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**新疆天业节水灌溉股份有限公司**

**XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\***

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

**(Stock Code: 840)**

**REVISION OF ANNUAL CAPS FOR THE EXISTING  
CONTINUING CONNECTED TRANSACTION**

Reference is made to the announcement dated 17 March 2009 (the “**17 March 2009 Announcement**”) made by the Company in relation to the continuing connected transactions pursuant to the 2009 Master Sales Agreement and the 2009 Master Purchase Agreement. Reference is also made to the announcement dated 23 December 2009 (the “**23 December 2009 Announcement**”) made by the Company in relation to the revision of annual caps for the continuing connected transactions pursuant to the 2009 Master Sales Agreement entered into between the Company and Tianye Holdings on 16 March 2009, in respect of the supply of drip films, PVC pipelines and drip assemblies by the Group to Tianye Holdings Group.

**Listing Rules Implications**

Tianye Company is a controlling shareholder of the Company holding approximately 38.91% of the issued share capital of the Company, and Tianye Holdings is also interested in approximately 21.51% of the issued share capital of the Company and Tianye Company is, in turn, owned by Tianye Holdings as to approximately 43.27% of its registered capital and Tianye Holdings is also entitled to appoint and remove the majority of board of directors of Tianye Company. Tianye Company is considered as a subsidiary of Tianye Holdings. Thus, Tianye Company and Tianye Holdings are connected persons of the Company. Accordingly, the transactions contemplated under both the Master Purchase Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under the Listing Rules.

Pursuant to Rule 14A.36(2) of the Listing Rules, where an agreement in relation to previously announced continuing connected transaction is renewed or there is a material change to the terms of the agreement, the Company must re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Rules 14A.35(3) and 14A.35(4) of the Listing Rules.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement are more than 5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Master Purchase Agreement, together with the proposed annual caps, are subject to reporting, announcement, independent shareholders' approval and annual review requirements under Rules 14A.35(3), (4) and (5) of the Listing Rules. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders on the terms of the Master Purchase Agreement. An independent financial adviser shall be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Tianye Company and Tianye Holdings and their associates will abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Purchase Agreement shall be conducted by poll.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Sales Agreement is less than 5%, the transactions contemplated under the Master Sales Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, the annual review requirements set out in rules 14A.37 to 14A.40 and the requirements set out in rules 14A.35(1) and 14A.35(2) of the Listing Rules and is exempt from the independent shareholders approval requirements.

A circular containing information in relation to the Master Purchase Agreement, a letter from the Independent Board Committee, a letter setting out the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders, together with a notice to convene the AGM to approve the continuing connected transactions contemplated and the respective annual caps under Master Purchase Agreement will be issued to the Shareholders as soon as practicable.

## **DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Continuing Connected Transactions comprise transactions carried out by the Group pursuant to the following agreements with Tianye Holdings:

- (1) the Master Purchase Agreement; and
- (2) the Master Sales Agreement.

### **(1) MASTER PURCHASE AGREEMENT**

Date of agreement: 12 March 2012

Parties: (1) the Company (for itself and on behalf of its subsidiaries) as the purchaser; and  
(2) Tianye Holdings (for itself and on behalf of its subsidiaries) as the seller.

Subject: Purchase of PVC resins

Condition Precedent: The Master Purchase Agreement shall take effect upon obtaining the approval of the Independent Shareholders in compliance with the Listing Rules.

**Term:** With effect from the date of approval by the Independent Shareholders up to 31 December 2014.

**Price:** To be determined by reference to the market price charged by independent third parties from time to time and pursuant to the terms set out therein by the Parties after arm's length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

**Payment terms:** Details of the payment terms shall be defined in each of the separate contracts to be entered by the Group and Tianye Holdings Group on terms mutually agreed in accordance with the terms and conditions of the Master Purchase Agreement. It is generally expected that the payment shall be made within 1 month from the date of delivery.

The annual caps under the Master Purchase Agreement shall not exceed RMB266,800,000, RMB266,800,000 and RMB266,800,000 for the three years ending 31 December 2014 respectively. The proposed annual caps have been determined by reference to (i) the estimated growing customer demand for PVC pipelines and the current annual production capacity of PVC pipelines of the Group; (ii) direct proportionality between the production of PVC pipelines and the demand for PVC resins; (iii) the proportion of PVC resins to be sourced from the Tianye Holdings Group; and (iv) the estimated average market price of RMB5,800 for each ton of PVC resins for the forthcoming three years ending 31 December 2014.

## **(2) MASTER SALES AGREEMENT**

**Date of agreement:** 12 March 2012

**Parties:** (1) the Company (for itself and on behalf of its subsidiaries) as the seller; and  
(2) Tianye Holdings (for itself and on behalf of its subsidiaries) as the purchaser.

**Subject:** Sale of PVC pipelines, drip films and drip assemblies

**Condition Precedent:** The Master Sales Agreement shall take effect upon obtaining the approval of the Independent Shareholders in compliance with the Listing Rules.

**Term:** With effect from the date of the Master Sales Agreement up to 31 December 2014.

**Price:** To be determined by reference to the market price charged by independent third parties from time to time and pursuant to the terms set out therein by the parties to the Master Sales Agreement after arm's length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Payment terms: Details of the payment terms shall be defined in each of the separate contracts to be entered by the Group and Tianye Holdings Group on terms mutually agreed in accordance with the terms and conditions of the Master Sales Agreement. It is generally expected that the payment shall be made within 1 month from the date of delivery.

The annual caps under the Master Sales Agreement shall not exceed RMB20,000,000, RMB20,000,000 and RMB20,000,000 for the three years ending 31 December 2014 respectively. The proposed annual caps have been determined by reference to the value of the transactions for the three years ended 31 December 2011. The parties to the Master Sales Agreement also acknowledge that the Tianye Holdings Group's demand fluctuates materially based upon a variety of factors, including without limitation demand from its customers, and the portfolio of their equipment available for projects at any particular time.

## **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

The Group is principally engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system, and the Group is also engaged in the provision of installation services of water saving irrigation system for the agricultural customers.

Tianye Holdings Group is principally engaged in different kinds of businesses, including the production and sales of plastic and chemical products, transportation, machinery facilities (for industrial purposes), construction installation (for construction of real estates), steel products, grain cotton and oil products, vehicle accessories, crop production, cultivation, production and sales of tomato paste and other food products, exploitation of land and water for agricultural use, processing of agricultural products and by-products and supply of electricity.

Having considered that the factory of Tianye Holdings Group is nearby, the Group can lower the transportation costs if the Group purchases PVC resins from Tianye Holdings Group.

Furthermore, in the event of shortage of PVC resins in the market, Tianye Holdings Group agrees to give priority to the Group to purchase at the market price the PVC resins from them. In the circumstances, the Directors believe that the Group will maintain its competitiveness in the market with lower purchasing costs and stable supply of PVC resins.

Furthermore, the Group supplies the drip films, PVC pipelines and drip assemblies to Tianye Holdings Group. The Directors consider that it is in the interest of the Group to enter into the Master Sales Agreement as sales to Tianye Holdings Group will increase the volume of sales on the Group's products and the profit of the Group.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice of an independent financial adviser) consider that the annual caps and the terms of the respective Master Purchase Agreement and Master Sales Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

## **INFORMATION RELATING TO THE COMPANY AND TIANYE COMPANY**

The Company and its subsidiaries are principally engaged in the design, manufacturing and sale of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system. They also provide installation service of water saving irrigation system for their customers.

Tianye Company is principally engaged in the production and sale of plastic and chemical products; vehicles transportation; sale of machinery facilities (other than small vehicles and those products required special approval by the government of the PRC), construction material hardware electric apparatus, steel productions grain cotton, textiles products, vehicle accessories, livestock products and dried and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste; collating, processing and sales of used plastic, import and export of goods and technologies; and processing of agricultural by-products.

### **LISTING RULES IMPLICATIONS**

As the date hereof, Tianye Company is a controlling shareholder of the Company holding approximately 38.91% of the issued share capital of the Company, and Tianye Holdings is also interested in approximately 21.51% of the issued share capital of the Company and Tianye Company is, in turn owned by Tianye Holdings as to approximately 43.27% of its registered capital and Tianye Holdings is also entitled to appoint and remove the majority of board of directors of Tianye Company. Tianye Company is considered as a subsidiary of Tianye Holdings. Thus, Tianye Company and Tianye Holdings are connected persons of the Company. In the circumstances, the transactions under both the Master Purchase Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the applicable percentage ratios (other than the profit ratio and equity capital ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement are more than 5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Master Purchase Agreement, together with the proposed annual caps, are subject to reporting, announcement, independent shareholders' approval and annual review requirements under Rules 14A.35(3), (4) and (5) of the Listing Rules. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders on the terms of the Master Purchase Agreement. An independent financial adviser shall be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Tianye Holdings and its associates will abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Purchase Agreement shall be conducted by poll.

As the applicable percentage ratios (other than profit ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Sales Agreement is less than 5%, the transactions contemplated under the Master Sales Agreement are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement.

A circular containing information in relation to the Master Purchase Agreement, a letter from the Independent Board Committee, a letter setting out the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders, together with

a notice to convene the AGM to approve the continuing connected transactions contemplated and the respective annual caps under Master Purchase Agreement will be issued to the Shareholders as soon as practicable.

## TERMS USED IN THIS ANNOUNCEMENT

“AGM”	an annual general meeting of the Company to approve the transactions contemplated under the Master Purchase Agreement
“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 limited company established in the PRC with limited liability on 18 December 2003 under the Company Law or its predecessor
“Company Law”	The Company Law of the PRC as enacted by the Standing Committee of the Eighth National People’s Congress of the PRC on 29 December 1993 and came into force on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors (including the independent non-executive Directors) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent committee of the board of the Company comprising all independent non-executive Directors, Mr. He Lin Wang, Mr. Xia Jun Min, Mr. Gu Lie Feng and Mr. Mak King Sau and Mr. Wang Yun, which will be formed to advise the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement
“Independent Shareholders”	Shareholders other than Tianye Holdings and its Associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Master Purchase Agreement”	the renewed master purchase agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Holdings (for itself and on behalf of its subsidiaries) on 12 March 2012 for the purchase by the Group from the Tianye Holdings Group of PVC resins
“Master Sales Agreement”	the renewed master sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Holdings (for itself and on behalf of its subsidiaries) on 12 March 2012 for the sales to the Tianye Holdings Group from the Group of PVC pipelines, drip films and drip assemblies
“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong, the Macau Administrative Region of the People’s Republic of China and Taiwan
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Tianye Company”	Xinjiang Tianye Company Limited* (新疆天業股份有限公司), a company established in the PRC with limited liability on 9 June 1997, and 438,592,000 A shares of which were listed on the Shanghai Stock Exchange as at the date hereof
“Tianye Company Group”	Tianye Company and its subsidiaries
“Tianye Holdings”	Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司), which was established in the PRC with limited liability on 28 June 1996, was wholly owned by SACC of No. 8 Division and engages in the production and sales of tomato paste, citric acid, vehicles and road transportation, production and sales of plastic products; sale of steel, building, materials, textile, car accessories, livestock products, dried and fresh fruits, mechanical equipment and chemical industrial products; growing, cultivation, promotion of water saving agricultural technology, research on water saving agricultural projects, import and export business. It owns approximately 43.27% and 21.51% of the registered capital of Tianye Company and the Company respectively as the date hereof
“Tianye Holdings Group”	Tianye Holdings and its subsidiaries (including Tianye Company Group but excluding the Group)

By order of the Board of  
**Xinjiang Tianye Water Saving Irrigation System Company Limited\***  
**Huo Guo Jun**  
*Chairman*

Xinjiang, the PRC, 13 March 2012

*As at the date of this announcement, the Board comprises six executive Directors namely Shi Xiang Shen, Li Shuang Quan, Zhu Jia Ji, Hou Guo Jun, Yin Xiu Fa and Chen Lin and five independent non-executive Directors namely He Lin Wang, Xia Jun Min, Gu Lie Feng, Mak King Sau and Wang Yun.*

*The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in the announcement, the omission of which would make any statement in this announcement misleading.*

*\* For identification purpose only*