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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)

**CONNECTED TRANSACTION
CONSTRUCTION CONTRACT**

CONSTRUCTION CONTRACT

The Board is pleased to announce that, on 26 August 2016, Nanjiang Water Saving, as the owner, and Taian Construction, as the contractor, entered into the Construction Contract. Pursuant to the Construction Contract, Nanjiang Water Saving shall appoint Taian Construction to provide construction contracting services for the Construction Works in respect of the Project.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Nanjiang Water Saving is a wholly-owned subsidiary of the Company, and Taian Construction is a wholly-owned subsidiary of Tianye Company (the controlling shareholder of the Company and is interested in 38.91% of the issued share capital of the Company). As a result, by virtue of Chapter 14A of the Listing Rules, Taian Construction is a connected person of the Company, and the transaction contemplated under the Construction Contract constitutes a connected transaction of the Company. Given the applicable percentage ratios for the Construction Contract are more than 0.1% but less than 5%, therefore, the entering into of the Construction Contract is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

* For identification purpose only

INTRODUCTION

The Board is pleased to announce that, on 26 August 2016, Nanjiang Water Saving, as the owner, and Taian Construction, as the contractor, entered into the Construction Contract. Pursuant to the Construction Contract, Nanjiang Water Saving shall appoint Taian Construction to provide construction contracting services for the construction works in respect of the Project. The major terms of the Construction Contract are as follows:

CONSTRUCTION CONTRACT

Date: 26 August 2016

Parties: (i) Nanjiang Water Saving, as the owner
(ii) Taian Construction, as the contractor

Scope of Contracting: Taian Construction has agreed to provide construction contracting services for the Construction Works in respect of the Project, the scope of which includes the construction of manufacturing facilities, office buildings, north gate, external wall, canteen and outdoor accessories, etc.

Contract Period: Expected commencement date: 26 August 2016
Expected completion date: 26 October 2016

Contract Sum: The contract sum shall be RMB10,032,647.59 and shall be adjusted in respect of the following requirements: (1) the differences in project features, (2) the incomplete items in the bills of quantities and (3) the discrepancy in the construction workload.

The contract sum is determined by both parties with reference to the current estimated cost of the Construction Works and the market price of projects with similar nature, and bids have been invited in accordance with the established procedures. After considering the bidding price and the past experience of the bidders, and having been recommended by the bidding evaluation committee, the Board is of the view that Taian Construction is suitable for undertaking the transaction under the Construction Contract, while its bid has the lowest bidding price among all the bidding submissions received.

Payment Terms: The contract sum shall be payable in cash as follows:

(1) Nanjiang Water Saving shall make a prepayment for the Project (“**Project Prepayment**”) to Taian Construction within 7 days after the entering into of the Construction Contract, which shall account for 30% of the contract sum of the Construction Contract.

- (2) Taian Construction shall provide the bills of quantities in respect of the construction progress to Nanjiang Water Saving before the 20th of each month, and Nanjiang Water Saving shall pay 80% of the project progress payment (“**Project Progress Payment**”) every month according to the approved statistic statement, until the cumulative payment amount reaches 80% of the contract sum. Upon the completion and settlement of the project, 95% of the approval price (“**Project Settlement Payment**”) shall be paid after the financial approval is received, while the remaining amount shall be paid one-off when the warranty period of deficiency expires and no quality issue has arisen.
- (3) Upon the cumulative payment amount reaches 60% of the contract sum, Nanjiang Water Saving shall net off an amount for the prepayment in the proportion of 40% out of the Project Progress Payment payable to Taian Construction every month. All the Project Prepayment will be retrieved upon the payment of 80% of the contract sum.

The above terms are determined after the arm’s length negotiation between the parties and with reference to the industry practices adopted for transactions similar to those under the Construction Contract. As the above payment terms are consistent with the industry practices, the Company considers that the payment terms are fair and reasonable.

Warranty period of deficiency:	24 months from the actual completion date of the Construction Works
Quality guarantee fees:	5% of the Project Settlement Payment will be retained as the maintenance fees. The quality guarantee fees will be returned one-off when the warranty period of deficiency expires and no quality issue has arisen.
Maintenance period:	The quality maintenance period of the Construction Works is as follows: <ol style="list-style-type: none"> (1) Foundation basis construction and main structure construction: 70 years (2) Roofing waterproof works, lavatories with waterproof requirement, rooms and impermeable external walls: 5 years (3) Renovation works: 2 years (4) Electrical lines, water supply and drainage pipes and equipment installation works: 2 years (5) Heating and cooling systems: 2 heating periods and cooling periods

- (6) Accessory works such as water supply and drainage facilities and roads in the residential community: 2 years

Maintenance fee: The maintenance fee shall be borne by the party who is responsible for the quality deficiency.

INFORMATION RELATING TO THE GROUP AND TAIAN CONSTRUCTION

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.

Taian Construction is principally engaged in the construction works and related businesses, and possesses the qualification of Construction Main Contractor Class I classified by the government authorities of the PRC.

REASONS AND BENEFITS OF ENTERING THE CONSTRUCTION CONTRACT

Taian Construction possesses the qualification of Construction Main Contractor Class I of the PRC and has been engaged as the construction contractor for various construction projects. Taian Construction has vast experience in the area and has been vigorously committed in upholding high quality work. The Board believes that the standards and protection offered in the areas of business connection, construction management and construction work quality by Taian Construction satisfy the demanding qualification and experience requirements imposed by Nanjiang Water Saving in respect of the construction contractor for the Project.

In addition, as Taian Construction is granted the Construction Contract through a competitive bidding process and with the recommendation by the Bidding Evaluation Committee, and its bids has the lowest bidding price among all the received bidding submissions, the Directors therefore consider that the terms of Construction Contract and the transaction contemplated thereunder are fair and reasonable and determined after arm's length negotiation, and is in the interest of the Company and its shareholders as a whole. The Directors further consider that the terms of Construction Contract and the transaction contemplated thereunder are entered into on normal commercial terms in the ordinary and usual course of business. None of the Directors has any material interest in the Construction Contract.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Nanjiang Water Saving is a wholly-owned subsidiary of the Company, and Taian Construction is a wholly-owned subsidiary of Tianye Company (the controlling shareholder of the Company and is interested in 38.91% of the issued share capital of the Company). As a result, by virtue of Chapter 14A of the Listing Rules, Taian Construction is a connected person of the Company, and the transaction contemplated under the Construction Contract constitutes a connected transaction of the Company. Given the applicable percentage ratios of the Construction Contract are more than 0.1% but less than 5%, therefore, the entering of the Construction Contract is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The details of the Construction Contract will be set out in the next annual report of the Company.

DEFINITIONS

Unless the context otherwise requires, the following terms of this announcement shall have the meanings as follows:

“Board”	the board of Directors of the Company
“Company Law”	the Company Law of the PRC, promulgated by the 8th Standing Committee of the National People’s Congress of the PRC on 29 December 1993 and effective on 1 July 1994, as amended, supplement or otherwise revised from time to time
“Company”	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 company established in the PRC with limited liability on 18 December 2003, whose H Shares are listed and traded on the Main Board of the Stock Exchange
“Construction Works”	the scope includes the construction works for building manufacturing facilities, office buildings, north gate, external wall, canteen and outdoor accessories
“Directors”	the directors of the Company (including the independent non-executive Directors)
“Construction Contract”	the Construction Contract entered by Nanjiang Water Saving, as the owner, and Taian Construction, as the contractor, on 26 August 2016, pursuant to which Nanjiang Water Saving will appoint Taian Construction to provide construction contracting services for the Construction Works in respect of the Project
“Group”	the Company and its subsidiaries
“H Shares”	the overseas listed foreign shares of RMB1.00 each in the share capital of the Company and are listed on the Main Board of the Stock Exchange and are subscribed and traded in Hong Kong dollar
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanjiang Water Saving”	新疆天業南疆節水農業有限公司 (Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd*), a company incorporated in the PRC with limited liability on 22 March 2016 and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Project”	the construction project for the water saving equipment of Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd* at 第三師莎車農場

“RMB”	Renminbi, the lawful currency of the PRC
“Taian Construction”	石河子市泰安建筑工程有限公司 (Tianye Installation and Shihezi Taian Construction Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Tianye Company
“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 694,658,823 A shares of which are listed on the Shanghai Stock Exchange as at the date of this announcement, and is the controlling shareholder of the Company and Taian Construction
“%”	per cent

By order of the Board
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Chen Lin
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Lin (Chairman), Mr. Zhang Qiang, Mr. Li He and Mr. Yang Wan Sen, and three independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming and Mr. Mak King Sau.

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