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

MAJOR TRANSACTION — CAPITAL INCREASE AGREEMENT ANNOUNCEMENT ON NON-FULFILLMENT OF INCOME GUARANTEE FOR THE YEAR 2023

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

Pursuant to Rule 14.36B of the Listing Rules, the Board would like to provide further information in relation to the non-fulfillment of the income guarantee for the year ended 31 December 2023 (the “**Year 2023**”) by the Target Company (now renamed as Xinjiang Hongrui Huixin New Material Technology Co., Ltd. (新疆泓瑞滙鑫新材料科技有限公司)).

NON-FULFILLMENT OF INCOME GUARANTEE FOR THE YEAR 2023

As disclosed in the section headed “Performance of Income Guarantee” of the Announcement, pursuant to the Capital Increase Agreement, upon Completion, the Target Company is required to guarantee (the “**Income Guarantee**”) that its subsequent annual (i) operating revenue after tax will not be less than the amount as audited in the previous accounting year and (ii) return on net assets (i.e. net profit/net assets) will not be less than 12%. The guarantee period under the Capital Increase Agreement covers each corresponding period and year after the Completion date (i.e. commencing from 23 June 2021).

Set out below are the corresponding financial information extracted from the audited financial statements of the Target Company for the Year 2023 and the requirements of the Income Guarantee under the Capital Increase Agreement:

	Figure for the Year 2023	Figure for the year ended 31 December 2022
Operating revenue after tax	approximately RMB631,305,000	approximately RMB794,901,000
	Return on net assets for the Year 2023	Income Guarantee
Return on net assets	14.74% ¹	12%

¹ The return on net assets is calculated by dividing the net profit (approximately RMB2,290,000) by the net asset value (approximately RMB15,535,000) of the Target Company for the Year 2023.

As such, the operating revenue after tax for the Year 2023 has not been achieved. Pursuant to the Capital Increase Agreement, the Company shall be entitled to (i) request for the transfer of its 34.06% equity interest in the Target Company to either Ms. Deng or Mr. Li, while Ms. Deng and Mr. Li shall unconditionally accept the entire equity interest transferred by the Company (the “**Transfer of Equity Interest in the Target Company**”); or (ii) require Ms. Deng and Mr. Li to undertake the obligation to reimburse the Company in cash an amount not lower than the amount of the Capital Increase paid by the Company of RMB4,581,200 multiplied by the bank loan interest rate for the same period of the Capital Increase (the “**Cash Repayment Obligation**”).

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

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

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

According to the loan prime rate announced by the National Interbank Funding Center as authorized by the People’s Bank of China, the one-year bank loan interest rate of the Capital Increase as at 31 December 2023 was 3.45%, which is the Interest Rate of Cash Repayment Obligation. As at the date of this announcement, Ms. Deng and Mr. Li have agreed to fulfill the Cash Repayment Obligation by 30 June 2024 by paying RMB158,100 in full to the Company.

REASONS FOR NOT EXERCISING THE TRANSFER OF EQUITY INTEREST IN THE TARGET COMPANY

The Target Company is mainly engaged in the sales of polyethylene and polypropylene petrochemical products. With its mature business model and good reputation in the industry, the Target Company has become a Class A distributor of PetroChina Company Limited Northwest Chemical Company with a relatively stable customer base, which can provide the Group with a strong sales network and enhance the Group’s market competitiveness and share. At the same time, it provides raw material guarantee for the production of the Group’s products and relatively stable prices, which provides certain assistance for the development of the Group. The Group believes that continuing to hold equity interest in the Target Company will achieve sustainable synergy of mutual benefit and win-win results, which is in line with the future development interests of the Group. Accordingly, the Company accepts Ms. Deng and Mr. Li to fulfill their Cash Repayment Obligation.

The Board is of the view that (i) Ms. Deng and Mr. Li have agreed to fulfill their obligations under the Capital Increase Agreement by 30 June 2024; and (ii) the Company’s decision to choose to exercise the right to the Cash Repayment Obligation without exercising the Transfer of Equity Interest in the Target Company is fair and reasonable and in the interests of the Company and its shareholders as a whole. The Board will continue to review the performance of the Target Company and exercise appropriate rights when necessary. The Company will disclose whether the actual performance of the Target Company meets the Income Guarantee in its annual report in due course.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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

Xinjiang, the PRC, 23 April 2024

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

** For identification purpose only*