INCU Corporate Finance Limited
衍丰企業融資有限公司

15 March 2023

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

Dear Sirs or Madams,

MAJOR TANSACTION AND CONNECTED TRANSACTION IN REALTION TO DISPOSAL OF ASSET

INTRODUCTION

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

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

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

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

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

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

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

INDEPENDENT BOARD COMMITTEE

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

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

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and financial information of the Group

(a) Background of the Group

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

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

(b) Financial performance of the Group

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

	FY2020 *approximately* *RMB'000* (audited)	FY2021 *approximately* *RMB'000* (audited)	HY2021 *approximately* *RMB'000* (unaudited)	HY2022 *approximately* *RMB'000* (unaudited)
Operating income				
(a) Drip tape and drip assembles	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)**

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

As stated in the Interim Report 2022, the total operating income of the Group was approximately RMB673.15million for HY2022, representing an increase of approximately 75.25% from approximately RMB384.10 million for HY2021. The increase in the total operating income was mainly due to increase in operating income from engineering projects, including provision of installation services. The Group recorded the unaudited net loss attributable to owners of the parent company of approximately RMB24.51 million and RMB127,000 for HY2022 and HY2021 respectively.

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

(c) Financial position of the Group

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

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

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

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

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

2. Background of the Target Assets

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

(1) Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and

(2) Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.

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

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

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

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

	FY2021 (Unaudited) *Approximately RMB*	**FY2022** (Unaudited) *Approximately RMB*
Net profit before tax	426,000	426,000
Net profit after tax	406,000	406,000

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

3. Principal terms of the Asset Transfer Agreement

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

Date

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

Parties

1. The Company (as the vendor); and

2. Tianye Company (as the purchaser)

Subject Matter

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

Target Assets

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

(1) Buildings (structures): a total of 21 items, including pipe workshop, profile workshop, raw material warehouse, security guard office, cargo yard, floor, water circulation pool, cord covers (channels), heating facilities, water supply system; and

(2) Equipment: a total of 3 items, including PVC mixed production line, mixed batching system, and cargo elevator.

Consideration

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

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

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

Payment Terms

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

Term of performance

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

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

Conditions Precedent

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

1. the approval of the Board in respect of the Disposal having been obtained by the Company according to the Articles of Association;

2. the approval of its Independent Shareholders and the review and approval of the general meeting in respect of the Disposal having been obtained by the Company; and

3. the announcement and circular requirement and other relevant requirements under the Listing Rules having been complied with by the Company.

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

Transitional Period Arrangement

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

4. Valuation of the Target Assets

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

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

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

(1) Income approach

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

(2) Market approach

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

(3) Cost approach

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

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

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

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

(1) request the Company to provide detailed full list of the Target Assets;

(2) review the financial information of the Target Assets;

(3) perform on-site surveys and inspect the specifications, models and maintenance status of the Target Assets; and

(4) evaluate the Target Assets after the on-site surveys.

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

Factors considered in estimating the value of buildings and structures of the Target Assets include the current prices of construction materials and the pricing of construction projects with similar size. Regarding the valuation of the machinery and equipment, the PRC Independent Valuer has considered replacement costs based on market enquiry on prevailing purchase costs of assets with similar production scale of the Target Assets and the upfront costs incurred in bringing the assets to usable conditions. We have obtained the underlying calculation of the valuation from the PRC Independent Valuer and inquired the source of the quotes of construction materials and machinery and equipment. From our review of the underlying calculation of the valuation and discussion with the PRC Independent Valuer, we note that the PRC Independent Valuer (i) has made comparison with other historical construction projects and adjusted with reference to the differences in size of the buildings and structures of the Target Assets and the inflation rate as obtained from the government data source; (ii) has made market enquiries on the replacement costs and upfront costs of the machinery and equipment; (iii) has obtained the loan prime rate announced by National Inter-bank Funding Center as authorized by the People's Bank of China for the cost of capital; and (iv) has considered the parameters and factors as set out in the Asset Valuation Report for the estimation of the newness rate. After reviewing the basis and underlying calculation of the valuation and discussing with the PRC Independent Valuer, we consider the above methodology are reasonable approaches in establishing the market values of the Target Assets.

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

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

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

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

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

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

5. Reasons for and benefits of the Disposal

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

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

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

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

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

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

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

RECOMMENDATION

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

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

Yours faithfully,
For and on behalf of
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.