Construction and Engineering Co., Ltd* (石河子市泰安建築工程有限公司), the original shareholder, transferred 51% of its shares to Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) in November 2018. Set forth below is the shareholding structure of Silu Tianyang following this transfer:

No.	Type of shareholders	Names of shareholders	Capital contribution (RMB10,000)	Proportion of capital contribution (%)
1	Legal person	Shihezi Baiyang Pre-Mixed Concrete Co., Ltd.* (石河子白楊預拌砼有限責任公司)	1,225.00	49.00
2	Legal person	Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司)	1,275.00	51.00
Total			2,500.00	100.00

(3) *Shareholders and shareholding on the Appraisal Reference Date*

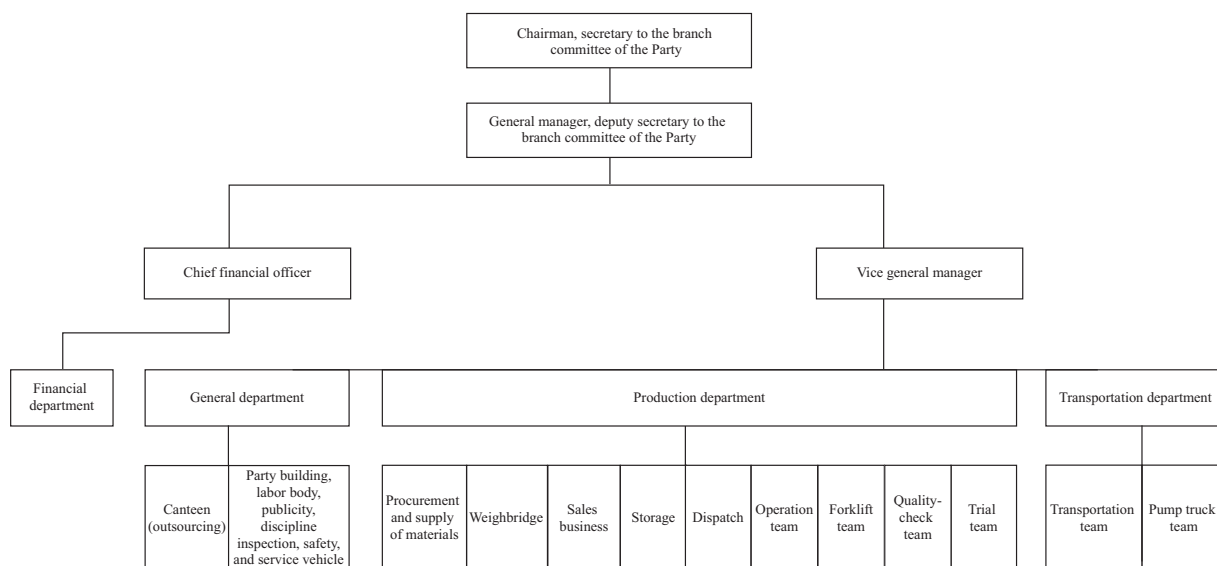
The following table shows the relevant information including the names of shareholders, the capital contribution and the proportion of capital contributions of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) on the Appraisal Reference Date:

No.	Type of shareholders	Names of shareholders	Capital commitment (RMB10,000)	Paid-up capital (RMB10,000)	Proportion of capital contribution (%)
1	Legal person	Shihezi Baiyang Pre-Mixed Concrete Co., Ltd.* (石河子白楊預拌砼有限責任公司)	1,225.00	1,225.00	49.00
2	Legal person	Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司)	1,275.00	1,275.00	51.00
Total			2,500.00	2,500.00	100.00

3. Organizational structure chart

Based on the scope of business and the business requirements, the company has a chairman and a general manager, as well as four departments. The business management structure of the company is shown in the following table:

Organizational Structure Chart
of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)



4. Assets, finance and operating conditions of the Appraised Entity in recent years

The assets, finance and operating conditions of the Appraised Entity for the last two financial years and the current interim period are shown in the following table:

Unit: RMB10,000

Items	2020	2021	30 June 2022
Total assets	5,863.32	6,258.62	6,052.40
Total liabilities	2,418.88	2,720.82	3,141.60
Owners's equity	3,444.44	3,537.80	2,910.80
Operating income	4,291.80	4,527.66	1,305.74
Net profit	453.40	557.43	(140.61)

The above financial data in 2020 and 2021 and for the period from January to June 2022 has been audited by Beijing Xinghua Certified Public Accountants (Special General Partnership), which issued the special audit report of [2022] Jing Hui Xing Zhuan Zi No. 57000117 on 15 November 2022.

5. Business operation of the Appraised Entity

Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) is mainly engaged in production and sales of various types of commercial concrete (C10-C50). Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) is a subsidiary of Tianye Group, in which Tianhe Yida holds 51% equity interest. For sales of products, the company mainly focuses on the investment projects of Tianye Group and concrete required by new construction, redevelopment and expansion projects of various industries. In the four years from 2018 to 2021, there was a significant increase in the demand for commercial concrete due to the construction of a new project with an annual production capacity of 1 million tons of ethylene glycol (Phase 1 of which will have an annual production capacity of 600,000 tons) invested by Tianye Group in the 147 Corps Chemical Industrial park in 2018. The infrastructure construction in the industrial park was basically completed at the end of 2019, resulting in a larger sales of commercial concrete in the period from 2018 to 2019. From 2020 to 2021, the company's products are mainly sold for certain projects at their closing phase in the industrial park and the technical reform and maintenance projects in Shihezi Tianye North Industrial Park. In 2022, the company has been subject to static management since August due to the pandemic outbreak, in which production was seriously affected, and normal production is expected to resume in 2023. In the next few years, the company plans to expand external sales channels of the Group, and the sales volume will be maintained at the same level as that in 2020 and 2021 with a slight increase.

6. Major assets of the Appraised Entity

Set forth below are the major assets of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司):

- (1) Inventories mainly are raw materials, with a carrying amount of RMB2,013,798.85, including stones (2-4CM), cement, fly ash and superplasticizer (water agent), which are stored in the company's warehouse.
- (2) Fixed assets are equipment assets, including machinery and equipment, vehicles and electronic devices with an original carrying amount of RMB15,104,498.24 and a net carrying amount of RMB8,971,520.63.

There were 18 pieces of machinery and equipment with an original carrying amount of RMB5,285,310.00 and a net carrying amount of RMB3,875,987.53, which mainly are the equipment in batching plants, sand flow meters, loaders, wheel loaders, etc. There were 24 vehicles with an original carrying amount of RMB9,652,498.24 and a net carrying amount of RMB5,037,991.96, which mainly are heavy-duty special operation vehicles including concrete pump trucks, pickup trucks, and heavy-duty tank trucks. There were 7 electronic devices with an original carrying amount of RMB166,690.00 and a net carrying amount of RMB57,541.14, which mainly are Lenovo computers (including monitors), pin printers, electronic road weighbridges and photocopy machines, etc.

The company has a sound fixed assets management system. As of the Appraisal Reference Date, there are no other rights such as a mortgage guarantee for the appraised assets under the equipment category, and the ownership of such assets is clear.

- (3) The carrying amount of construction in progress is RMB160,744.50, which is the expense for land reclamation.
- (4) Ownership of major appraised assets

The appraised assets are owned by the Appraised Entity, and the corresponding liabilities are the debts to be borne by the Appraised Entity.

7. Major accounting and tax policies and preferences of the Appraised Entity

(1) Accounting Period

The accounting year of the company runs with the Gregorian calendar, which lasts from 1 January to 31 December.

(2) Functional Currency

Renminbi is adopted as the functional currency in preparation for the financial statements of the company.

(3) Operating Cycle

The company operates on a 12-month operating cycle, which classifies the liquidity of assets and liabilities by a 12-month standard.

(4) Criteria for Recognizing Cash and Cash Equivalents

Cash and cash equivalents of the company refer to cash on hand, deposits readily available for payments, and short-term (which is generally

due within three months from the date of purchase), highly liquid investments held by the Appraised Entity, which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

(5) Allowance for bad debts under trade receivables

For trade receivables that do not contain a significant financing component resulting from transactions under ASBE No. 14 — Revenue, the company adopts a simplified approach where the allowance for losses is always measured based on the lifetime expected credit losses (ECL).

For trade receivables with noticeable separate risk characteristics, according to the similar credit risk characteristics of trade receivables (such as the debtor’s ability to repay outstanding amounts in accordance with the contract terms), and the losses of historical payments and the debtor’s expected economic losses, the ECL is calculated through the default risk exposure and the lifetime ECL rate. Given the nature of financial instruments, the Appraised Entity conducted an appraisal to determine whether the credit risk has increased significantly based on an separate financial asset or financial asset portfolios. The company divides the accounts receivable into several portfolios based on the credit risk characteristics and calculates the ECL based on the portfolio. The basis for determining the portfolios as follows:

Name of portfolio	Basis for determination of portfolio	Approach for measuring ECLs
Credit risk portfolio	Credit risk portfolio is determined by aging	The ECL rate is determined by aging, after taking into account the credit loss history and the current conditions and forward-looking information, as shown in the “Comparison table of ECL rates under the aging portfolio”
Risk-free portfolio	Amounts due from related parties in consolidation	The ECL rate is 0, after taking into account the credit loss history and the current conditions and forward-looking information

Comparison table of ECL rates under the aging portfolio:

Aging	ECL rates of Trade receivables (%)
Within 1 year (inclusive)	0.00
1 to 2 years	20.00
2 to 3 years	40.00
3 to 4 years	60.00
4 to 5 years	80.00
Over 5 years	100.00

(6) *Inventories*

① Classifications of inventories

Inventories are classified into raw materials, inventory goods, and low-value consumables.

② Cost of inventories transferred in and transferred out

Inventories transferred in are measured at costs. The costs of inventories includes purchase cost, processing cost, and other costs.

Cost of inventories transferred out is determined by using the weighted average method.

③ Basis for determining net realizable value of inventories and provision for impairment of inventories

The provision for impairment of inventories is made or adjusted at the lower of the cost and net realisable value after a thorough stocktaking of the inventories at the end of the period.

Net realisable values of held-for-sale commodity stocks, such as finished goods, inventory goods, and held-for-sale materials, during the normal course of production and operation, are determined by their estimated selling prices less the related estimated selling expenses and taxes. The net realisable value of material inventories, processing of which is required, during the normal course of production and operation, is determined by deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods. The net realisable value of inventories held for execution of sales contracts or labor contracts is calculated based on the contract price. Where the quantity of inventories held are more than that stipulated in sales contracts, the net realisable value of the excess will be calculated based on the general selling price.

Provision for impairment of inventories is made on an item-by-item basis at the end of the period. For inventories held in large quantity and of low value, provision for impairment may be made based on the category of inventories. For inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be measured separately from other items in that product line, provision for impairment of inventories may be determined on an aggregate basis.

Should the factors causing any write-down of the inventories do not exist any more, the amount of write-down will be recovered and reversed from the provision for impairment of inventories that has been made. The reversed amount will be included in the current profit or loss.

(7) *Fixed Assets*

① Recognition of fixed assets

Fixed assets represent tangible assets held for production of goods, rendering of services, rental or administrative purposes with a useful live over one accounting year. Fixed assets are only recognized when it is probable that the economic benefits associated with the assets will flow into the company and the costs can be measured reliably. Fixed assets are initially measured at costs, taking in account the impact of expected disposal costs.

② Depreciation methods for various fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives from the next month when they are available for intended use. The useful life, estimated net residual value and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation method	Useful life (years)	Residual value rate (%)	Annual depreciation rate (%)
Machinery and equipment	Straight-line method	5–14.00	3.00–5.00	6.79–19.40
Transportation vehicles	Straight-line method	5–10.00	3.00–5.00	9.50–19.40
Electronic devices	Straight-line method	5.00–14.00	5.00	6.75–19.40
Others	Straight-line method	5.00–14.00	5.00	6.75–19.40

- ③ Basis of determination and valuation method of fixed assets acquired under financing lease

A financial lease is a lease that substantially transfers all risks and rewards associated with ownership of an asset, the ownership of which may or may not eventually be transferred. The fixed assets leased under financing lease are depreciated according to the same policy as the self-owned fixed assets for the leased assets. Where it can be reasonably determined that the ownership of the leased asset will be obtained upon the expiration of the lease term, depreciation shall be accrued within the useful life of the leased asset. Where it cannot be reasonably determined that the ownership of the leased asset will be obtained upon the expiration of the lease term, depreciation shall be accrued in the shorter period of the lease term and the useful life of the leased assets.

- ④ Others

Subsequent expenditures related to fixed assets, if it is probable that economic benefits related to such fixed assets will flow into the Group and the cost can be measured reliably, shall be included in the cost of fixed assets, and the carrying amount of the replaced part shall be derecognized. Other subsequent expenses other than this shall be included in the current profit and loss when incurred.

A fixed asset is derecognized upon disposal or when no future economic benefits are expected to be generated from using or disposal. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of such fixed asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The enterprise shall at least review the useful life, estimated net residual value and depreciation method of fixed assets at the end of the year, and account for any change as a change in an accounting estimate.

(8) *Construction in progress*

Construction in progress is accounted for by project classification.

For construction in progress, all expenditures incurred before construction of the asset reaches the intended usable condition are taken as the recorded value of the fixed asset. If construction in progress of fixed assets has reached the intended usable condition but has not yet completed the final accounts, it shall be transferred to the fixed assets based on the estimated value according to the project budget, construction cost or actual project cost from the date of the intended usable condition, and the depreciation of such fixed asset shall be accrued according to the company's

depreciation policy for fixed assets. Upon completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the depreciation amount already accrued shall not be adjusted.

(9) *Intangible Assets*

- ① Intangible assets are initially measured at cost upon acquisition

The cost of an externally purchased intangible asset includes the purchase price, relevant taxes, and other expenditures directly attributable to bringing the asset ready for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

For the intangible asset acquired from debt restructuring for offsetting the debt of the debtor, its carrying amount includes the fair value of the waived creditor's rights and taxes and other costs directly attributable to bringing the asset ready for its intended use;

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable. For non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognized.

The intangible assets acquired in the business combinations involving entities under common control by way of absorption shall be recorded at the carrying amount of the acquiree; and the intangible assets acquired in the business combinations involving entities not under common control by way of absorption shall be recorded at its fair value.

The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortization of other patents and licenses and capitalized interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

② Subsequent measurement

The useful life of intangible assets is analysed and judged upon acquisition.

Intangible assets with a finite useful life are amortized on a straight-line basis over the period in which economic benefits are brought to the company. If the period in which economic benefits are brought to the company by intangible assets cannot be predicted, the intangible assets shall be taken as intangible assets with an indefinite useful life, and shall not be amortized.

A. Description of a useful life of intangible assets with a finite useful life

Intangible assets with a finite useful life are systematically and reasonably amortized over the useful life based on the pattern of expected realization of the economic benefits relating to the intangible assets, or otherwise are amortized on a straight-line basis if the pattern of the expected realization cannot be reliably determined.

For an intangible asset with a finite useful life, review on its useful life and amortization method is performed at each period-end.

B. Judgment of intangible assets with an indefinite useful life

The specific useful lives cannot be judged due to a land with an indefinite useful life in the Company's account book, and such intangible asset is not amortized accordingly by the Company.

(10) Long-term Deferred Expenses

Long-term deferred expenses are various expenses that have been incurred but shall be borne in the reporting period and subsequent periods with an amortization period of more than one year.

(11) Employee Remuneration

Employee remuneration, which refers to various forms of rewards or compensation given to obtain services provided by employees or terminate labor relations, consists of short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

① Accounting treatment for short-term remuneration

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

② Accounting treatment for post-employment benefits

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

During the accounting period in which the employee renders services to the Company, the contributions payable as calculated according to the defined contribution scheme are recognized as liabilities and are included in profit or loss for the current period or cost of relevant assets. According to the defined contribution scheme, where the full amount of contributions payable is not expected to be paid within twelve months after the end of the annual reporting period in which the employee renders relevant services, the full amount of contributions payable is measured as a discounted amount of employee remuneration payable based on the yield on treasury bonds or high quality corporate bonds in an active market matching the maturity and currency of the defined benefit scheme obligations at the balance sheet date.

All defined benefit scheme obligations, including those expected to be paid within twelve months of the end of the annual reporting period in which the employee renders services are discounted based on the yield on treasury bonds or high quality corporate bonds in an active market matching the maturity and currency of the defined benefit scheme obligations at the balance sheet date.

Where there are assets in the defined benefit scheme, the deficit or surplus from the present value of the defined benefit scheme less the fair value of the defined benefit scheme is recognized as a net debt or asset of a defined benefit scheme. Where there is a surplus in the defined benefit scheme, the lower of the surplus of the defined benefit scheme and the upper limit of the assets will be used to calculate the net assets of the defined benefit scheme. Among which, the maximum assets limit is the

present value of the economic benefits that the enterprise can obtain from refunds or reductions in future contributions to the defined benefit scheme.

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

Under the defined benefit scheme, previous service costs are recognized as current expenses at the earlier date of the modification of the defined benefit scheme and the recognition of reorganization expenses or termination benefits.

The enterprise recognizes a gain or loss on settlement when a defined benefit scheme is settled. The gain or loss is the difference between the present value of the defined benefit scheme determined at the settlement date and the settlement price.

③ Accounting treatment for termination benefits

Employee remuneration liabilities incurred by termination benefits are recognized at the earlier date of the following and charged from profit or loss for the current period:

When the enterprise may not unilaterally revoke the termination benefits provided pursuant to a labor relationship dismissal scheme or redundancy proposal;

The enterprise recognizes the costs or expenses related to a reorganization involving the payment of termination benefit.

Where the termination benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefits are recognized, the company shall apply the relevant provisions of short-term employee benefits. Where the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefits are recognized, the company shall apply the relevant provisions of other long-term employee benefits.

④ Accounting treatment for other long-term employee benefits

Other long-term employee benefits that satisfy the conditions of the defined contribution scheme, are treated according to the aforesaid item 2. Other long-term employee benefits that do not satisfy the conditions of the defined contribution scheme are treated according to the relevant requirements of the defined benefit scheme, and the net liability or net asset for other long-term employee benefits is recognized and measured. At the end of the reporting period, the costs of service arising from other long-term employee benefits, the total net amount including net interest of net liabilities or net assets of other long-term employee benefits and changes arising from re-measurement of net liabilities or net assets of other long-term employee benefits are charged from profit or loss for the current period or cost of related assets.

(12) Revenue

Revenue of the Appraised Entity is mainly from sales of autoclaved aerated concrete blocks.

Revenue from sales of goods is recognized, when substantial risks and rewards of ownership have been transferred to the purchaser; the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; the amount of revenue can be measured reliably; the relevant economic benefits are likely to flow into the enterprise; and related costs incurred or to be incurred can be measured reliably.

The specific revenue recognition method of the Appraised Entity is that revenue is recognized when goods are delivered to the customer’s designated location and accepted. The recognition is based on obtaining a receipt slip signed and accepted by the customer.

(13) Principal tax types, tax rates and preferential tax policies

① Principal tax types, tax rates

Tax types	Specific tax rates
VAT	3%, 6%, and 13% of the selling price
City maintenance and construction tax	7% of the actual turnover tax paid.
EIT	25% of the taxable profit.
Education surcharge	3% of the actual turnover tax paid.
Local education surcharge	2% of the actual turnover tax paid.

② Preferential tax policies and approval documents

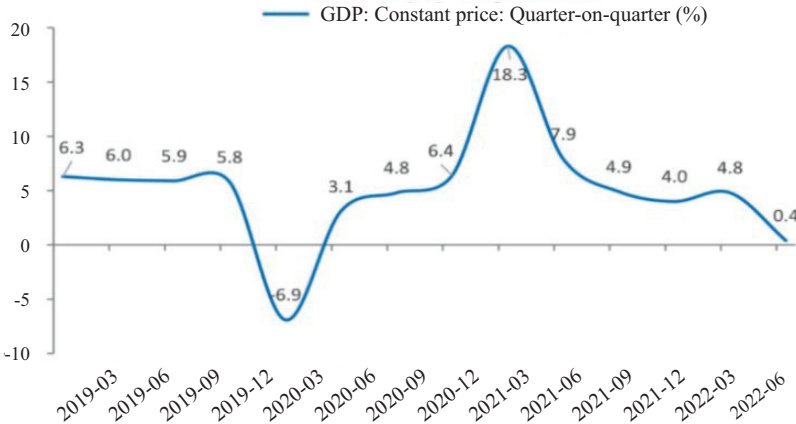
None.

8. Macroeconomic impacts on production and operation of the Appraised Entity

Both the domestic demands and investments were greatly affected by the pandemic impact in China combined with the volatile international landscape in the first half of the year (including Russia-Ukraine conflict, surging inflation in the United States, abd Fed rate hike), resulting in poor economic growth. Despite global volatility, China still performed relatively well.

In the first half of 2022, under the triple pressures of “demand contraction, supply shock and expectation weakening”, coupled with a new pandemic impact, China’s gross domestic product (GDP) reached RMB56.26 trillion, representing a year-on-year growth of 2.5%, which is not easy to achieve. Among which, the economy grew by 4.8% in the first quarter and 0.4% in the second quarter. In the first half of the year, the primary, secondary and tertiary sectors grew by 5.0%, 3.2% and 1.8% respectively, contributing 10.7%, 48.7% and 40.6% to the economic growth.

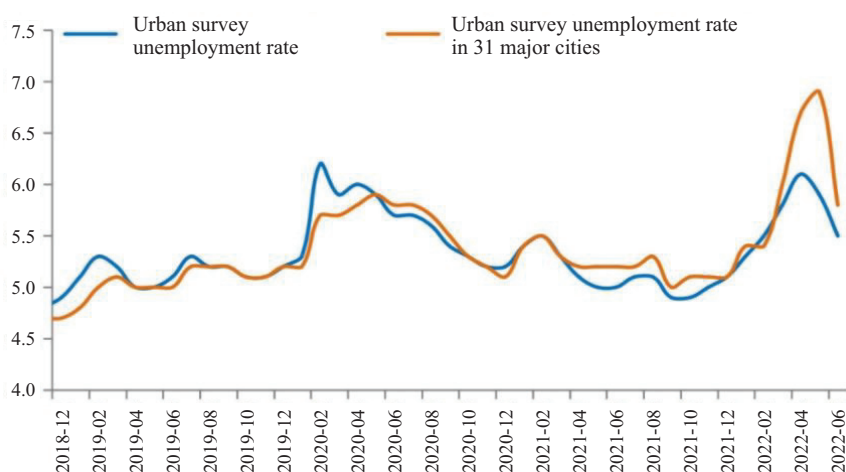
Continuing to be a significant contributor to the growth of the national economy, the added-value of the service industry was RMB30,486.8 billion, and represented a year-on-year increase of 1.8% and accounting for 54.2% of GDP. In general, the Chinese economy showed a stabilizing and rebound momentum in the first half of the year.



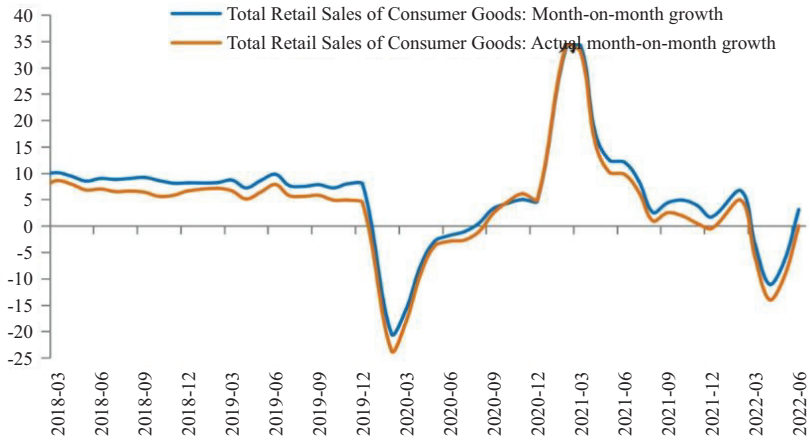
(1) Residents' income continued to grow with employment facing pressure

In the first half of the year, residents' income continued to grow across the country, with national per capita disposable income of RMB18,463, up 3.0% in real terms over the same period last year. Consumption has been closely related to income. Although residents' consumer spending slowed down, basic living consumption has maintained steady growth. In the first half of the year, the national per capita consumer spending amounted to RMB11,756, representing an increase of 0.8% in real terms over the same period of the previous year.

There was higher employment pressure in general. In the first half of the year, the average urban survey unemployment rate was 5.7%, 0.5 percentage points higher than that of the same period last year, mainly due to the less recruitment demand driven by the pandemic and the postponement of offline recruitment. Furthermore, college graduates entered the labor market in search of jobs in a concentrated manner, resulting in a significant employment pressure.

*(2) Consumption, investments and other economic indicators have rebounded, with investments becoming an important support to stabilize the economy*

In the first half of the year, the consumer market was significantly impacted. However, due to improving pandemic conditions driven by effective pandemic prevention and control, as well as effective policies to stimulate consumption, the consumer market gradually rebounded. Total retail sales of consumer goods amounted to RMB21,043.2 billion, decreasing by 0.7% year-on-year. Food and beverage consumption continued to recover, as some regional market sales improved significantly, and physical store operations tended to improve.

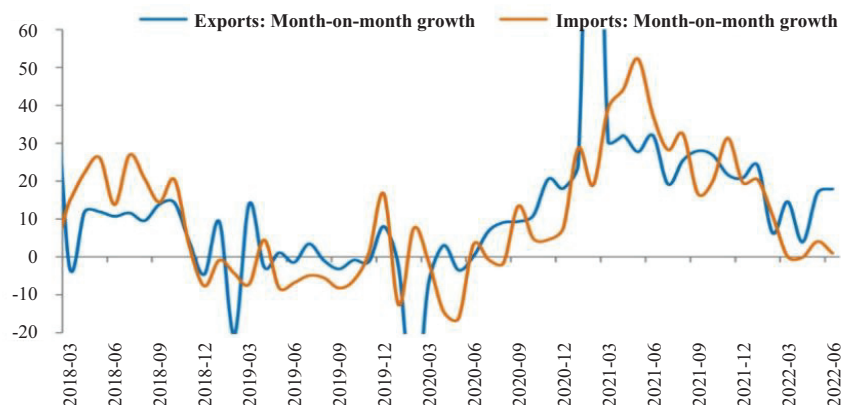


In connection with investments, investments in manufacturing has increased rapidly, with investments in the infrastructure industry recovering the growth rate for two consecutive months. Investments in the high-tech industry and social segment grew fast with a stronger driving force of the investments in major projects. Specifically, investments in the manufacturing and infrastructure industries increased by 10.4% and 7.1%, respectively, while investments in real estate development decreased by 5.4% year-on-year, indicating that investments in the infrastructure industry made remarkable achievements and investments in the manufacturing industry maintained a high growth with the support of exports in the first half of the year, with investments in real estate industry registering a poor performance.



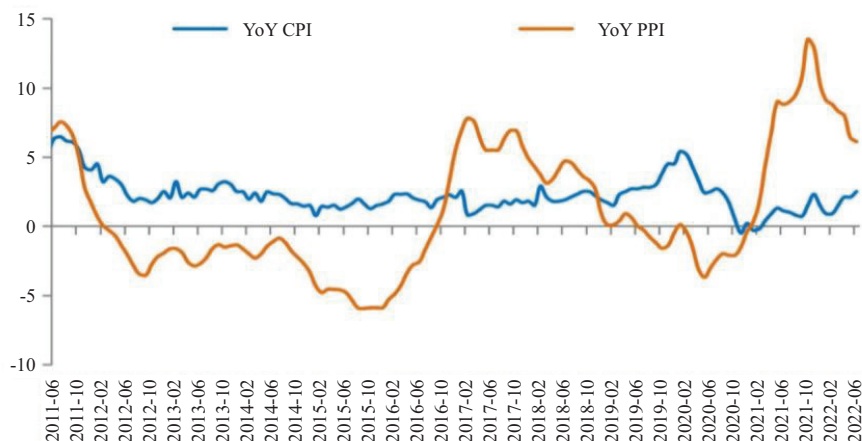
(3) *China's foreign trade is showing strong economic resilience with steady growth in imports and exports*

China's foreign trade volume in goods in the first half of 2022 reached RMB19.8 trillion, up by 9.4% year-on-year. Exports grew by 13.2% to RMB11.14 trillion and imports increased by 4.8% to RMB8.66 trillion. With the overall improving pandemic conditions in China since May this year, together with policies to stabilize growth taking effect, foreign trade enterprises made steady progress in work resumption and production. In particular, import and export activities in the Yangtze River Delta and other regions have recovered rapidly, contributing to the significant rebound of overall growth rate of China's foreign trade. China's foreign trade imports and exports grew steadily, amounting to RMB19.8 trillion, stabilizing the macroeconomic market. Besides highlighting the strong economic resilience of China's foreign trade, such recovery lays a solid foundation for the stabilization and quality of foreign trade in the second half of the year.



(4) *Consumer prices rose moderately, and producer prices continued to decline*

In the first half of the year, China's consumer price index (CPI) went up by 1.7%, including 1.1% in the first quarter and 2.3% in the second quarter. On a month on month basis, the CPI fell first and then rose with moderate upward. Affected by factors such as rising international commodity prices and the Spring Festival, the year-on-year increase in the CPI in the early stage was 0.9%; and then expanded to 2.1% month by month due to the combined effects of the sporadic outbreak of the COVID-19 pandemic in China and the continuance of high energy prices in the global market. With clear logistics access as a result of the stabilized and improved pandemic conditions, CPI decreased by 0.2% and remained stable. However, due to the lower base in the same period last year, the year-on-year increase in CPI was still 2.1% in May and grew to 2.5% in June.



The year-on-year increase in the producer price index (PPI) fell back. In the first half of the year, China's PPI rose by 7.7%, including 8.7% in the first quarter and 6.8% in the second quarter. The year-on-year increase continued to fall back affected by a higher base in the same period last year. As the policies to safeguard supplies and stabilize prices have gradually paid off, the growth of the PPI stabilized.

(5) Strong guarantee of energy supply due to overall stable operation of industrial economy

In June, the added value of industrial enterprises above the designated size increased by 3.9% year-on-year in real terms. From January to June, the added value of industrial enterprises above the designated size increased by 3.4% year-on-year. As the implementation of macroeconomic stabilization policies has achieved remarkable results and the supply chain of key industries has been significantly recovered, the industrial exports registered double-digit growth, representing an overall improvement in the stabilized industrial economy.

Against the backdrop of rapidly rising energy prices in the global market, China has taken multiple measures to ensure the market supply based on the basic national conditions dominated by coal, with price stabilization gradually paying off. With the rapid growth of raw coal production, coal production enterprises have continuously increased their efforts to increase production and safeguard supplies, providing basic protection for coal supplies. In the first half of the year, the raw coal output of industrial enterprises above the designated size was 2.19 billion tonnes, representing a year-on-year increase of 11.0%, which has maintained double-digit rapid growth for five consecutive months this year. Driven by the strong guarantee of energy supply and the continuing optimized consumption structure, various types of energy have expeditiously unleashed their production capacities, stabilizing the growth in production of energy products.

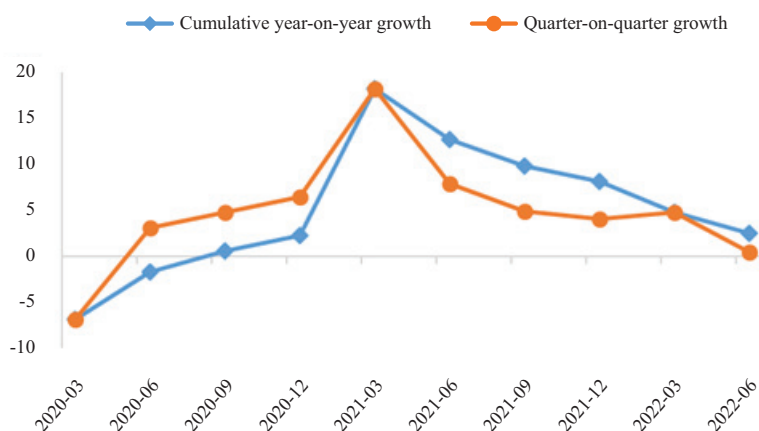
9. Overview and Prospect of the Industry where the Appraised Entity Operates

The Appraised Entity operates in the concrete and cement industry, and its main products are various types of commercial concrete.

In the first half of 2022, China's macroeconomy experienced certain fluctuations, which was reflected in the overall economic recovery in January and February; significant decline in macroeconomic indicators in March and April due to the material impact of increasingly severe and complex international environment and sporadic outbreaks of the COVID-19 pandemic in China on both the supply and demand sides of the economy; economic rebound in May due to a series of policies introduced by the PRC government to help enterprises alleviate their difficulties, expand investments and boost consumption amid the improving pandemic conditions; and improvement in economic stability in June.

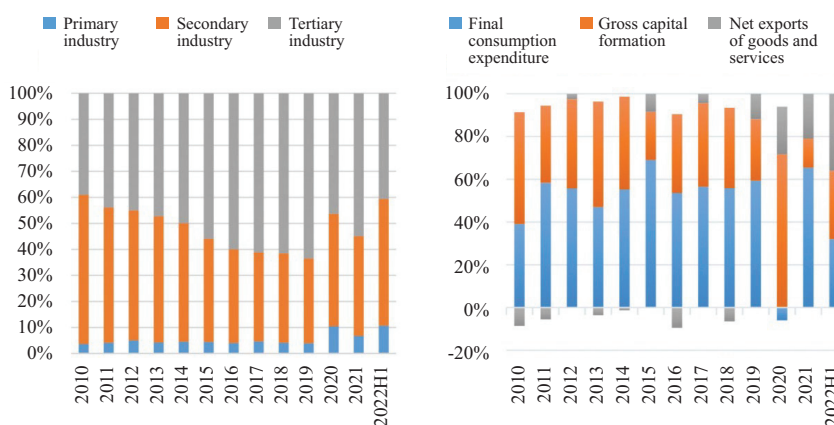
(1) Significant downward pressure on economy in the short term

In the first half of 2022, the complicated and severe domestic and international environments, especially the sporadic outbreak of the COVID-19 pandemic in China in the second quarter, have caused significant impacts on the industry chain and supply chain. Gross domestic product (GDP) in the first quarter increased by 4.8% year-on-year, representing a slight improvement as compared with the fourth quarter of the previous year. However, macroeconomic activities have been significantly affected by the sporadic outbreaks of the COVID-19 pandemic in certain regions of the PRC in March. There was a drop in major economic indicators in April. A series of policies and measures to stabilize economy were implemented in response to the increasing economic downward pressure, narrowing the drop in major economic indicators in May. The economy had a steady rebound in June and managed to achieve a positive growth in the second quarter of the year. The GDP growth in the first half of the year was 2.5% on a year-on-year basis, which was only higher than that in 2020 when the full blown pandemic outbreak took place.



Trend of cumulative and quarter-on-quarter growths of GDP (unit: %)

The COVID-19 pandemic since 2020 has had a significant impact on the economic structure of the PRC, with the downward trend in the cumulative year-on-year contribution of the primary and secondary industries to GDP since 2010 being broken in 2020. In the first half of 2022, the cumulative year-on-year contribution of the tertiary industry to GDP fell below 50% to 40.6%, while the contribution of the secondary industry rose to 48.7%. In terms of the cumulative year-on-year contribution of the three major demands to GDP, the contribution of net exports of goods and services has significantly increased since 2020, while cumulative year-on-year contribution of final consumption expenditure to GDP has significantly decreased in 2020 and in the first half of 2022 due to the more significant impact of the pandemic.

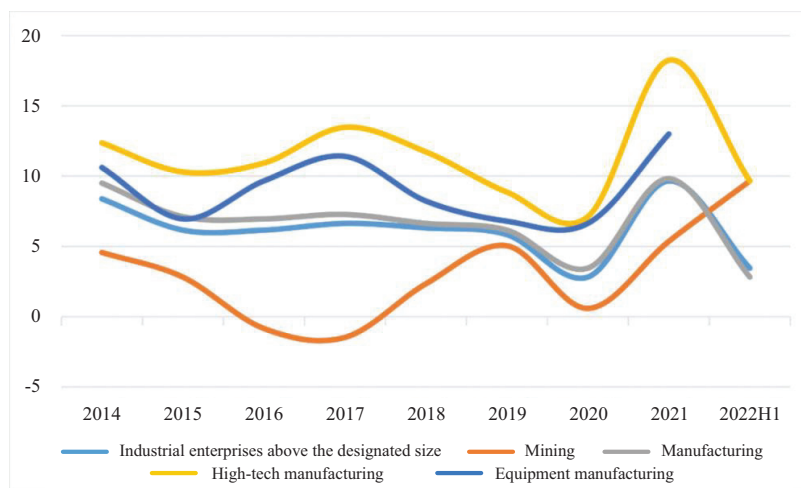


Changes in the cumulative year-on-year contribution rates of the three major industries (left) and the three major demand (right) to GDP in the past decade

Despite being an emergency, the pandemic has a greater and more profound impact on the society, economy and life as a whole due to its prolonged duration, and for the manufacturing industry, the industrial adjustment and transformation in some directions may be accelerated as a result.

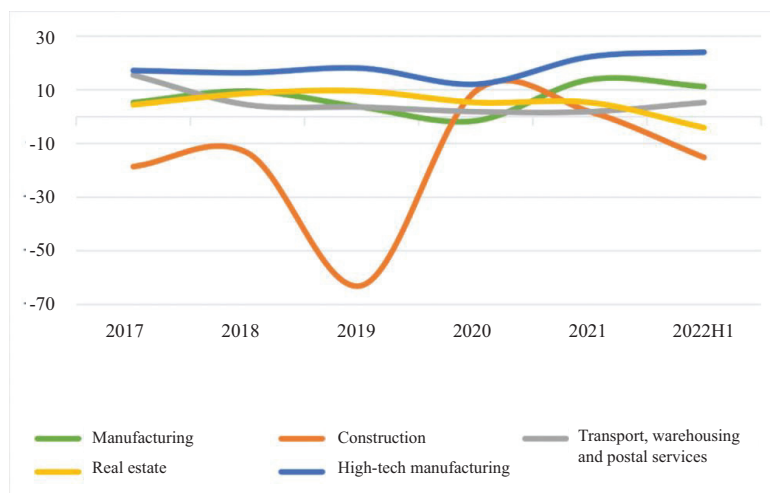
(2) *Industrial restructuring likely to be accelerated in the long run*

In the first half of the year, the added value of industrial enterprises above the designated size increased by 3.4% year-on-year, of which the added value of high-tech manufacturing increased by 9.6% year-on-year, which was significantly higher than the overall level of industrial enterprises above the designated size, although the growth rate decreased as compared with the previous period.



Growth rate of added value of high-tech manufacturing, industrial enterprises above the designated size and other manufacturing industries (unit: %)

As for investment direction, with the continuously strengthened investments in the real economy by the government, investments in the manufacturing industry in the first half of the year increased by 10.4% year-on-year, which was 4.3 percentage points higher than investments in fixed assets. Among them, investments in high-tech manufacturing increased by 20.2% year-on-year, which was 14.1 percentage points higher than investments in fixed assets.



Growth rates of investments in high-tech manufacturing, manufacturing and other industries (unit: %)

In the first half of 2022, infrastructure investments increased by 7.1% year-on-year, driven by the accelerated issuance of special bonds, mainly in the water conservancy, environment and public facilities management industries, as well as waterway transportation in the transportation industry.

(3) Industry outlook in the second half of the year

In the second half of the year, there are still great uncertainties in the external environment. China will face weakening external demands, and an improving domestic demand will become the key to macroeconomic stability. As for domestic development, the PRC market is characterized by large scale, complete industry chain and supply chain, and rapid development of technological innovation. Despite the short-term economic pressure mainly from the impact of non-economic factors, the long-term positive fundamentals of the economy remain unchanged.

Since the second quarter, policies continue to take effect. In April, the executive meeting of the State Council introduced credit policies as financial support to the real economy, especially industries, small and medium-sized enterprises, and private industrial and commercial businesses, which were severely affected by the pandemic, so as to reasonably favor the real economy and reduce the comprehensive financing costs of enterprises. In May, the executive meeting of the State Council further announced a package of

economic stabilizers, striving to put the economy back on track and ensuring economy runs within a reasonable range. According to the executive meeting, 33 implementation measures were determined in six aspects, including promoting effective investments, optimizing examination and approval procedures, commencing the construction of new water conservancy projects, especially large-scale irrigation through water diversion, transportation, community redevelopment projects, underground comprehensive pipeline construction and other projects; initiation of new construction and upgrade projects for rural roads; and support for issuance of RMB300 billion of railway construction bonds. In early June, the executive meeting of the State Council announced the implementation of policies and measures to accelerate economic stabilization, and adjusted the strategic banking facilities to support infrastructure projects, with a view to promoting the construction of investment projects as soon as possible. In mid-June, according to the executive meeting of the State Council, measures to support private investments and promote multilaterally beneficial projects were taken to better expand effective investments. At the end of June, the executive meeting of the State Council resolved to support the construction of major projects with policy-based development financial instruments to expand effective investments and promote employment. At the end of July, the executive meeting of the State Council again made arrangements to promote effective investments. On July 28, the meeting of the Politburo of the Chinese Communist Party, chaired by General Secretary Xi Jinping, stressed the need to “fully implementing the requirements of pandemic prevention, economic stability and safety development, consolidating the positive trend of economic recovery, focusing on stabilizing employment and prices, so as to maintain economic operation within a reasonable range, and strive to achieve the best results” when making arrangements for economic work in the second half of the year. At a symposium on the economic situation Li Keqiang presided over in Shenzhen on August 16, when he met the due responsible officials of the country’s economic powerhouses, the six major economic provinces were requested to take a key role in stabilizing economic growth, as well as to ensure solid implementation of policies to stabilize economy. While accelerating the construction of mature projects, they were told to form more physical workload in the third quarter, promoting effective investments. Policies related to economic stabilization have been constantly introduced at the national level, and it is foreseeable that the implementation of policies and measures will significantly increase the demand and effective investments in the second half of the year.

It is the traditional low season in the first two months of the third quarter for the concrete and cement industry, as rainy days in the Southern region and high temperature in the Northern region have an impact on the construction progress, and in turn affected the demand for concrete and cement products. The upstream and downstream of the industry will enter the traditional peak season from September, during which the production

and sales of the main products are expected to significantly resume growth. However, due to the significant decline in the first half of the year, it is expected that it will be difficult to change the decline trend throughout the year. Guided and driven by the policies of national high-quality development and “dual carbon” initiative, the development of the concrete and cement industry will embrace a period of transformation and upgrading, in which green practices, low carbon, innovation, diversification, intelligence, and industry chain+, will be an important trend in the development of the industry and an important support for enterprises to achieve their sustainable development.

10. Relationship between the Principal and Appraised Entity

The Principal is the controlling shareholder of the Appraised Entity.

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

The other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract shall be the users of the valuation report as stipulated by national laws and regulations. Save for the above, any institution or individual that has not been confirmed by the asset valuer and the Principal shall not become a user of the Asset Valuation Report only by virtue of obtaining this report.

II. PURPOSE OF APPRAISAL

In accordance with the requirements of the reform of state-owned enterprises and the optimization of the company’s shareholding structure, the board of directors of Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) resolved that Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司) transferred its 51% equity interest in Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砂有限公司), for which it is required to appraise the market value of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砂有限公司) involved in the economic behavior, so as to provide value reference for the above economic behavior.

III. APPRAISED SUBJECT AND SCOPE OF APPRAISAL

(I) Appraised Subject and Scope of Appraisal

The Appraised Subject is the market value on the Appraisal Reference Date (30 June 2022) of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砂有限公司).

The scope of appraisal is all assets owned by and all liabilities assumed by Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砂有限公司) on the Appraisal Reference Date (30 June 2022).

Details are as follows:

The carrying value of the total assets, total liabilities and entire equity interests of shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天

楊預拌砵有限公司) under the appraisal were RMB60,524,000, RMB31,416,000, and RMB29,108,000, respectively, which have been audited by Beijing Xinghua Certified Public Accountants (Special General Partnership). For details, please refer to the Asset Appraisal Breakdown Statement.

For details of major assets that have a significant impact on the value of the enterprise, please refer to the aforementioned “(II) Overview of the Appraised Entity — 6. Major assets of the Appraised Entity”.

The Appraised Subject and scope of appraisal are consistent with the Appraised Subject and scope of appraisal involved in the economic behavior to be performed by the Principal.

(II) Type and quantity of off-balance-sheet assets declared by the Appraised Entity

There are no off-balance-sheet assets for this project.

(III) Citation of the conclusions of reports issued by other institutions

This Asset Valuation Report is completed independently by us, and does not refer to the conclusion of reports issued by other institutions.

IV. VALUE TYPE

(I) Value type and selection

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

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

(II) Definition of market value

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

V. APPRAISAL REFERENCE DATE

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

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

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

VI. BASIS OF APPRAISAL

(I) Basis of business activities

Resolution of the board of directors of Xinjiang Tianhe Yida Investment Co., Ltd.* (新疆天合意達投資有限公司).

(II) Basis of laws and regulations

1. Asset Appraisal Law of the People's Republic of China (Order of the President of the People's Republic of China No. 46);
2. Civil Code of the People's Republic of China (Order of the President of the People's Republic of China No.45 in 2020);
3. Rules on the Evaluation and Management of State-owned Assets (Decree No. 91 of the State Council);
4. Law of the People's Republic of China on the State-Owned Assets of Enterprises (Order of the President of the People's Republic of China No.5 in 2008);

5. Interim Measures for the Administration of the Enterprise State-owned Asset Appraisal (SASAC Decree No.12);
6. Supervisory and Administrative Measures for Enterprises State-owned Assets Transaction (SASAC and Ministry of Finance Decree No.32);
7. Notice on Strengthening Management of Evaluation of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);
8. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property (2009) No. 941);
9. Notice on Issuance of Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);
10. Company Law of the People's Republic of China (the Decision on Amending the Company Law of the People's Republic of China at the 6th meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);
11. Enterprise Income Tax Law of the People's Republic of China (passed at the 7th meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);
12. The Announcement on Deepening the VAT-reform-related Policies (Announcement of MOF, SAT and General Administration of Customs (GAC) [2019] No. 39);
13. Provisional Regulations of the People's Republic of China on Value-added Tax (Decree No. 538 of the State Council of the People's Republic of China);
14. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation amended by Order No. 65 of the Ministry of Finance and the State Administration of Taxation);
15. Notice of the Ministry of Finance and the State Administration of Taxation on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36);
16. The Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (Cai Shui [2018] No. 32);
17. Other laws and regulations related to asset appraisal.

(III) Basis of appraisal standards

1. Basic Standards for Asset Appraisal (Ministry of Finance Cai Zi [2017] No. 43);
2. Asset Appraisal Professional Ethics Standards (China Appraisal Society [2017] No. 30);
3. Asset Appraisal Practice Standards — Asset Appraisal Procedure (China Appraisal Society [2018] No.36);
4. Asset Appraisal Practice Standards — Asset Valuation Report (China Appraisal Society [2018] No.35);
5. Asset Appraisal Practice Standards — Asset Appraisal Contract (China Appraisal Society [2017] No. 33);
6. Asset Appraisal Practice Standards — Asset Appraisal Documentation (China Appraisal Society [2018] No. 37);
7. Asset Appraisal Practice Standards — Use of Expert Work and Related Reports (China Appraisal Society [2017] No. 35);
8. Asset Appraisal Practice Standards — Asset Appraisal Methods (China Appraisal Society [2019] No. 35);
9. Asset Appraisal Practice Standards — Enterprise Value (China Appraisal Society [2018] No. 38);
10. Asset Appraisal Practice Standards — Machinery Equipment (China Appraisal Society [2017] No.39);
11. Guidelines for Enterprise State-owned Asset Valuation Reports (China Appraisal Society [2017] No. 42);
12. Guidelines for Business Quality Control of Asset Appraisal Institutions (China Appraisal Society [2017] No. 46);
13. Guiding Opinions on Value Types for Asset Appraisal (China Appraisal Society [2017] No. 47);
14. Guiding Opinions on Legal Ownership of Appraised Subjects under Asset Appraisal (China Appraisal Society [2017] No. 48).

(IV) Basis of asset ownership

1. Articles of association, capital verification reports and business licenses of the Appraised Entity (copies);

2. Invoices, contracts and relevant information on the acquisition of important assets of the Appraised Entity (copies);
3. Other relevant ownership basis.

(V) Pricing basis

1. Accounting statements and audit reports of the Appraised Entity as of the Appraisal Reference Date;
2. The history and current asset price information provided by the Principal and the Appraised Entity;
3. Statistics Released by the National Bureau of Statistics;
4. Collection of Relevant Price Quotations and Parameters by Asset Appraisal Professionals through Market Surveys and Manufacturers;
5. Relevant information of the Industry where the Appraised Entity operates;
6. Common Data and Parameter Manual for the Asset Appraisal published by China Machine Press;
7. Bank loan rate, bond rate, taxation criteria, and tax rate as at the Appraisal Reference Date;
8. Future investment plan and development plan of the Appraised Entity;
9. Historic income statistics and future income forecast provided by the Appraised Entity;
10. Other relevant information.

(VI) Other References

1. Information on macro-economic analysis;
2. Information on industry statistics and research report issued by industry experts;
3. Statistics of annual production and operational status and financial information in recent years of the Appraised Entity, and the relevant information and documents from the Appraisal Reference Date to the date of this report provided by the Principal and relevant parties;
4. Relevant information from iFinD Information Finance Terminal;
5. Other relevant references.

VII. APPRAISAL METHODS

(I) Introduction to basic appraisal methods

Income approach, market approach and asset-based approach are the three major basic approaches to appraise an enterprise's value.

1. *Income approach*

In an appraisal of an enterprise's value, the income approach refers to an appraisal method where the expected income is capitalized or discounted to determine the value of Appraised Subject. The specific approaches commonly used under the income approach include dividend discount approach and cash flow discount approach. The dividend discount approach is a specific approach where expected dividends are discounted to determine the value of Appraised Subject, which is usually applicable to the appraisal of the partial equity interest of the shareholders who lack control rights. The cash flow discount approach is a specific approach where expected net cash flow is discounted to determine the value of Appraised Subject, which includes the discounted enterprise free cash flow model and the discounted equity free cash flow model.

2. *Market approach*

In an appraisal of an enterprise's value, the market approach refers to the appraisal method where the Appraised Subject is compared against comparable listed companies or comparable transactions to determine the value of Appraised Subject. Two specific methods commonly used under the market approach are the listed company comparison method and transaction comparison method.

3. *Asset-based approach*

In an appraisal of an enterprise's value, the asset-based approach refers to an appraisal method where the values of assets and liabilities in the statement and identifiable off-balance sheet of an enterprise are individually appraised on the basis of the balance sheet of Appraised Entity on the Appraisal Reference Date for the purposes of determining the value of Appraised Subject.

(II) Selection of appraisal methods

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

*1. Applicability analysis of appraisal methods**(1) Income approach*

① Conditions for applying the income approach:

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

② Applicability analysis of income approach

I. Historical operation of the Appraised Entity

Founded in 2017, the Appraised Entity is engaged in production and sales of various models of commercial concrete. Based on its operation in recent years, the Appraised Entity has been operating normally and operates in an industry with stable development, and it has basically stable asset scale, relatively stable profitability, and well-received technology and products by the local market, which can be used as a reference to predict its future annual revenue.

From an overall perspective, most of the assets of the Appraised Entity in relation to Appraised Subject are operating assets, which have clear property rights and are in good condition. Adequate cash flow can be generated in the operation process of the Appraised Entity to secure the continuous renewal and compensation of various assets and maintain its overall profitability, which in turn enable the Appraised Entity to continue its operation on a going concern.

II. Predictability of future income of the Appraised Entity

Based on the data in the audited accounting statement of the Appraised Entity in recent years: its financial indicators such as operating income, operating profit, net profit and net cash flow have been relatively stable during the Track Record Period, except for 2022 when normal production of its factories was suspended from August to November due to the unexpected outbreak of COVID-19, resulting in a reduction in the production volume and income. It is expected that the Appraised Entity will be able to resume its normal production in 2023. The future income of Appraised Subject can be reasonably predicted according to its

actual operation in recent years, which means that the turnover can flow into, the corresponding costs and charges can flow out from and other economic benefits can flow into, the Appraised Entity, in a manner that is measurable by monetary value. Therefore, the expected income from the overall profitability of Appraised Subject can be measured in currencies and can be reasonably predicted.

III. Collection and availability of appraisal information

The information provided by the Principal and the Appraised Entity and the information collected by the asset appraisal professionals in relation to this valuation can basically meet the requirements of income approach for the adequacy of appraisal information.

IV. The forecast of risks associated with the future income of the Appraised Entity

The Appraised Entity is mainly exposed to, *inter alias*, industrial risks, operational risks, financial risks, policy risks and other risks. After analysis, the asset appraisal professionals believe that the above risks can be qualitatively judged or roughly quantified, which in turn provides a basis for the estimation of discount rates.

Based on the above analysis and conclusion, the asset appraisal professionals conclude that income approach is appropriate for this appraisal both in theory and practice.

(2) *Market approach*

① Conditions for applying the market approach:

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

② Applicability analysis of market approach

- I. Judgment from the perspective of the capacity of stock markets and the level of market interest and the number of comparable companies

The two open and active main board stock markets in mainland China are currently in Shanghai and Shenzhen, respectively, on which thousands of stocks of listed companies are traded, satisfying the conditions of “market capacity and level of market interest” for market-based assessment.

Based on the publicly released market information, externally audited financial information and other relevant materials of listed companies available on www.cnlist.com (中國上市公司網) and the website of iFinD Information (同花順資訊網站), it is concluded that there are fewer listed companies operating in the same industry as the Appraised Entity in the capital market of mainland China, and there is insufficient comparable information from publicly available data.

II. Judgment from the perspective of the comparability of comparable companies

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 date of establishment and listing, business scope, business scale, main products, business composition, operation indexes, operation mode, operation stage, financial data or the purpose, time, situation, price and other factors in their transaction cases, it is concluded that there are fewer listed companies that are basically comparable to the Appraised Entity, which cannot meet the requirement of “comparability” in market approach for a sufficient number of comparable companies.

III. The market approach is not suitable for this appraisal as the three basic requirements of “open and active market”, “sufficient number of comparable companies” and “comparability” are not met.

(3) *Asset-based approach*

① Conditions for applying the asset-based approach:

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

② Applicability analysis of asset-based approach

I. Judgment from the perspective of the certainty of the quantity of appraised assets

Appraised Entity can actively cooperate on valuation and has a sound accounting and audit system as well as orderly management in place, and 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.

II. Judgment from the perspective of the availability of replacement price of appraised assets

The industry to which the assets subject to appraisal belong is relatively mature with relatively complete industry data; the price cost of appraised assets can be obtained from various sources including the relevant websites of manufacturers of machinery and equipment, suppliers of inventory and other suppliers.

III. Judgment from the perspective of the predictability of newness rate of appraised assets

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

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

2. Selection of valuation approach for this valuation

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

(III) Determination of technical ideas and key valuation parameters for this valuation**1. Determination of the specific model and key valuation parameters of income approach***(1) Specific model and estimation formula of income approach*

The enterprise free cash flow discount model is adopted for this appraisal, and staged income discount model is selected in the specific appraisal performance process. In other words, the future income of the Appraised Entity on a going concern basis is projected in two stages, namely the definite forecast period and the perpetual period. Firstly, the net free cash flow for each year of definite forecast period (generally five years) is determined year by year. Secondly, stable net free cash flow over the perpetual period is estimated, assuming that the expected level of income in the last year of the definite forecast period is maintained during the perpetual period. Finally, the future free cash flow of the Appraised Entity is discounted and summed up, and then the total appraised values of non-operating assets and surplus assets which are appraised separately, are added to obtain the overall (income) value of the Appraised Entity, pursuant to which the value on the entire equity interest held by the shareholders is arrived at by deducting interest-bearing liabilities.

Based on the business model, development stage and trend of the Appraised Entity and the cyclical nature of the industry in which it operates, the future income of the Appraised Entity is estimated in two stages in this appraisal. The first stage commences from 1 July 2022 and ends on 31 December 2027, covering a period of 5.5 years, during which the Appraised Entity will be in the growth period; and the second stage commences from 1 January 2028 to perpetuity, during which the Appraised Entity will maintain the same level of net income as that in 2027.

Its basic estimation formula is as follows:

Value of entire equity interest of shareholders = overall value of the enterprise – interest-bearing liabilities

Overall enterprise value = sum of present value of net cash flow during each of the future income period + total appraised value of individually appraised non-operating assets + surplus assets

$$P = \sum_{i=1}^t \frac{A_i}{(1+r)^i} + \frac{A_{t+1}}{r(1+r)^t} + B$$

Namely:

Where:

- P — Overall enterprise value;
- r — Discount rate;
- t — Early stage of the forecast period, namely 5.5 years after the Appraisal Reference Date in this appraisal;
- A_i — Estimated net free cash flow in Year i during the early stage of the forecast period;
- A_t — Estimated net free cash flow in future Year t ;
- i — Income discount period during the definite forecast period (years), for which interim discounting will be adopted based on the actual conditions of this project.
- B — Total appraised values of non-operating assets (liabilities) and surplus assets (liabilities) under separate valuation.

Net free cash flow = net profit after tax + depreciation and amortization + interest \times (1 – income tax rate) – capital expenditure – increase in net operating capital.

(2) *Determination of key valuation parameters under income approach*

① Income period

As required by national laws and the articles of association of the Appraised Entity, an entity may apply for an extension upon expiration of the operating period, in which case it is assumed that the operating period of the Appraised Entity may be extended by law prior to each expiration, and there extends as long as possible on a deductive basis. From the perspective of the enterprise value appraisal, the Appraised Entity maintains normal operations in the industry where such the Appraised Entity operates without inevitable discontinuance. It is assumed in this appraisal that the future income period of the Appraised Entity is perpetual.

② Selection of income indicators

Under the income approach, net profit or cash flow (free cash flow and free equity cashflow) is usually adopted as income indicators for the Appraised Entity in practice. As net profit is susceptible to accounting policies including depreciation, and cash flow offers a much more

objective representation, cash flow is selected for this appraisal, in which case, free cash flow serves as an income indicator for appraisal using the income approach, the calculation formula for which is as follows:

Net free cash flow = net profit after tax + depreciation and amortization + interest \times (1 – income tax rate) – capital expenditure – increase in net operating capital.

③ Selection and estimation of discount rate

In accordance with the principle where the discount rate shall match the selected income indicator, all weighted average costs of capital (WACC) selected in this appraisal serve as the discount rate of free cash flow of the Appraised Entity in future periods, the estimation formula for which is as follows:

$$\begin{aligned} \text{WACC} &= E/(D+E) \times R_e + D/(D+E) \times (1-t) \times R_d \\ &= 1/(D/E+1) \times R_e + D/E/(D/E+1) \times (1-t) \times R_d \end{aligned}$$

Where:

WACC: weighted average cost of capital;

D: Market value of debts;

E: Market capitalization of equity;

R_e : Cost of equity capital;

R_d : Cost of debt capital;

t: Enterprise income tax.

The estimation formula for cost of equity capital under the capital and asset pricing model (CAPM) is as follows:

$$\begin{aligned} \text{CAPM or } R_e &= R_f + \beta \times (R_m - R_f) + R_s \\ &= R_f + \beta \times \text{ERP} + R_s \end{aligned}$$

Where:

R_e : Cost of equity capital;

R_f : Risk-free yield;

β : Beta coefficient;

R_m : Average capital market yield;

ERP: Market risk premium ($R_m - R_f$);

R_s : Specific risk yield (business scale rate of excess return).

2. *Specific appraisal methods for major assets (liabilities) in the appraisal using the asset-based approach*

(1) *Current assets*

① Cash

The appraised value will be the audited and verified carrying amount.

② Trade and other receivables

The original voucher shall be verified, a query letter shall be issued for verification, or alternative procedures shall be implemented, to determine the timing of trade receivables and ascertain the balance of the carrying amount. Furthermore, judgments will be made based on aging analysis and recoverability, and the appraised value will be the estimated recoverable amount, or zero if solid evidence in the appraisal suggests no sign of recoverability, or zero if the appraisal determines that there is a provision for bad debts.

③ Inventories

Inventories subject to appraisal are raw materials.

Raw materials subject to the scope of the appraisal are comprised of stones (2-4CM), cement, fly ashes, superplasticizers (water agents), etc. through external purchases. The appraiser conducts the appraisal using the replacement cost approach, in which case, the appraised value equals the sum of prevailing market prices of various products, reasonable transportation sundries, and other reasonable expenses, multiplied by the actual quantities of the said products. Upon investigation, there is insignificant change to prices of raw materials recently purchased by the enterprise, and therefore the audited carrying amount is identified as the appraised value.

(2) *Fixed assets — equipment assets*

For the purpose of this appraisal, with actual conditions of the equipment subject to appraisal taken into account, the equipment is subject to appraisal using the replacement cost approach, the calculation formula of which is as follows:

Net appraised value = original appraisal value × newness rate

Where: the original appraisal value is estimated based on the market price and the actual quantity on the Appraisal Reference Date, and the newness rate is estimated based on the used life, the economic useful life, and the current status of the equipment subject to appraisal.

① Estimation of original appraisal value

I. Estimation of original appraisal value of machinery and equipment

Original appraisal value = purchase price of the equipment + foundation cost + installation and testing cost

i. Determination of purchase price of machinery and equipment

In accordance with the requirements of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) and its implementation rules, enterprises are permitted to deduct the input tax of purchased equipment from the output tax under the value-added tax. Although the Appraised Entity is a general taxpayer, the value-added tax based on a simplified method is adopted, so the input tax is nondeductible. The purchase price of the equipment is inclusive of tax.

ii. Determination of foundation cost

Based on actual works quantities or complexity of equipment foundations, estimation is based on 0% to 17% of the purchase price (inclusive of tax) of the equipment or actual number of recent contracts for comparable equipment foundations.

iii. Determination of installation and testing cost

Based on actual works quantities or complexity of equipment installation, estimation is based on 0% to 45% of the purchase price (inclusive of tax) of the equipment or actual number of recent contracts for installation and testing cost of comparable equipment.

II. Estimation of original appraisal value of vehicles

Original appraisal value = purchase price + purchase surcharge + others

Where:

Purchase price: estimation is based on the prevailing market price (inclusive of tax) on the Appraisal Reference Date;

Purchase surcharge: as for licensed vehicles, estimation is based on 10% of the purchase price of such vehicles exclusive of value-added tax;

Others: compliance cost for license plate registration and cost for acquiring license plate registration are the major considerations, estimation of which is based on actual costs on the appraisal reference date.

III. Estimation of original appraisal value of electronic devices

Requests for price quotation on electronic devices are made online, and such type of miniature office devices require no installation and is inclusive of transportation fees, the enterprise cannot deduct the input tax, and therefore determine the original appraisal value based on the purchase price inclusive of value-added tax.

② Estimation of newness rate

In estimating the newness rate of equipment, subject to the features and usage of various types of equipment, estimation of newness rate is made by taking into consideration economic life and technical life of such equipment.

I. As for machinery, equipment, and electronic office devices subject to the scope of the appraisal, the newness rate is estimated mainly using the useful life approach, the estimation formula of which is as follows:

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

II. Newness rate of vehicles

As for transportation vehicles, according to the relevant requirements under the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12) and the specific conditions of the

vehicles subject to appraisal, the minimum newness rate estimated under the principle of prudence using the following formula will be the newness rate of the appraised vehicles:

Newness rate = Min (mileage newness rate, newness rate under the service life approach)

Milage newness rate = $(1 - \text{mileage}) \div \text{specified mileage} \times 100\%$

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

(3) Construction in progress

In accordance with the Appraisal Breakdown Statement of construction in progress provided by the Appraised Entity, the appraisers will first verify that the items under the balance sheet of the Appraised Entity match the total amount; second verify the itemized and ledger accounts of construction in progress of the Appraised Entity so that breakdown amount and content are consistent; third verify the original accounting evidence for certain construction in progress. The appraisers understand that the accumulative carrying amount is the pre-arable land reclamation fee for the newly selected batching plant site as at the Appraisal Reference Date, and determines the appraised value based on the verified amount after verifying the truthfulness and payment evidence.

(4) Long-term deferred expenses

The asset appraisal professionals have checked the legitimacy, rationality, and authenticity of various long-term deferred expenses, understood expenses and amortization, and determined their appraised value according to the value of the remaining assets or rights after the Appraisal Reference Date. For amortization fee of the exhaust gas purifier of the transportation vehicle and the newly built simple fence, the appraised value shall be determined according to its amortized value on the basis of verifying the amortization period and amortization process.

(5) Deferred income tax assets

The asset appraisal professionals have checked the causes of deferred income tax assets, verified the accuracy of calculation of deferred income tax, and determined the appraised value based on the verified and calculated amount.

(6) *Liabilities*

On top of checking and verification, the appraised value is determined by the audited and verified carrying amount after payments for actual requirements are taken into consideration.

VIII. THE IMPLEMENTATION PROCESS AND SITUATION OF THE APPRAISAL PROCEDURE

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

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

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

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

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

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

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

2. *Direction given to the Appraised Entity in checking assets and preparing appraisal information*

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

3. *Collection and verification of information provided by the principal and the Appraised Entity*

Information provided by the principal and the Appraised Entity shall be verified and checked, and issues identified, if any, would be resolved through coordination.

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

A comprehensive (or sampling) verification of assets involved in the Appraised Subject shall be carried out, alongside detailed surveys of important assets, and compilation of the “On-site Survey Working Paper”.

5. *Due diligence interview*

In accordance with specific conditions of the Appraised Subject, and the information provided by the principal and the Appraised Entity, seminars, discussions, telephone interviews, and other means shall be arranged with the governing bodies, management, and technical personnel of the Appraised Entity, so as to reach consensus on the understanding of matters related to the Appraised Subject, as well as the Appraised Entity and the history and future development trajectory of the industry where it operates.

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

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

(III) Appraisal and estimation

This phase principally involves:

1. *Selecting appraisal methods and appraisal models*

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

2. *Appraisal and estimation*

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

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

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

(V) Issuance of Asset Valuation Report

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

IX. APPRAISAL ASSUMPTIONS

According to the asset appraisal standards, the asset appraisal professionals made necessary analysis, judgments and adjustments on the information provided by the Principal or relevant parties, after making sufficient analysis of the capital structure, operating conditions, historical performance and development prospect of the Appraised Entity, and taking into account the macro-economic and regional economic influencing factors, the status quo and development prospects of the industry in which the Appraised Entity operates and their impacts on the value of Appraised Entity. The following assumptions are reasonably made after considering various possibilities and their impacts in the future:

(I) Precondition Assumptions**1. *Arm's length assumption***

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

2. *Open market assumption*

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

3. *Going concern assumption*

The going concern assumption assumes that the Appraised Entity (including the Appraised Subject and its assets) continues to operate according to its current model, scale, frequency, environment, etc. It presumes not only the operating conditions of, but also the market conditions or market environment faced by, the Appraised Subject.

(II) General Assumptions

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

(III) Special Assumptions

1. It is assumed that based on the current management method (mode) and management standards of the Appraised Entity, its business scope (f operation scope) and business model are basically consistent with the current ones, and that its business development trends in the future will be basically in line with the development trends of the industry in which it operates as at the Appraisal Reference Date.
2. It is assumed that the manager of the Appraised Entity is responsible, and its management is capable of taking up their positions and performing their duties.
3. It is assumed that the information (basic information, financial information, operational information, forecast data, etc.) provided by the principal and Appraised Entity is true, accurate and complete, and that the disclosure of relevant material matters is adequate.
4. It is assumed that the Appraised Entity fully complies with all the relevant prevailing laws and regulations.
5. It is assumed that the asset composition, structure of principal business, revenue and cost structure, as well as marketing strategy and cost control of the Appraised Entity during the future forecast period will remain the same as that on or around the Appraisal Reference Date with no major changes, without taking into account any profit or loss arising from changes in the asset composition, principal business, business structure and other conditions as a result of changes in the management staff, business strategies and business environment in the future.

6. It is assumed that the revenue of the Appraised Entity is even in each year, and the revenue recognition date of the Appraised Entity is in the middle of each year.

(IV) Impacts of the Aforementioned Assumptions on the Appraisal Results

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

X. APPRAISAL CONCLUSION

As of the Appraisal Reference Date (i.e. 30 June 2022), the carrying amount of the total assets, total liabilities and entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司), which was filed for appraisal and approved by Beijing Xinghua Certified Public Accountants (Special General Partnership), amounted to RMB60,524,000, RMB31,416,000 and RMB29,108,000, respectively.

(I) Appraised Results under the Income Approach

The appraisal result of the market value on the Appraisal Reference Date of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) under the income approach amounted to RMB21,650,000, representing a decrease of RMB7,458,100 or 25.62% as compared with the entire equity interest held by the shareholders.

(II) Appraised Results under the Asset-based Approach

The appraisal result of the market value on the Appraisal Reference Date of the entire equity interest held by the shareholders of Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) under the asset-based approach amounted to RMB30,680,800, representing an increase of RMB1,572,800 or 5.40% as compared with the carrying amount of the entire equity interest held by the shareholders.

Summary of the appraised results under the asset-based approach

Monetary Unit: RMB10,000

Item	Carrying amount	Appraised Value	Change	Appreciation Rate %
	A	B	C = B - A	D = C/A × 100%
1 Current assets	5,094.59	5,094.59	—	—
2 Non-current assets	957.81	1,115.09	157.28	16.42
3 Fixed assets	897.15	1,054.43	157.28	17.53
4 Construction in progress	16.07	16.07	—	—
5 Long-term deferred expenses	17.69	17.69	—	—
6 Deferred income tax assets	26.90	26.90	—	—
7 Total assets	6,052.40	6,209.68	157.28	2.60
8 Current liabilities	3,141.60	3,141.60	—	—
9 Total liabilities	3,141.60	3,141.60	—	—
10 Net assets (Owner's equity)	2,910.80	3,068.08	157.28	5.40

(III) Selection of Appraisal Conclusions

Under this appraisal, the asset-based approach and income approach have been adopted to appraise the entire equity interest held by the shareholders of the Appraised Entity. The appraised results under the asset-based approach and the income approach were RMB30,680,800 and RMB21,650,000, respectively, with a difference of RMB9,030,800, representing a difference rate of 29.43%. The main reason for the difference was that under the asset-based approach, the appraised value of an enterprise was determined based on the balance sheet of the enterprise, which may be greatly affected by the asset replacement costs, newness status and asset quality of the enterprise; while under the income approach, the overall value of an enterprise including intangible assets such as the technologies, customer resources, human resources and management team owned by the enterprise is reflected mainly from the perspective of net cash flow generated from the operating activities of the enterprise in the future. As affected by the control measures of the COVID-19 pandemic, the production activities of the enterprise have been greatly restricted, which in turn has a material impact on its profitability and exposes the enterprise to greater operational risks. Different influencing factors lead to different appraisal results.

By analyzing the reasonableness and value of the appraised results under the two approaches, we consider that, as affected by the COVID-19 outbreak, the adoption of income approach in this appraisal is subject to uncertainties. However, as the value of an enterprise is reflected from the perspective of asset replacement under the asset-based approach, its appraisal result is more representative of the real value of the enterprise as at the Appraisal Reference Date. Therefore, the appraisal result under the asset-based approach has been selected as the appraised value of the entire equity interest held by the shareholders of the Appraised Entity. **In other words, the final appraisal conclusion on the market value of the Appraised Entity as at the Appraisal Reference Date is RMB30,680,800 (in words: RENMINBI THIRTY MILLION SIX HUNDRED EIGHTY THOUSAND AND EIGHT HUNDRED ONLY).**

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

No reference was made to the conclusions of reports issued by other agencies for this project.

(2) Information about incomplete or defective ownership

Information about incomplete or defective ownership has not been identified for this project.

(3) Other key information that the Principal has not provided or incomplete appraisal data

There is no other key information that the Principal has not provided, nor is there incomplete appraisal data in this project.

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

No pending matters and legal disputes against the Appraised Entity on the Appraisal Reference Date have been identified for this project.

(5) Significant use of expert work and related reports

Beijing Xinghua Certified Public Accountants (Special General Partnership) conducted an audit of the financial data from January to June 2022 and issued a special audit report ([2022] Jing Hui Xing Zhuan Zi No. 57000117). This appraisal was conducted on the basis of the audit and used the relevant financial data in the aforesaid Audit Report, and the data in this appraisal declaration form is consistent with the data in the audited financial statements.

(6) Material subsequent matters

No such matters.

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

There are no limitations on the appraisal procedures for this project.

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

1. No mortgage, guarantee and contingent liabilities (contingent assets).
2. Lease.

Set out in the following table is the lease of Appraised Entity as of the Appraisal Reference Date:

No.	Lessee	Lessor	Target	Lease Term
1	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)	Xinjiang Tianji Zhenghe Building Materials Co. Ltd.* (新疆天基正和建材有限公司)	Concrete batching plant ZHZS240E	22 March 2022 to 21 March 2023
2	Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司)	Shihezi Xinyuan Highway Transportation Co., Ltd.* (石河子鑫源公路運輸有限公司)	A motor vehicle with the license plate Xin — CE9J22	17 May 2022 to 16 May 2023

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

In economic activities corresponding to this asset appraisal, there is no deficiency that may have a material effect on the appraisal result.

(10) Notes on other special matters

Shihezi Silu Tianyang Pre-Mixed Concrete Co., Ltd.* (石河子市絲路天楊預拌砼有限公司) has built the “double-180” concrete production lines in the Huihe Park since December 2017. The site occupied by such production line is a planned site for the ethanol project with an annual production of 100,000 tons in 2022, which will expire at the end of 2022. Taking into account the normal production scale of Silu Tianyang in the future, Silu Tianyang selected a separate site for a plant in the surroundings of the 147 Corps Chemical Industrial park* (147團化工園區). According to the Resolution on Site Reselection for a Plant by Silu Tianyang, the cost of site selection for a plant is estimated to be RMB14,956,900.00. The plant will be completed at the end of 2022 and put into use in 2023.

XII. LIMITATIONS ON USE OF THE ASSET VALUATION REPORT

- (I) The official use of this Asset Valuation Report shall be subject to the approval of or filing with the state-owned assets supervision and administration authority or the competent authority of the principal.
- (II) This Asset Valuation Report shall only be used for the purpose and objective of appraisal as set out herein. Meanwhile, the appraisal conclusion is issued for the purpose of appraisal stated herein in order to give a reference opinion on the market value of the Appraised Subject as at the Appraisal Reference Date based on the appraisal assumptions and constraints stated herein. Neither this appraisal conclusion takes into account the mortgages and guarantees that may be borne in the future and the impact of special transaction methods, nor does it take into account the impact of changes in the national macro-economic policies as well as natural forces and other force majeure. The appraisal conclusion will be generally

invalid when there are changes in the assumptions and constraints of the appraisal. We, the asset valuer, shall not bear any liabilities relating to the invalidation of the appraisal conclusion due to changes in such circumstances.

- (III) Where the principal or other users of the Asset Valuation Report fail to use the Asset Valuation Report within the scope as set forth herein in accordance with the laws and administrative regulations, the asset valuer and its signing asset appraisal professionals shall take no responsibility.
- (IV) Any other agencies and individuals, other than the principal, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract, and the users of the Asset Valuation Report as stipulated by laws and administrative regulations, shall not be the users of the Asset Valuation Report.
- (V) The user of the Asset Valuation Report shall have a correct understanding and usage of the appraisal conclusion, which is not equivalent to the realizable price of the Appraised Subject, and shall not be deemed as a guarantee for the realizable price of the Appraised Subject.
- (VI) Without written consent from us, any entities or individuals shall not reproduce, extract or cite the whole or any part of the Asset Valuation Report, nor disclose the whole or any part of it on any media, save as otherwise required by laws and regulations and agreed upon by the relevant parties.
- (VII) Valid period of the appraisal conclusion

As required by existing regulations, the appraisal conclusion of this Asset Valuation Report shall be valid for one year, commencing from the Appraisal Reference Date.

XIII. DATE OF THE ASSET VALUATION REPORT

This Asset Valuation Report is dated 13 November 2022.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES**(A) Interests in the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors, supervisors and the chief executive of the Company who had an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executives of the Company are taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules.

(B) Other interests

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

- (i) none of the Directors and supervisors of the Company had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up;
- (ii) none of the Directors and supervisors of the Company was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which was subsisting and significant in relation to the business of the Group taken as a whole; and
- (iii) save as disclosed in this circular, none of the Directors and their respective associates had any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other person had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to Section 324 of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

(A) Domestic Shareholders

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

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

Notes:

- “L” denotes the person’s/entity’s long position in the Shares.

2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
3. The domestic Shares held by Tianye Company represents approximately 63.75% of the total domestic Shares in issue.
4. 202,164,995 domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Group, which is interested in approximately 45.14% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

(B) H Shareholders

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

Notes:

1. The letter "L" denotes the person's/entity's long position in the shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued shares of 519,521,560 shares (including domestic shares and H shares).
3. The H shares held by Long Thrive were equivalent to approximately 7.12% of the total H shares in issue of the Company.
4. Long Thrive directly held 14,407,000 H Shares. Long Thrive is wholly-owned by Mr. Ding. By virtue of the SFO, Mr. Ding is deemed to be interested in the 14,407,000 H shares held by Long Thrive.
5. Ms. Wang is the spouse of Mr. Ding. By virtue of SFO, Ms. Wang is deemed to be interested in the 14,407,000 H shares held by Long Thrive.

4. COMPETING BUSINESS

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

5. SERVICE CONTRACTS OF THE DIRECTORS

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

6. LITIGATION

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

7. MATERIAL ADVERSE CHANGE

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

8. EXPERTS AND CONSENTS

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

INCU Corporate Finance Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
CAREA Assets Appraisal Co., Ltd	an independent certified PRC valuer

As at the Latest Practicable Date, each of INCU Corporate Finance Limited and CAREA Assets Appraisal Co., Ltd did not have any shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of INCU Corporate Finance Limited and CAREA Assets Appraisal Co., Ltd has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name in the form and context in which they are included.

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

As at the Latest Practicable Date, each of INCU Corporate Finance Limited and CAREA Assets Appraisal Co., Ltd do not have or did not have any interest, direct or indirect, in any assets which have been, since 31 December 2021 (being the date to which the latest audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

9. DOCUMENTS ON DISPLAY

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

- (a) the Acquisition Agreement;
- (b) the Asset Valuation Report;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out from pages 16 to 17 of this circular;
- (d) the letter from INCU to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 18 to 35 of this circular; and
- (e) the consents referred to in the paragraph headed “EXPERTS AND CONSENTS” of this Appendix.

NOTICE OF EGM

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



新疆天业节水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

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

(Stock Code: 840)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of Xinjiang Tianye Water Saving Irrigation System Company Limited* (the “**Company**”) will be held at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the People's Republic of China (the “**PRC**”) on Friday, 3 February 2023 at 11:00 a.m. for the following purposes and to pass the following resolution:

ORDINARY RESOLUTION

1. **THAT:** The signing, performance and implementation of the Acquisition Agreement are hereby considered, ratified, confirmed and approved; and any one of the Directors of the Company be and are hereby authorised to execute for and on behalf of the Company all such other documents, instruments and agreements, and to take all steps necessary or expedient to implement and/or give effect to the Acquisition Agreement; any member of the Group (including those

* *For identification purpose only*

NOTICE OF EGM

newly established or invested through equity acquisition or other organisations) be and are hereby approved to, in its absolute discretion deemed appropriate or expedient and in the interests of the Company and its shareholders as a whole and based on the actual work needs, to negotiate, develop, execute, amend, supplement and perform all documents in connection with the Acquisition Agreement (including but not limited to the specific agreement contemplated under the Acquisition Agreement) with any member of the Tianhe Yida (including those newly established or invested through equity acquisition or other organisations) and proceed with all things and actions necessary for executing and implementing the Acquisition Agreement.

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

Xinjiang, the PRC, 12 January 2023

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint in written form for one or more than one proxy to attend and vote at the EGM on his behalf. A proxy need not be a member of the Company.
2. The form of proxy for the EGM is herewith enclosed. In order to be valid, the form of proxy, if such proxy form is signed by a person under a power of attorney or authority on behalf of the appointer, a notarially certified power of attorney (if any) or other authority (if any) under which it is signed, must be deposited at the Company's H Share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or the registered office of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares), not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.
3. Shareholders or their proxies shall present proofs of identities when attending the EGM.
4. The register of the members of the Company will be closed from Wednesday, 1 February 2023 to Friday, 3 February 2023 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the EGM of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on Tuesday, 31 January 2023.

NOTICE OF EGM

5. Shareholders who intend to attend the EGM should complete and return the enclosed reply slip for attendance to the H Share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for the holders of H Shares only) or the registered office of the Company at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (for the holders of Domestic Shares only), by hand, by post or by fax (the fax number of the Company's H Share registrar and transfer office: (852) 28611465 (for the holders of H Shares only) or the fax number of the Company (86993) 2623183 (for the holders of Domestic Shares only)) on or before 4:30 p.m. on Friday, 20 January 2023.
6. Voting of the resolution as set out in this notice will be by poll in accordance with the requirements under the Listing Rules.
7. The EGM is expected to last for less than half day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
8. The Company's registered address:

No. 36, Bei San Dong Road, Shihezi Economic and Technology Development Zone, Shihezi, Xinjiang, the PRC
9. Precautionary measures for the EGM:

Please refer to the cover of the circular of the Company dated 12 January 2023 for the measures being taken to prevent and control the spreading of the coronavirus disease (COVID-19) at the EGM, which includes (i) compulsory temperature screening/checks; (ii) submission of health and travel declaration form; (iii) wearing of surgical face mask; and (iv) no provision of refreshments or drinks. Any person who fails to comply with these precautionary measures may be denied access to the venue of the EGM. The Company would like to encourage the Shareholders to exercise their right to vote on the relevant resolutions at the EGM by appointing the chairman of the EGM as their proxy, instead of attending the EGM in person.