
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)

**(1) PROPOSED CONTINUING CONNECTED TRANSACTIONS,
(2) PROPOSED GRANT OF ISSUE MANDATE
AND REPURCHASE MANDATE,
(3) RESIGNATION AND PROPOSED ELECTION OF SUPERVISOR
AND
(4) NOTICES OF ANNUAL GENERAL MEETING AND CLASS MEETINGS**

**Independent Financial Advisor to the Independent Board Committee and
the Independent Shareholders**



INCU Corporate Finance Limited

The notice for convening the annual general meeting (“AGM”), the H Shareholders’ Class Meeting and the Domestic Shareholders’ Class Meeting (“**Class Meetings**”) 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, 15 June 2018 are set out on pages 47 to 53 of this circular. Whether or not you are able to attend such meetings, please complete and return the forms of proxy enclosed with this circular 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, Level 22, Hopewell Centre, 183 Queen’s Road East, 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 such meetings 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.

* *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:

“2015 Master Purchase Agreement”	The 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 23 March 2015 for the purchase by the Group from Tianye Holdings Group of PVC resins;
“2015 Master Sales Agreement”	The 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 23 March 2015 for the sales by the Group to Tianye Holdings Group of the PVC pipelines, drip tape and drip assemblies;
“AGM”	the annual general meeting of the Company to be convened on Friday, 15 June 2018 at 10:30 a.m. at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC, the notice of which is set out on pages 47 to 53 of this circular;
“Articles of Association”	the articles of association of the Company as may be amended from time to time;
“associates”	has the meaning as defined under the Listing Rules;
“Board”	the board of Directors;
“Chairman”	chairman of the Board;
“Class Meetings”	collectively, the H Shareholders’ Class Meeting and Domestic Shareholders’ Class Meeting;
“Class Meetings Notices”	the notices for convening the Class Meetings set out on pages 54 to 59 in this circular;
“Companies Law”	The Companies 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;
“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;
“connected person(s)”	has the meaning as defined under the Listing Rules;

DEFINITIONS

“continuing connected transaction(s)”	has the meaning as defined in the Listing Rules;
“Directors”	the directors of the Company;
“Domestic Shareholders’ Class Meeting”	the class meeting for holders of Domestic Shares to be held on Friday, 15 June 2018 at 10:30 a.m. at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (or at any adjournment thereof), the notice of which is set out on pages 57 to 59 of this circular;
“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;
“Group”	the Company and its subsidiaries;
“H Shareholders’ Class Meeting”	the class meeting for holders of H Shares to be held on Friday, 15 June 2018 at 10:30 a.m. at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC (or at any adjournment thereof), the notice of which is set out on pages 54 to 56 of this circular;
“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 PRC;
“Independent Board Committee”	independent committee of the board of the Company comprising all independent non-executive Directors, Mr. Yin Feihu, Mr. Qin Ming and Mr. Mak King Sau, which has been formed to advise the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement and the Master Sales Agreement;
“Independent Financial Adviser” or “IFA” or “INCU”	INCU Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), 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 transactions contemplated and the proposed annual caps under the Master Purchase Agreement and the Master Sales Agreement respectively;

DEFINITIONS

“Independent Shareholders”	Shareholders other than Tianye Holdings, and Tianye Company and their associates;
“Issue Mandate”	an unconditional general mandate to issue, allot and deal with the additional Domestic Shares and/or H Shares not exceeding 20 percent of the issued shares of that class as at the date of passing of the relevant resolution;
“Latest Practicable Date”	23 May 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Purchase Agreement”	the 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 4 April 2018 for the purchase by the Group from Tianye Holdings Group of PVC resins;
“Master Sales Agreement”	the 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 4 April 2018 for the sales by the Group to Tianye Holdings Group of the PVC/PE pipelines, drip tape and drip assemblies;
“PRC”	the People’s Republic of China, but for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Proposed Continuing Connected Transactions”	the continuing connected transactions contemplated under the Master Purchase Agreement and the Master Sales Agreement;
“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 holders of H Shares and Domestic Shares from time to time;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

DEFINITIONS

“Substantial Shareholder(s)”	has the meaning as defined under the Listing Rules;
“Supervisor(s)”	the supervisor(s) of the 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 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;
“Tianye Holdings”	新疆天業(集團)有限公司 (Xinjiang Tianye (Group) Limited*), which was established in the PRC with limited liability on 28 June 1996, was wholly owned by SACC of No. 8 Division. It owns approximately 42.05% and 21.50% of the registered capital of Tianye Company and the Company respectively at the Latest Practicable Date;
“Tianye Holdings Group”	Tianye Holdings and its subsidiaries (including Tianye Company Group but excluding the Group); and
“%”	per cent.

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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)

Executive Directors:

Mr. Chen Lin (*Chairman*)
Mr. Li He
Mr. Yang Wan Sen
Mr. Zhang Qiang

Independent non-executive Directors:

Mr. Yin Feihu
Mr. Qin Ming
Mr. Mak King Sau

Supervisors:

Mr. Xu Hongzhen
Mr. Wang Jian
Mr. Chen Jun

Registered office:

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

Principal place of business

in Hong Kong:
Unit A, 27/F.,
Billion Plaza II,
10 Cheung Yue Street,
Cheung Sha Wan,
Kowloon,
Hong Kong

29 May 2018

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED CONTINUING CONNECTED TRANSACTIONS,
(2) PROPOSED GRANT OF ISSUE MANDATE
AND REPURCHASE MANDATE,
(3) RESIGNATION AND PROPOSED ELECTION OF SUPERVISOR
AND
(4) NOTICES OF ANNUAL GENERAL MEETING AND CLASS MEETINGS**

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LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular is to provide you with information about the resolutions relating to (1) the Proposed Continuing Connected Transactions (including the proposed annual caps), (2) proposed grant of Issue Mandate and Repurchase Mandate, and (3) notices of AGM and Class Meetings.

2. PROPOSED CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement issued by the Company on 4 April 2018 whereby the Board announced that the Company has entered into the Master Purchase Agreement and the Master Sales Agreement with Tianye Holdings in respect of the purchase of PVC resins and sales of PVC/PE pipelines, drip tape and drip assemblies on 4 April 2018.

(1) Master Purchase Agreement

- Date of agreement: 4 April 2018
- Parties: (1) the Company (for itself and on behalf of its subsidiaries) as 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 1 January 2018 up to 31 December 2020.
- Price: To be determined by reference to the price promulgated by the PRC government and if not applicable by the fair market price charged by independent third parties at Shihezi or region near Shihezi 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.

As at the Latest Practicable Date, to the best of the knowledge of the Directors there is no government pricing policy in place which is applicable to PVC resins.

LETTER FROM THE BOARD

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 in full before delivery.

The proposed annual caps under the Master Purchase Agreement shall not exceed RMB250,000,000 for each of the three years ending 31 December from 2018 to 2020 respectively. The proposed annual caps have been determined by reference to (i) the estimated growing customer demand for PVC pipelines based on supportive policies from the government, the compound annual growth rate of approximately 10.66% in the agricultural industry in PRC from the year 2006 to 2016 and an expected increase in customer base of Tianye Holdings; (ii) the current annual production capacity of PVC pipelines of the Group as the Company has no plan to expand its production capacity for production of PVC pipelines from 2018 to 2020; (iii) direct proportionality between the production of PVC pipelines and the demand for PVC resins, which means more PVC resins will be used when the production of PVC pipelines increases; (iv) in the three years ended 31 December 2017 all PVC resins were sourced from Tianye Holdings Group; and (v) the value of the transactions for the three years ended 31 December 2015 to 2017 i.e. approximately RMB213,710,000, RMB150,000,000, RMB176,750,000 respectively. The fluctuations in the value of the transactions for the three years ended 31 December 2017 were mainly attributable to the positive correlation between the production of PVC pipelines and the demand of PVC resins. The production volume of PVC pipelines in the three years ended 31 December 2017 were approximately 47,413 tons, 34,637 tons and 37,619 tons, respectively.

As at 31 March 2018, the value of transaction for the purchase is approximately RMB46,870,000.

(2) Master Sales Agreement

Date of agreement: 4 April 2018

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

Subject: Sale of PVC PE pipelines, drip tape 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 1 January 2018 up to 31 December 2020.

LETTER FROM THE BOARD

Price: To be determined by reference to the market price promulgated by the PRC government and if not applicable by the fair market price charged to independent third parties at Shihezi or region near Shihezi 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.

As at the Latest Practicable Date, to the best of the knowledge of the Directors there is no government pricing policy in place which is applicable to PVC/PE pipelines, drip tape and drip assemblies.

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 in full before delivery.

The proposed annual caps under the Master Sales Agreement shall not exceed RMB18,000,000 for each of the three years ending 31 December from 2018 to 2020 respectively. The proposed annual caps have been determined by reference to (i) the value of the transactions for the three years ended 31 December 2015 to 2017 i.e. approximately RMB1,505,000, RMB997,000, RMB1,998,000 respectively; (ii) the estimated growth in the demand of Tianye Holdings and its customers; and (iii) increase in customers base of Tianye Holdings. 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 but not limited to the demand from its customers, and the portfolio of their equipment available for projects at any particular time.

As at 31 March 2018, the value of transaction for the sale is approximately RMB85,000.

The Directors' assumptions in supporting the proposed annual caps under the Master Purchaser Agreement and the Master Sales Agreement respectively in 2018 and a stable annual caps from 2018 to 2020 are based on the estimated market demand and the trend of market price for PVC pipelines.

LETTER FROM THE BOARD

The PRC government's recent policies on the development in the agricultural and irrigation industry are supportive.

The Company also expects an increase in customer base of Tianye Holdings. According to China Statistical Yearbook 2017, area irrigated by water-saving system in PRC increased from approximately 27,314,000 hectares in 2010 to approximately 32,847,000 hectares in 2016, with a compound annual growth rate of approximately 3.12%. In light of the above, the Company has expanded its business within the PRC. The Directors believe that the increase in the customers' demand of the Company's PVC pipelines will result in the increase in the purchase of PVC resins in 2018 and the sale of PVC pipelines.

The demand in the Company's PVC pipeline will be reflected in the proposed annual caps as PVC resins is the major raw material for the production of PVC pipelines. The purchase price of PVC resins and the production costs are direct proportionate to each other. As shown in the above, the total historical transactions amounts of PVC resins between the years 2015 and 2017 were relatively stable. The Directors believe the positive factor of the supportive policies from the government will be reflected during the year 2018 and expect a 3% increase in the proposed annual caps by making reference to the compound annual growth rate of approximately 10.66% from the year 2006 to 2016 in the agricultural industry in PRC according to the China Statistical Yearbook 2017. Though there is a general increase in market demand of PVC pipelines, the Company also expects a slow economic growth in the PRC. Therefore the Company conservatively determines that the proposed annual caps for the purchase of PVC resins for 2019 and 2020 will remain the same as in 2018.

In relation to the average market price of the PVC resins, the average purchase price under the 2015 Master Purchase Agreement were approximately RMB4,591/tons, RMB4,900/ton and RMB5,832/ton in the financial years 2015, 2016 and 2017 respectively, and the average purchase price of approximately RMB6,230/ton in the financial year 2018. Given the economic growth will slow down, it is expected that the market price of the PVC resins will experience a stable growth and up to RMB7,000/ton for the 3 years ending 31 December 2020. The Company therefore adopts an average of RMB6,500/ton being the market price of PVC resins for the year 2018 to 2020 by making reference to the current market price in the PRC. There is no standard market price for PVC resins, and market price varies by regions. As at the Latest Practicable Date, the quotations for price of PVC resins from Tianye Holdings and Xinjiang Zhongtai Chemical Co., Ltd. (新疆中泰化學股份有限公司), two of the major manufacturers of PVC resins at Shihezi, were approximately RMB6,170/ton and RMB6,200/ton respectively. Further, the price of PVC resins fluctuates with the price of cruel oil. When the price of cruel oil increase, the cost of the production of PVC resins may increase and vice versa. Based on the above, the Directors adopt an average of RMB6,155/ton in the market price for PVC resins in Xinjiang Province in the coming years.

In relation to the average market price of the PVC pipelines, the average sale price under the 2015 Master Sales Agreement were approximately RMB6,464/ton, RMB6,128/ton and RMB7,289/ton in the financial years 2015, 2016 and 2017.

LETTER FROM THE BOARD

In relation to the average market price of the PE pipelines, the average sale price under the 2015 Master Sales Agreement were approximately RMB10,563/ton, RMB10,786/ton and RMB11,583/ton in the financial years 2015, 2016 and 2017.

In relation to the average market price of the drip tape, the average sale price under the 2015 Master Sales Agreement were approximately RMB0.145/metre, RMB0.145/metre and RMB0.145/metre in the financial years 2015, 2016 and 2017.

According to quotations from a water saving company located in the western part of Urumqi, the current market price of PVC pipelines, PE pipelines and drip tape are RMB6500/ton, RMB11,500/ton and RMB0.125/metre, respectively.

It is expected that the market price of the PVC pipelines and PE pipelines will vary in the range from RMB6,200/ton to RMB8,000/ton, and RMB10,500/ton to RMB11,000/ton, respectively, and the market price of the drip tape is expected to be RMB0.145/metre, for the 3 years ending 31 December 2020.

Pricing basis of Master Purchase Agreement

Pursuant to the purchase control procedure, the Company currently procures the purchase of PVC resins by reference to the prevailing market price by obtaining quotations from at least three suppliers at Shihezi or region near Shihezi, which includes Tianye Holdings and at least two independent third party suppliers. The Company will normally choose the supplier with the most favourable quotation, in most cases, of the lowest price. The Company will record (1) the review process and (2) the result upon each purchase. Each purchase contract will be reviewed by the department head in charge and reassess by the purchase management department. The purchase contract will not be entered without the approval of the senior management of the Company.

The Directors believe that the above procurement process will ensure the terms of the Master Purchase Agreement are on normal commercial terms and in the ordinary course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Pricing basis of Master Sales Agreement

Based on the current price fluctuation of raw materials in the market and with reference to the product costs of the Company, the Company set the sales prices of products by comparing with the seasonal sales prices of its peers in the market. In determining the selling price for each product, a standard price list will be jointly determined by finance department, sales department and management of the Group at a price evaluation meeting held on a monthly basis, with reference to the prevailing market prices of similar products and cost of raw materials. The price list provides a pricing standard which is applicable to all sales transactions including those to Tianye Holdings Group.

The Directors believe that the above sales process will ensure the terms of the Master Sales Agreement are on normal commercial terms and in the ordinary course of business, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Reasons for the Proposed 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.

Given the fact 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. On the other hand, the Group shall not be obliged to purchase the PVC resins if the Group has other better offer on price for similar quality from independent third parties.

Furthermore, the Group supplies the drip tape, PVC/PE pipelines and drip assemblies to Tianye Holdings Group and its customers which will increase the revenue stream of the 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 INCU) consider that the annual caps and the terms of the Master Purchase Agreement is on normal commercial terms and in the ordinary and usual course of business; fair and reasonable and in the interest of the Company and its Shareholders as a whole. The Directors (including the independent non-executive Directors) consider that the annual caps and the terms of the Master Sales Agreement is on normal commercial terms and in the ordinary and usual course of business; 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 tapes, 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.

LETTER FROM THE BOARD

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.

Formation of Independent Board Committee

The Independent Board Committee comprising all the independent non-executive Directors has been established by the Board to advise the Independent Shareholders as to whether the Proposed Continuing Connected Transactions and the proposed annual caps under the Master Purchase Agreement and the Master Sales Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The text of the letter of advice from Independent Board Committee is set out on page 19 of this circular.

INCU has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders as to whether the Proposed Continuing Connected Transactions and the proposed annual caps under the Master Purchase Agreement and the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business and are fair and reasonable so far as the independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The text of the letter of advice from INCU is set out on page 20 to 39 of this circular.

Listing Rules Implications

At the Latest Practicable Date, 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 21.50% of the issued share capital of the Company and Tianye Company is in turn owned by Tianye Holdings as to approximately 42.05% 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. 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.

Pursuant to Rule 14A.54(2) of the Listing Rules, where an agreement in relation to previously announced continuing connected transactions 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 Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the proposed annual caps of the Master Sales Agreement and the Master Purchase Agreement respectively are more than 5% and the annual consideration is more than

LETTER FROM THE BOARD

HK\$10,000,000, the transactions contemplated under the Master Sales Agreement and the Master Purchase Agreement respectively, together with the proposed annual caps, are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, and save as disclosed in this circular, apart from Tianye Company, Tianye Holdings and its associates, no other shareholders will be required to abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Purchase Agreement and the Master Sales Agreement shall be conducted by poll.

Under Rule 14A.35 and 14A.36 of the Listing Rules, the Company is required to make timely disclosure and seek for Independent Shareholders' approval for the Continuing Connected Transactions. The aggregate transaction amount under the Master Purchase Agreement for the period from 1 January 2018 to 28 February 2018 (the "Transactions") was approximately RMB32.5 million. As the applicable percentage ratios in respect of the Transactions is more than 5% and is more than HK\$10,000,000, the Transactions are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, for which the Company should have complied with Rule 14A.35 and Rule 14A.36 of the Listing Rules in relation to the announcement of the Master Purchase Agreement and seeking for Independent Shareholders' approval in February 2018. The breach of Rule 14A.35 and Rule 14A.36 of the Listing Rules was due to internal control deficiencies of the Group.

The Directors consider that the failure to comply with Rule 14A.35 and Rule 14A.36 of the Listing Rules in relation to the announcement of the Master Purchase Agreement and seeking for Independent Shareholders' approval was inadvertent and it was a one-off incident. In light of the non-compliance, the Company has already taken immediate actions to tighten the internal control procedures including (i) provision of internal training to responsible staff to increase their understanding of connected transactions and emphasis the importance of timely reporting of connected transactions; and (ii) designation of the senior management of the Group being responsible for detecting or preventing the non-disclosure of connected transactions. The Directors consider these procedures can prevent the recurrence of similar event in the future. Notwithstanding the non-compliance of the Rule 14A.35 and 14A.36 of the Listing Rules, the Company is able to comply with other annual review and reporting requirements under Chapter 14A. The Company's independent non-executive directors had reviewed the continuing connected transactions on a yearly basis and has confirmed in the annual report that the transactions have been entered into in the ordinary and usual course of business of the Group and on a normal commercial term. The Company has also engaged its auditors to report on the continuing connected transactions on a yearly basis. Details have been disclosed in the annual report of the Company for the year ended 31 December 2017.

As the executive Director of the Company, Mr. Zhang Qiang, the vice general manager of Tianye Company, has a material interest, has abstained from voting at the board meeting to approve the Master Sales Agreement and the Master Purchase Agreement. Save as disclosed above, none of the Directors has a material interest in the Master Sales Agreement and/or Master Purchase Agreement.

LETTER FROM THE BOARD

3. PROPOSED GRANT OF ISSUE MANDATE

In order to ensure flexibility when it is desirable to allot additional Shares, the Directors will seek the approval of the Shareholders to grant the Issue Mandate at the AGM.

The Company has in issue an aggregate of 317,121,560 Domestic Shares and 202,400,000 H Shares as at the Latest Practicable Date. Special resolution no. 1 as set out in the AGM Notice (the “**Special Resolution No. 1**”) will be proposed at the AGM, namely (i) to grant to the Directors an Issue Mandate to issue, allot and deal with additional Shares up to a maximum of 63,424,312 Domestic Shares and 40,480,000 H Shares, representing 20% of the aggregate nominal amount of the issued share capital of the Company of that class as at the date of passing of the Special Resolution No. 1 on the basis that no further Shares will be issued or repurchased by the Company prior to the AGM; and (ii) to increase the number of existing share capital of the Company up to a maximum of 20% of the aggregate nominal amount of share capital of the Company which the Directors may issue under the Issue Mandate, if given, in the Special Resolution No. 1 as at the date of passing of the Special Resolution No. 1.

4. PROPOSED GRANT OF REPURCHASE MANDATE

The Companies Law, the Mandatory Provisions and the Articles of Association provide for certain restrictions on share repurchase which are applicable to all classes of shares of the Company.

The Companies Law (to which the Company is subject) provides that a joint stock limited company incorporated in the PRC may not repurchase its shares unless such repurchase is effected for the purpose of (a) reducing its registered capital; (b) in connection with a merger between itself and another entity that holds its shares; (c) granting shares as reward to the staff of the company; or (d) the repurchase is made at the request of its shareholders who disagrees with shareholders’ resolutions in connection with a merger or division. The Mandatory Provisions, which the Company has incorporated in the Articles of Association, provide that subject to obtaining the approval of the relevant PRC regulatory authorities and in compliance with the Articles of Association, the Company may repurchase its issued shares for the purpose of reducing its share capital or in connection with a merger between itself and another entity that holds its Shares or in circumstances permitted by laws or administrative regulations.

The Listing Rules permit the shareholders of a PRC joint stock limited company to grant a general mandate to its directors to repurchase shares of such company that is listed on the Stock Exchange. Such mandate is required to be given by way of a special resolution passed by its shareholders in general meeting and special resolutions passed by holders of domestic shares and holders of overseas listed foreign shares at separate meetings.

H Shares are traded on the Stock Exchange in Hong Kong dollars. Therefore, the repurchase of H Shares by the Company is subject to the approval of the SAFE (or its successor authority), and the price payable by the Company upon any repurchase of H Shares will be paid in Hong Kong dollars.

LETTER FROM THE BOARD

In accordance with the requirements of the Articles of Association applicable to capital reduction, the Company will have to notify its creditors of the passing of the resolution for the reduction of the registered capital of the Company. In addition, the Companies Law provides that the shares repurchased by a company will have to be cancelled and the registered capital of that company will therefore be reduced by an amount equivalent to the aggregate nominal value of the shares so cancelled. In the event of a reduction of registered capital, the Company shall inform its creditors by way of written notice and announcement within a prescribed period after the passing of the relevant resolutions approving such reduction. The creditors shall be entitled to request the Company for repayment of loan and/or provision of guarantee. The statutory notification requirement allows the creditors an opportunity for the recovery and/or security of the debt (in particular for those unsecured debts) where the Company's registered capital is to be reduced.

Conditions to repurchase of H Shares

In order to ensure flexibility and discretion to the Directors in the event that it becomes desirable to repurchase any H Shares (including where such repurchase may lead to an enhancement of the net asset value per Share and/or the earnings per Share), approval is proposed to be sought from the Shareholders for the grant of the Repurchase Mandate to the Directors. In accordance with the legal and regulatory requirements described above, the Directors give notices to convene the AGM and the Class Meetings. At each such meeting, a special resolution will be proposed to grant to the Directors the Repurchase Mandate, i.e. a conditional general mandate to repurchase H Shares in issue on the Stock Exchange with an aggregate nominal value not exceeding 10% of the aggregate nominal value of H Shares in issue of the Company as at the date of passing of such special resolution.

The Repurchase Mandate will be conditional upon (a) the special resolution for approving the grant of the Repurchase Mandate being passed at each of the AGM and the Class Meetings; and (b) the approvals of SAFE (or its successor authority) and/or any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate. If the above conditions are not fulfilled, the Repurchase Mandate will not be exercisable by the Directors.

The Repurchase Mandate would expire on the earliest of (a) the conclusion of the next annual general meeting of the Company; or (b) the expiration of a period of twelve months following the passing of the relevant resolution at the AGM and the Class Meetings; or (c) the date on which the authority conferred by the special resolution is revoked or varied by a special resolution of the Shareholders in a general meeting or by a special resolution of holders of H Shares or holders of Domestic Shares at their respective class meetings.

The H Shares which may be repurchased by the Company pursuant to the Repurchase Mandate shall not exceed 10% of the aggregate nominal value of H Shares in issue of the Company as at the date of passing of the resolution approving the Repurchase Mandate at the AGM and the Class Meetings.

An explanatory statement giving certain information regarding the Repurchase Mandate is set out in the Appendix to this circular.

LETTER FROM THE BOARD

5. RESIGNATION AND PROPOSED APPOINTMENT OF SUPERVISOR

The Board announces the following changes:

Mr. Xu Hongzhen (“**Mr. Xu**”) has tendered his resignation in August 2017 as Supervisor of the Company which shall become effective from the conclusion of AGM, due to his personal commitments. Mr. Xu has confirmed that he has no disagreement with the Board and there is no matter regarding his resignation that needs to be brought to the attention of the Shareholders.

To fill in the vacancy of Mr. Xu, the Company proposes to appoint Mr. Chen Cailai (“**Mr. Chen**”). The biographical details of the Supervisor proposed to be appointed are set out as follows:

Mr. Chen

Mr. Chen, aged 34, graduated from Xinjiang Agricultural University with a major in applied chemistry. He obtained a professional qualification of engineer in January 2008. Mr. Chen joined Tianye Holdings in 2007 and served as field operator from July 2007 to October 2007, and then served as project research and development operator from October 2007 to January 2008. He then served as an assistant engineer in the research center of Tianye Holdings from January 2008 to April 2010. Mr. Chen then served as responsible officer for intellectual property in the research center of Tianye Holdings from April 2010 to April 2011. He then served as the deputy head of information department and integrated management department respectively in the research center of Tianye Holdings from April 2011 to April 2014. After that, he served as the head of integrated management department in the research center of Tianye Holdings from April 2014 to July 2014 as well as an engineer in Tianye Holdings from April 2014 till present. Mr. Chen also served as the secretary of the first branch of research center of Tianye Holdings from July 2014 to August 2015. Mr. Chen then also served as the director of intellectual property office of research center of Tianye Holdings from August 2015 to April 2017. Mr. Chen has been serving as the member of monitoring office of the party committee of Tianye Holdings since April 2017. He has over ten years of experience in engineering.

Length of service of Supervisor proposed to be appointed

Upon his appointment becoming effective, Mr. Chen will enter into a service agreement with the Company with a terms of 1 year, effective from the date on which the relevant resolution for his appointment is passed at the AGM.

Confirmation from Supervisor

The above proposed Supervisor has confirmed that, save as disclosed above, (1) he does not hold any position with the Group and has not been a director or supervisor in any other listed companies in the past three years; (2) he is not connected with any

LETTER FROM THE BOARD

Director, Supervisor, senior management or substantial or controlling Shareholder of the Company or any of its subsidiaries; (3) he does not have any interest in any Shares within the meaning of Part XV of the SFO as at the Latest Practicable Date.

In additional, he has confirmed that there is no other information in respect of his appointment that is discloseable pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of the Shareholders.

6. AGM AND CLASS MEETINGS

The AGM and the Class Meetings will be held on Friday, 15 June 2018 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 notices convening the AGM and the Class Meetings at which the resolutions mentioned above will be proposed are set out on pages 47 to 59 of this circular.

Each Shareholder who has the right to attend and vote at the AGM and the Class Meetings, is entitled to appoint one or more proxies, whether they are Shareholders or not, to attend and vote on his behalf at the AGM and the Class Meetings,. Forms of proxy for use by the Shareholders at the AGM and the Class Meetings are enclosed. Whether or not you intend to be present at the AGM and the Class Meetings, you are requested to complete and return the forms of proxy in accordance with the instructions thereon to the Hong Kong H share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, 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 AGM and the Class Meetings or any adjourned meeting. Completion and return of the forms of proxy will not preclude you from attending and voting at the AGM and the Class Meetings or any adjourned meeting(s) should you to wish.

7. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, save for certain procedural or administrative matter 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 AGM and Class Meetings will therefore demand a poll for every resolution to be put to the vote at the AGM and Class Meetings pursuant to the Articles of Association.

8. CLOSURE OF REGISTER OF MEMBERS

For the purpose of the AGM and the Class Meetings, the register of the members of the Company will be closed from Friday, 25 May 2018 to Friday, 15 June 2018 (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 annual general meeting and the Class

LETTER FROM THE BOARD

Meetings 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4: 30 p.m. on Thursday, 24 May 2018.

9. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually 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, there are no other facts the omission of which would make any statement in this circular misleading.

10. RECOMMENDATION

The Directors consider that all the proposed resolutions as set out in the AGM Notice and Class Meetings Notices 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 all the resolutions to be proposed at the AGM and Class Meetings Notices in respect thereof.

Yours faithfully

For and on behalf of the Board

Xinjiang Tianye Water Saving Irrigation System Company Limited*

Chen Lin

Chairman

* *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)

29 May 2018

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 29 May 2018 issued to the Shareholders (the “**Circular**”) of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As independent non-executive Directors who are independent of the parties to the Proposed Continuing Connected Transactions and not having any interest in the transactions contemplated under the Proposed Continuing Connected Transactions, we have been appointed by the Board to advise you as to whether, in our opinion, the terms and the proposed annual cap of the Proposed Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders as a whole are concerned. INCU has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board in relation to the Proposed Continuing Connected Transactions as set out on pages 5 to 18 of the Circular and the letter from INCU as set out on pages 20 to 39 of the Circular. Having considered the principal factors and reasons considered by, and the advice of, INCU as set out in its letter of advice, we consider that the Proposed Continuing Connected Transactions is fair and reasonable so far as the Independent Shareholders are concerned, and is in the best interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Continuing Connected Transactions and the proposed annual caps.

Yours faithfully,

For and on behalf of the Independent Board Committee
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Yin Feihu, Qin Ming, Mak King Sau

* For identification purpose only

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

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 continuing connected transactions contemplated thereunder.



INCUB Corporate Finance Limited
Unit 1701, 17/F., Wings Building,
110–116 Queen's Road Central,
Central, Hong Kong

29 May 2018

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

Dear Sir or Madam,

PROPOSED CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed renewal of continuing connected transactions contemplated under the Master Purchase Agreement and the Master Sales Agreement (the “**Proposed Continuing Connected Transactions**”) with their related proposed annual caps. Details of the which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company dated 29 May 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 4 April 2018 whereby the Board announced that the Company has entered into the Master Purchase Agreement and the Master Sales Agreement with Tianye Holdings in respect of the purchase of PVC resins and sales of PVC/PE pipelines, drip tape and drip assemblies on 4 April 2018.

As at the Latest Practicable Date, 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 21.50% of the issued share capital of the Company and Tianye Company is, in turn, owned by Tianye Holdings as to approximately 42.05% 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. 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the proposed annual caps of the Master Sales Agreement and the Master Purchase Agreement respectively are more than 5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Master Sales Agreement and the Master Purchase Agreement respectively, together with the proposed annual caps, are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, and save as disclosed in the Circular, apart from Tianye Company, Tianye Holdings and their respective associates, no other shareholders will be required to abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Sales Agreement and the Master Purchase Agreement shall be conducted by poll.

As the executive Director of the Company, Mr. Zhang Qiang, the vice general manager of Tianye Company, has a material interest, he has abstained from voting at the board meeting to approve the Master Sales Agreement and the Master Purchase Agreement. Save as disclosed above, none of the Directors has a material interest in the Master Sales Agreement and/or Master Purchase Agreement.

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming and Mr. Mak King Sau, has been established to advise and provide recommendation to the Independent Shareholders in relation to the fairness and reasonableness of the Proposed Continuing Connected Transactions and the proposed annual caps under the Master Purchase Agreement and the Master Sales Agreement and the transactions contemplated thereunder.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Master Purchase Agreement and the Master Sales Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, the terms 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 and the proposed annual caps are fair and reasonable.

We have not acted as an independent financial adviser and has not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Continuing Connected Transactions and the proposed annual caps. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Proposed Continuing Connected Transactions and the proposed annual caps, and accordingly, are eligible to give independent advice and recommendations on the terms of the Master Purchase Agreement and the Master Sales Agreement and the proposed annual caps. Apart from

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

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 to the Master Purchase Agreement and Master Sales Agreement and the Proposed Continuing Connected Transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the 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. We have relied on such information and consider 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. However, we have not conducted any in-depth independent investigation into the businesses, affairs and financial positions of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the continuing connected transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the terms of the Proposed Continuing Connected Transactions, together with the proposed annual caps, and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background of and reasons for the Proposed Continuing Connected Transactions

(a) Information of the Group

The Group is principally engaged in the design, manufacture and sales of drip tapes and drip assemblies and poly ethylene (PE) pipelines and polyvinyl chloride (PVC) pipelines, as well as the provision of installation services.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

As set out in the annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”), the Group recorded a total revenue of approximately RMB738.1 million for the year ended 31 December 2017, representing an increase of approximately 9.9% from that of approximately RMB671.4 million for the year ended 31 December 2016. As stated in the 2017 Annual Report, the increase in total revenue was mainly due to expansion of installation services business during the year despite the decrease in sales volume of drip tape and drip assemblies and PVC/PE pipelines.

(b) Information of Tianye Holdings Group

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.

(c) Reasons for the Proposed Continuing Connected Transactions

Master Purchase Agreement

As disclosed in the Letter from the Board, sales of PVC pipelines is one of the principal businesses of the Group. Given PVC resin is the major raw material for production of PVC pipelines, maintaining a stable supply of PVC resins at a reasonable price is important for the Group’s operation.

In assessing whether the entering into of the Master Purchase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, we have considered the following:

- (i) Tianye Holdings Group has been one of the market leaders in the PRC’s PVC industry. According to “Trend of PVC price and industry development forecast in China 2018*” (2018年中國PVC價格走勢及行業發展趨勢預測) published by China Industry Information* (中國產業信息網[http://http://www.chyxx.com/](http://www.chyxx.com/)), Tianye Holdings Group is one of the 20 suppliers with a production capacity of PVC resins over 400,000 tons out of the total of 62 PVC suppliers in 2017 in PRC. Tianye Holdings Group is also on the list of “Top 100 Chinese Basic Chemical Raw Material Manufacturing Companies 2017*” (2017 中國基礎化學原料製造業百強企業排行榜) and “Top 500 Petrochemical and Chemical Enterprises in China 2017*” (2017 中國石油和化工企業 500 強排行榜) published by China Chemical Enterprise Management Association* (中國化工企業管理協會). We are advised by the management of the Group that, approximately 1.37 million tons, 1.33 million tons, and 1.23 million tons of PVC resins were produced by Tianye Holdings Group for the years ended 31 December 2015, 2016, and 2017 respectively. Tianye Holdings Group has been supplying PVC resins to the Group since 2006.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

The market leadership of Tianye Holdings Group and the long-term business relationship with Tianye Holdings Group demonstrate that it is able to provide reliable supply of PVC resins for the production of PVC pipelines of the Group;

- (ii) The Group will benefit from time and cost advantages that its geographical location brings. Since both Tianye Holdings Group and the Group are located in Xinjiang, the Group can have its supply with shorter delivery time and at a lower transportation cost;
- (iii) The Group will also benefit from a stable supply of PVC resins as raw materials to support its business production, as Tianye Holdings Group offers priority to the Group on purchasing PVC resins; and
- (iv) The Group will also enjoy flexibility on the PVC resins purchase, as the Group is not obliged to purchase PVC resins from Tianye Holdings Group exclusively. Thus, the Group can choose to purchase from other independent suppliers with a better offer.

Master Sales Agreement

In assessing whether the entering into of the Master Sales Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, we have considered the following:

- (i) Sales of PVC/PE pipelines, drip tape and drip assemblies (the “**Products**”) are the Group’s ordinary course of business, which contributed approximately 82.9% of the total revenue of the Group for the year ended 31 December 2017, as disclosed in the 2017 Annual Report;
- (ii) The sales of the Products to Tianye Holdings Group at market price will render stable revenue to the Group on normal commercial terms; and
- (iii) The Group will have flexibility on the sale of the Products as the Group is not obliged to sell to Tianye Holdings Group if the Group has better offer.

Having considered the above reasons, we concur with the Directors’ views that the entering into of the Master Purchase Agreement and the Master Sales Agreement is in the ordinary and usual course of the business of Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Proposed Continuing Connected Transactions

2.1 Principal terms of the Master Purchase Agreement

Key terms of the Master Purchase Agreement are as follows:

- Date of agreement : 4 April 2018
- Parties : (1) the Company (for itself and on behalf of its subsidiaries) as 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 (if necessary).
- Term : With effect from 1 January 2018 up to 31 December 2020.
- Price : To be determined by reference to the price promulgated by the PRC government and if not applicable by the fair market price charged by independent third parties at Shihezi or region near Shihezi 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 interests 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 into by the Group and Tianye Holdings Group on terms mutually agreed in accordance with the Master Purchase Agreement, it is generally expected that the payment shall be made in full before delivery.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

Pricing policy

We have reviewed and compared the terms of the Master Purchase Agreement and the 2015 Master Purchase Agreement and noted that, save for the revision of annual caps, there has been no material change between the terms of the two aforesaid agreements.

As advised by the management of the Group, as at the Latest Practicable Date, there is no current government pricing policy which is applicable to PVC resins. Accordingly, the Company made reference to the market price as price standard for purchase of PVC resins.

Purchase Control Procedures

We have discussed with the management of the Group, it has established a set of purchase control procedures in selecting suppliers pursuant to which the Company will obtain the quotations from at least three suppliers at Shihezi or region near Shihezi (including Tianye Holdings Group) and will select the one offering the most favorable terms, including but not limited to the price. Each purchase order is subject to review by the department head in charge and reassessment by the purchase management department. The senior management of the Group is responsible for final review and approval.

Our Assessment

We have enquired the management of the Group and were given the understanding that the Group will bear the transportation cost for procurement of the raw materials, hence, apart from the material cost, transportation cost (including time cost) is also the major concern for the Group. The Group will compare the quotations from at least three suppliers including independent suppliers and Tianye Holdings Group and select the best one. During the year 2015 to 2017, as Tianye Holdings Group offered the lowest total cost among the quotations obtained by the Group, all PVC resins were purchased from Tianye Holdings Group for the three years ended 31 December 2017.

For our due diligence purpose, we have (i) obtained and reviewed the purchase control policy and procedures of the Group; (ii) obtained and reviewed a full procurement list for the years ended 31 December 2015, 2016 and 2017; (iii) reviewed and compared the quotations obtained by the Group from Tianye Holdings Group and other independent third parties; and (iv) reviewed sample copies of historical purchase records between the Group and Tianye Holdings Group. In reviewing the historical purchase records, we have selected samples based on the materiality of the transaction amount. The samples under review represented top 5 purchases of PVC resins (in terms of transaction amount) in each of the years ended 31 December 2015, 2016 and 2017 and we are of the view that the selection basis and sample copies reviewed are fair and representative in view of materiality.

LETTER FROM INDEPENDENT FINANCIAL ADVISOR

From our sample review, we noted that (i) the purchase was made in compliance with the internal control policy of the Group for each transaction; (ii) the cost per ton paid for purchase is the lowest cost among the suppliers for each purchase from 2015 to 2017; and (iii) other major terms offered by Tianye Holdings Group including payment terms and delivery are similar with those offered by other independent suppliers.

In addition, pursuant to the Master Purchase Agreement, Tianye Holdings Group guarantees that it will give priority to the Group on purchasing PVC resins, under the same contract terms. The Group also enjoys flexibility on purchase of PVC resins, as the Group is not obliged to purchase PVC resins from Tianye Holdings Group exclusively and the Group is free to purchase from other independent third parties for a better offer. We are of the view that the aforesaid arrangements allow the Group to enjoy the flexibility in purchasing PVC resins and secure a stable supply to maintain its competitiveness in the market.

Having considered that (i) the purchase from Tianye Holdings Group are priced at market price at Shihezi or in the region near Shihezi; (ii) other major terms of the Master Purchase Agreement, including payment terms and delivery are comparable to and no less favourable than that offered by other independent suppliers; (iii) the flexibility in purchasing PVC resins and securing stable supply to maintain its competitiveness in the market, we are of the view that the terms of the Master Purchase Agreement are on normal commercial terms, in the ordinary and usual courses of business of the Company and in accordance with the pricing policy of the Company and fair and reasonable so far as the Independent Shareholders are concerned.

2.2 *Principal terms of the Master Sales Agreement*

Key terms of the Master Sales Agreement are as follows:

- Date of agreement : 4 April 2018
- Parties : (1) The Company (for itself and on behalf of its subsidiaries) as seller; and
(2) Tianye Holdings (for itself and on behalf of its subsidiaries) as the purchaser.
- Subject : Sale of PVC/PE pipelines, drip tape 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 (if necessary).
- Term : With effect from 1 January 2018 to 31 December 2020.
- Price : To be determined by reference to the market price promulgated by the PRC government and if not applicable by the fair market price charged to independent third parties at Shihezi or region near Shihezi 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 interests 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 into by the Group and Tianye Holdings Group on terms mutually agreed in accordance with the Master Sales Agreement, it is generally expected that the payment shall be made in full before delivery.

Pricing Policy

We have reviewed and compared the terms of the Master Sales Agreement and the 2015 Master Sales Agreement and noted that, save for the revision of annual caps, there has been no material change between the major terms of the two aforesaid agreements.

As advised by the management of the Group, there was no fixed price on the Products promulgated by the PRC government as at the Latest Practicable Date. Accordingly, the Company and Tianye Holdings Group adopted the market price as the pricing standard. The Group sets the selling prices of the Products with reference to the raw material costs and the selling prices offered by peers in the market.

We have discussed with the management of the Group and were given the understanding that a standard price list will be jointly determined by finance department, sales department and management of the Group at a price evaluation meeting held on a monthly basis, with reference to the prevailing market prices of similar products and cost of raw materials. The price list provides a pricing standard which is applicable to all sales transactions including those to Tianye Holdings Group.

Sales Control Procedures

We have enquired with the management of the Group, the Group has established a set of sale control procedures. Given that the selling price for each product is determined in the monthly meeting, selling price offered by the Group to independent third parties and Tianye Holdings Group is referred to the monthly standard price list. The head of sales department is responsible for reviewing and approving the sales contracts. The senior management of the Group is responsible for final review and approval. Furthermore, additional approval from management of sales department and/or senior management of the Group is required for any deviation of selling price from the standard price list or sales in the amount of RMB300,000 or more.

Our Assessment

As mentioned above, the selling price is determined and reviewed on a monthly basis applies to all customers of the Group. The Directors also confirmed that the price charged by the Company to Tianye Holdings Group is comparable and no less favourable than the market prices of similar products that the Company sold to other independent customers.

For our due diligence purpose, we have (i) obtained and reviewed the sales policy and procedures of the Group; (ii) reviewed and compared sample copies of historical transaction records, including sales contracts and/or sales invoices, in respective of the sales made by the Group to other independent third parties and Tianye Holdings Group; and (iii) obtained and reviewed sample copies of monthly

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standard price list. We have selected samples based on the materiality of the transaction amount in reviewing the historical transaction records and the corresponding monthly standard price list of that particular month in respect of the sales made by the Group to other independent third parties and Tianye Holdings Group. We are of the view that the selection basis and sample copies reviewed are fair and representative in view of materiality.

From our sample review, we noted that (i) the sales transactions are made in compliance with the sales control procedures, including the approval procedures, of the Group; (ii) the selling price of the Products for sales to Tianye Holdings Group and independent third parties is determined in accordance with the sales policy of Group; and (iii) other major terms of the sales transactions entered into between the Company and Tianye Holdings Group are similar with those offered to other independent customers.

Having considered that (i) sales of the Products are the principal business of the Group; (ii) other major terms of the Master Sales Agreement, including the payment terms and delivery are comparable to and no less favourable than that offered to other independent parties; (iii) the flexibility for the Group to choose sales of the Products to independent third parties if the Group has better offer, we are of the view that the terms of the Master Sales Agreement are on normal commercial terms, in the ordinary and usual courses of business of the Company and in accordance with the pricing policy of the Group and fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed Annual Caps

3.1 Proposed Annual Caps of the Master Purchase Agreement

The table below sets forth the proposed annual caps of the Master Purchase Agreement (the “**Purchase Annual Caps**”) for each of the three years ending 31 December 2020.

	2015 Master Purchase Agreement			Master Purchase Agreement		
	For the year ended 31 December			For the year ended 31 December		
	2015	2016	2017	2018	2019	2020
Annual Caps (RMB million)	242.7	242.7	242.7	250.0	250.0	250.0

As set out in the Letter from the Board, the Purchase Annual Caps was determined after taking into account (i) the estimated growing customer demand for PVC pipelines based on supportive policies from the government, the compound annual growth rate of approximately 10.66% in the agricultural industry in PRC from the year 2006 to 2016 and an expected increase in customer base of Tianye Holdings; (ii) the current annual production capacity of PVC pipelines of the Group as the

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Company has no plan to expand its production capacity for production of PVC pipelines from 2018 to 2020; (iii) the direct correlation between the production of PVC pipelines and the demand of PVC resins, which means more PVC resins will be used when the production of PVC pipelines increases; (iv) in the three years ended 31 December 2017, all PVC resins were sourced from Tianye Holdings Group; and (v) the historical transaction amounts for the three years ended 31 December 2015 to 2017 i.e. approximately RMB213,710,000, RMB150,000,000 and RMB176,750,000 respectively.

Our Assessment

In order to assess the fairness and reasonableness of determination basis of the Purchase Annual Caps, we have assessed the abovementioned determination factors as follows:

- (a) the estimated growing customer demand for PVC pipelines and the current annual production capacity of PVC pipelines of the Group

As disclosed in the 2017 Annual Report, the sales volume of PVC/PE pipelines decreased from approximately 48,307 tons for the year ended 31 December 2016 to approximately 38,945 tons for the year ended 31 December 2017. As advised by the management of the Group, the decrease in sales volume was mainly due to the slowdown of economic growth and keen market competition.

As stated in the Letter from the Board, the Directors believe the positive impact of the supportive governmental policies will be reflected during the year 2018 and expect an increase of 3% in the proposed annual caps by making reference to the compound annual growth rate of approximately 10.66% from the year 2006 to 2016 in the agricultural industry in the PRC according to the China Statistical Yearbook 2017.

To better understand the market of water-saving irrigation system in the PRC, we have performed our desktop research. “The National Outline on Agricultural Water Saving (2012–2020)*” (國家農業節水綱要(2012–2020年)) released in 2012 by The State Council of the PRC (國務院) has set out explicit goals for and requirements on agricultural water-saving irrigation. “The Water Pollution Prevention and Action Plan*” (水污染防治行動計畫) released in 2015 by The State Council of the PRC (國務院) emphasises the importance of development of agricultural water-saving irrigation system. According to the 19th National Congress of the Communist Party of China held in October 2017, implementation of national water-saving actions and promoting agricultural green development is one of the key objectives in the coming years.

According to the China Statistical Yearbook 2017, we note that the gross output value of the agricultural industry increased from approximately RMB21,522.3 million in 2006 to approximately RMB59,287.8 million in 2016, with a compound annual growth rate of approximately 10.66%. Also,

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area irrigated by water-saving system in PRC increased from approximately 27,314,000 hectares in 2010 to 32,847,000 hectares in 2016, with a compound annual growth rate of approximately 3.12%.

We noted that there was a decrease in historical transaction amount under the 2015 Master Purchase Agreement from approximately RMB213.7 million in year 2015 to RMB150 million in year 2016. We have enquired the management of the Group and understood that such decrease was mainly attributable to a number of new small-to-medium sized competitors in Xinjiang, which create keen price competition in the region. In light of the decrease in historical transaction amount in 2016, having considered (i) the continuous market growth in water-saving irrigation system in the PRC as discussed above; and (ii) the historical transaction amount under the 2015 Master Purchase Agreement has not fully reflected the market impact of the supportive government strategy/policy, in particular, the plan implementation of the 19th National Congress of the Communist Party of China held in late 2017, we concur with the view of the Company that there are positive factors and the supportive policies from the PRC government which would support the growth of customer demand for water-saving irrigation system.

- (b) The positive correlation between the production of PVC pipelines and the demand of PVC resins

We have discussed with the management of the Group and noted that PVC resins is the major raw material for the production of PVC pipelines, in particular, the production of each ton of PVC pipelines requires 0.86 to 0.92 ton of PVC resins, depends on the types of PVC pipelines produced. We have reviewed the historical figures of (i) the production volume of PVC pipelines; and (ii) the volume of PVC resins used for the production of PVC pipelines in the financial years 2015, 2016 and 2017 respectively, which are summarized in the table below.

	For the year ended 31 December		
	2015	2016	2017
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
	<i>(tons)</i>	<i>(tons)</i>	<i>(tons)</i>
Production volume of PVC pipelines	47,413	34,637	37,619
Volume of PVC resins used for the production of PVC pipelines	41,441	29,787	34,623
Average volume of PVC resins used or each ton of PVC pipelines	0.87	0.86	0.92

Based on our review, we noted that the average volume of PVC resins used in production of each ton of PVC pipelines remained stable and ranged from 0.86 to 0.92 ton for the three years ended 31 December 2015, 2016 and 2017. The historical consumption pattern of PVC resins supported the positive correlation between production volume of PVC pipeline and PVC resins used for the production, (i.e. more PVC resins will be used when more PVC pipelines are produced), and the positive correlation is expected to continue given there is no material change in the production facilities of the Group. Based on the above, it is expected that the Group will experience a growth in demand of PVC resins, which is principally driven by (i) the positive factors supporting the growth of market demand for the water-saving irrigation system and (ii) the positive correlation between production volume of PVC pipelines and PVC resins used for the production. Therefore, we are of the view that the determination of the Purchase Annual Caps based on, among others, the positive correlation between the demand of PVC resins and the expected production volume of PVC pipelines is justifiable.

Per discussion with the management of the Group, the Company has no plan to expand its production capacity for production of PVC pipelines from 2018 to 2020. We concur with the view of the Company on the stable projection of the Purchase Annual Caps for the years ending 31 December 2018, 2019 and 2020.

(c) the PVC resins procurement strategy of the Group

As discussed in the section headed “Reasons for the Proposed Continuing Connected Transactions” above, Tianye Holdings Group is one of the market leaders in the PRC’s PVC resins industry. We concur with the view of management of the Group that Tianye Holdings Group is able to provide stable supply of PVC resins to fulfill the demand of the Group.

According to our assessment under the Master Purchase Agreement as discussed above, we noted that the Company normally choose the supplier with the most favourable terms taking into consideration of material cost and transportation cost, given that both the Group and Tianye Holdings Group are located in Shihezi, Xinjiang Province, the Group can benefit from lower transportation costs if the Group purchases PVC resins from Tianye Holdings Group. In view of this, we are of the view that procuring PVC resins from Tianye Holdings Group can provide the Group with cost benefit.

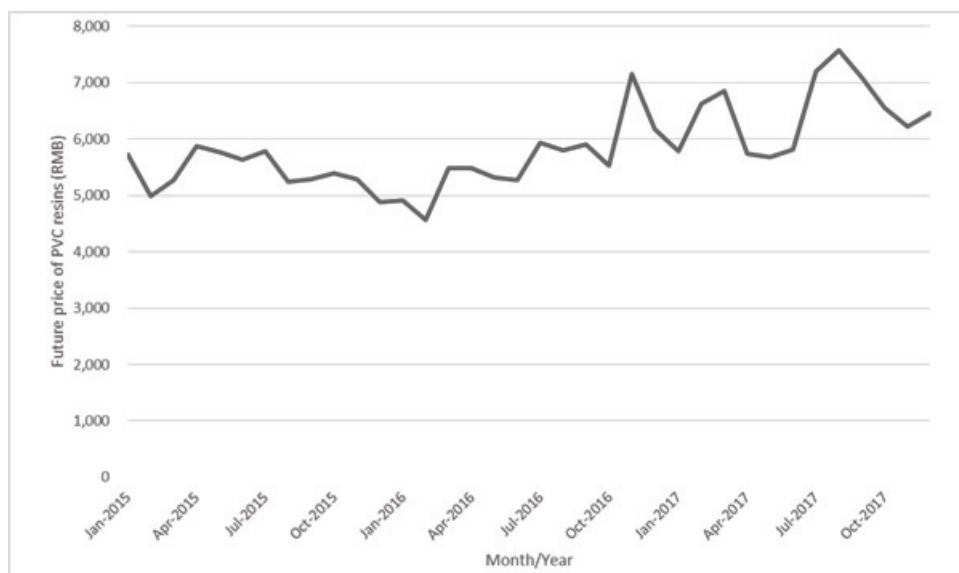
(d) Estimated market price of PVC resins in the PRC

The historical transaction amounts for the three years ended 31 December 2015 to 2017 was approximately RMB213,710,000, RMB150,000,000 and RMB176,750,000, respectively.

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As stated in the Letter from the Board, the average purchase prices under the 2015 Master Purchase Agreement were approximately RMB4,591/ton, RMB4,900/ton and RMB5,832/ton in the financial years ended 31 December 2015, 2016 and 2017 respectively, and the average purchase price is approximately RMB6,230/ton in the financial year 2018. Given the historical increasing trend in material cost, the management of the Group expects that the market price of the PVC resins will experience a stable growth and up to RMB7,000/ton for the three years ending 31 December 2020 and estimates an average market price of PVC resins for the years 2018 to 2020 to be approximately RMB6,500/ton.

We are advised by the management of the Group that the movement of market price of PVC resins is highly correlated with the future price of PVC resins. In order to assess whether the expected increasing trend of average market price of PVC resins is reasonable, we have studied the historical future prices of PVC resins during the year 2015 to 2017.



Source: statistics data published by Dalian Commodity Exchange (大連商品交易所 <http://www.dce.com.cn/>)

As shown in the above chart, the future price of PVC resins has increased from RMB5,730/ton in the beginning of 2015 to RMB6,470/ton at the end of 2017, representing a compound annual growth rate of approximately 4.13%. We concur with view of the management that the price of PVC resins has been fluctuating over the past three years and has shown a general increasing trend.

We noted that the Purchase Annual Caps represents a slight increase of approximately 3% as compared to the annual caps under the 2015 Master Purchase Agreement. We also noted that the historical annual caps under the 2015 Master Purchase Agreement were not fully utilized (utilization rate for

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the years ended 31 December 2015, 2016 and 2017 was approximately 88.1%, 61.8% and 72.8% respectively) and the Purchase Annual Caps represents an increase of approximately 41.4% as compared to the historical transaction amount of approximately RMB176,750,000 for the year ended 31 December 2017. Nevertheless, we are of the view that even the historical annual caps are not fully utilised, the historical transaction amount was not the only factor taken into consideration in determining the Purchase Annual Caps, we have also considered other factors including the future trend in the market. Having considered (i) there are positive factors supporting the stable growth of market demand for the PVC pipelines and in turn the growth in demand of PVC resins by the Group; (ii) the positive correlation between the production volume of PVC pipelines and demand of PVC resins; (iii) the cost benefit of procuring PVC resins from Tianye Holdings Group; (iv) the general increasing trend in market price of PVC resins in the past three years; and (v) the flexibility and buffer for the Group to purchase PVC resins when production volume changes, we are of the view that the Purchase Annual Caps, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

3.2 Proposed Annual Caps of the Master Sales Agreement

The table below sets forth the proposed annual caps of the Master Sales Agreement (the “**Sales Annual Caps**”) for each of the three years ending 31 December 2020.

	2015 Master Sales Agreement			Master Sales Agreement		
	For the year ended 31 December 2015	2016	2017	For the year ended 31 December 2018	2019	2020
Annual Caps (RMB million)	14.0	14.0	14.0	18.0	18.0	18.0

As set out in the Letter from the Board, the Sales Annual Caps was determined by reference to (i) the historical transaction amounts for the three years ended 31 December 2015 to 2017 i.e. approximately RMB1,505,000, RMB997,000 and RMB1,998,000 respectively, (ii) the estimated growing in the demand of Tianye Holdings Group and its customers; and (iii) increase in customers base of Tianye Holdings Group.

Our Assessment

To assess the fairness and reasonableness of the Sales Annual Caps, we have discussed with the Directors regarding the basis of determination of the Sales Annual Caps. We have assessed the above factors and assumptions as follows:

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(a) the estimated growth in the demand of Tianye Holdings Group

As stated in the section headed “1. Background of and reasons for the Proposed Continuing Connected Transactions” above, Tianye Holdings Group is engaged in various kinds of business which may involve the application of the Group’s product for irrigation and water supply purpose. As advised by the management of the Group, during the three years ended 31 December 2017, Tianye Holdings Group purchased the Products from the Group mainly for irrigation of the greening areas in its facilities.

As further discussed with the management of the Group, in early 2018, the Group has successfully become the supplier of Bashi Shihezi Oasis Communication Investment Co., Ltd* (八師石河子市綠洲交通投資有限公司) (“**Shihezi Oasis**”), a company engaged in construction of water supply system in an industrial area which is in demand for the Group’s PVC pipelines. As advised by the management of the Group, Tianye Holdings Group has proposed to acquire Shihezi Oasis in early 2018 and it will become a member of Tianye Holdings Group upon completion of the acquisition. In determining the Sales Annual Caps, the Group has taken into consideration such future growth in demand by Tianye Holdings Group and the intention to provide a buffer to facilitate the transaction between the Group and Tianye Holdings Group in the next three financial years.

To justify the fairness and reasonableness of the estimated future growth in demand by Tianye Holdings Group, we have obtained and reviewed the notice of successful tender issued by Shihezi Oasis which stated the Group has successfully bid the contract in the amount of approximately RMB11.5 million in March 2018. As discussed with the management of the Group, the contract is expected to be fulfilled in the second half of 2018. The Group and Shihezi Oasis had sales transaction in the amount of approximately RMB28 million in 2017 and the Group is negotiating with Shihezi Oasis for the potential sales transaction of approximately RMB6.6 million. We noted that Shihezi Oasis and the Group has business relationship in the past and pursuant to the tender in 2018 and the cooperation intention in the future, growth in demand by Tianye Holdings Group is expected to be increased once Shihezi Oasis becomes member of Tianye Holdings Group. Given the diversified business mix and scale of operation of the Tianye Holdings Group and the proposed acquisition of Shihezi Oasis, we are of the view that Tianye Holdings Group may have similar project and in turns demand for the Group’s product in the year 2019 and 2020 and hence, increase in demand by Tianye Holdings Group is justifiable.

(b) the estimated market price of the Products in the PRC

As stated in the section headed “2.2 Principal terms of the Master Sales Agreement” above, the price of the Products is affected by a number of factors including the price of raw materials and prevailing market prices offer

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by peers, given the general increasing trend in price of raw materials (i.e. PVC resins) as stated in the section headed “3.1 Proposed Annual Caps of the Master Purchase Agreement” above, the management of the Group predicts the selling price of the Products will experience a stable growth in the coming three years.

Regarding this, we have reviewed the average selling price of the Group’s product during the three years ended 31 December 2017 and set out as follows:

	For the year ended		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
PVC pipelines (per ton)	6,464	6,128	7,289
PE pipelines (per ton)	10,563	10,786	11,583
drip tape (per meter)	0.145	0.145	0.145

As shown in the above table, except for the PE pipelines and drip tape of which selling price had been stable over the past three financial years, the selling price of PVC pipelines has shown an increasing trend over the same period. As the market price of PVC resins is expected to increase in the coming years and the Group has introduced new types of PVC pipelines with higher selling price, it is expected that the selling price of PVC pipelines will maintain a stable growth in the coming three financial years.

To further assess the fairness and reasonableness of the increasing trend in the price of the Group’s products, which are largely belong to the plastic product category, we have performed our own desktop research. Pursuant to the Producer’s Price Index for Manufactured Plastic Products* (塑料製品業工業生產者出廠價格指數) issued by National Bureau of Statistics of China, price index of plastic products has increased from 96.5 in the end of 2015 to 101.7 in the end of 2017, representing a compound annual growth rate of approximately 2.7%. We are of the view that the estimated growth in price of the Group’s products is justifiable.

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We noted that the Sales Annual Caps represents an increase of approximately 28.6% as compared to the historical annual caps under the 2015 Master Sales Agreement. We also noted that the historical annual caps under the 2015 Master Sales Agreement were not fully utilised (utilisation rate for the years ended 31 December 2015, 2016 and 2017 was approximately 10.8%, 7.1% and 14.3% respectively) and the Sales Annual Caps represents an increase of approximately 800.9% as compared to the historical transaction amount of approximately RMB1,998,000 for the year ended 31 December 2017. Despite the low historical utilisation rates, in assessing the fairness and reasonableness of the Sales Annual Caps, we have also taken into account the historical transaction nature, current circumstances and expected trend in the coming financial years. Having considered (i) the demand of PVC pipelines of the Group by Tianye Holdings Group in the amount of approximately RMB11.5 million which has already accounted for over 63% of the Sales Annual Caps for the year 2018; and (ii) the expected stable growth in selling price of the Group's products, we are of the view that the Sales Annual Caps, representing an increase of approximately 28.6%, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4. Internal Control

As stated in the Letter from the Board, under Rule 14A.35 and 14A.36 of the Listing Rules, the Company is required to make timely disclosure and seek for Independent Shareholders' approval for the Continuing Connected Transactions. The aggregate transaction amount under the Master Purchase Agreement for the period from 1 January 2018 to 28 February 2018 (the "Transactions") was approximately RMB32.5 million. As the applicable percentage ratios in respect of the Transactions is more than 5% and is more than HK\$10,000,000, the Transactions are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, for which the Company should have complied with Rule 14A.35 and Rule 14A.36 of the Listing Rules in relation to the announcement of the Master Purchase Agreement and seeking for Independent Shareholders' approval in February 2018. The breach of Rule 14A.35 and Rule 14A.36 of the Listing Rules was due to internal control deficiencies of the Group.

The Directors consider that the failure to comply with Rule 14A.35 and Rule 14A.36 of the Listing Rules in relation to the announcement of the Master Purchase Agreement and Master Sales Agreement and seeking for Independent Shareholders' approval was inadvertent and it was a one-off incident. In light of the non-compliance, the Company has already taken immediate actions to tighten the internal control procedures including (i) provision of internal training to responsible staff to increase their understanding of connected transactions and emphasis the importance of timely reporting of connected transactions; and (ii) designation of the senior management of the Group being responsible for detecting or preventing the non-disclosure of connected transactions. The Directors consider these procedures can prevent the recurrence of similar event in the future. Notwithstanding the non-compliance of the Rule 14A.35 and 14A.36 of the Listing Rules,

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the Company is able to comply with other annual review and reporting requirements under Chapter 14A. The Company's independent non-executive directors had reviewed the continuing connected transactions on a yearly basis and has confirmed in the annual report that the transactions have been entered into in the ordinary and usual course of business of the Group and on a normal commercial term. The Company has also engaged its auditors to report on the continuing connected transactions on a yearly basis. Details have been disclosed in the annual report of the Company for the year ended 31 December 2017.

We consider that, provided that full implementation of the above measures and enhancement have been done, the Company will have adequate internal control procedures to comply with requirements under Chapter 14A of the Listing Rules to avoid the re-occurrence of similar incident in the future.

RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the terms of the Master Purchase Agreement and Master Sales Agreement, including the proposed annual caps and the transactions contemplated thereunder, are on normal commercial terms and in the ordinary and usual course of business of the Group, and 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.

Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Proposed Continuing Connected Transactions and the proposed annual caps, as detailed in the notice of AGM set out on the pages 47 to 53 of the Circular.

Yours faithfully,
For and on behalf of
INCUCorporate Finance Limited
Gina Leung
Managing Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCUCorporate 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.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide the requisite information to enable you to make an informed decision on whether to vote for or against the special resolution to approve the grant of the Repurchase Mandate to the Directors.

LISTING RULES RELATING TO THE REPURCHASE OF SECURITIES

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below. The Company is empowered by the Articles of Association to repurchase its own securities.

SHARE CAPITAL

As at the Latest Practicable Date, the registered share capital of the Company was RMB519,521,560 comprising 317,121,560 Domestic Shares and 202,400,000 H Shares. Subject to the passing of the proposed resolution for the grant of the Repurchase Mandate and on the basis that no H Shares will be allotted and issued or repurchased by the Company on or prior to the date of the AGM and the Class Meetings, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 20,240,000 H Shares, being the maximum of 10% of the total H Shares in issue as at the date of passing the relevant resolution.

REASONS FOR THE REPURCHASE

The Directors believe that the Repurchase Mandate is in the interests of the Company and the Shareholders. An exercise of the Repurchase Mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

FUNDING OF REPURCHASES

In repurchasing its H Shares, the Company may only apply funds from the Company's internal resources legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws, rules and regulations of the PRC, including but not limited to surplus funds and undistributed profits of the Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase.

Taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with its position as at 31 December 2017, being disclosed in the Company's latest published audited accounts contained in the annual report for the year ended 31 December 2017. However, the Directors do not intend to make any repurchases to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company. The number of H Shares to

be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then prevailing, in the best interests of the Company.

STATUS OF REPURCHASED H SHARES

The Listing Rules provide that the listing of all the H Shares repurchased by the Company shall automatically be cancelled and the relevant share certificates shall be cancelled and destroyed. Under the PRC laws, the H Shares repurchased by the Company will be cancelled and the Company's registered capital will be reduced by an amount equivalent to the aggregate nominal value of the H Shares so cancelled.

H SHARE PRICES

The highest and lowest prices at which the H Shares have traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	Highest <i>(HK\$)</i>	Lowest <i>(HK\$)</i>
2017		
April	0.78	0.69
May	0.72	0.66
June	0.70	0.59
July	0.72	0.59
August	0.80	0.67
September	0.77	0.70
October	0.83	0.69
November	0.78	0.70
December	0.78	0.70
2018		
January	0.84	0.70
February	0.75	0.68
March	0.78	0.61
April	0.65	0.59
May (up to the Latest Practicable Date)	0.60	0.49

DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make purchases pursuant to the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws, rules and regulations of the PRC.

DISCLOSURE OF INTERESTS

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, their associates, have any present intention to sell to the Company any of the H Shares in the Company if the Repurchase Mandate is approved at the AGM and the Class Meetings.

As at the Latest Practicable Date, no connected person of the Company has notified the Company that he/she/it has a present intention to sell any H Shares nor has such connected person undertaken not to sell any of the securities held by him/her/it to the Company in the event that the Repurchase Mandate is granted.

IMPLICATION UNDER THE TAKEOVERS CODE

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase securities pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code.

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, (i) Tianye Company was the Substantial Shareholder, which held 202,164,995 Domestic Shares, representing approximately 38.91% of the registered capital of the Company; (ii) Tianye Holdings, which is interested in approximately 42.05% of the registered capital of Tianye Company, held 111,721,926 Domestic Shares, representing 21.50% of the registered capital of the Company. On the basis that 519,521,560 Shares in issue as at the Latest Practicable Date and assuming that no other Shares will be issued or repurchased by the Company on or prior to the date of the AGM and the Class Meetings, if the Repurchase Mandate were exercised in full, the percentage interests in the Company held by Tianye Company and its associates would increase to approximately 62.87% of the then registered share capital of the Company. The Directors are not aware of any consequences which will arise under the Takeovers Code and/or any similar applicable law as a result of any repurchases to be made under the Repurchase Mandate. Moreover, the Directors will not make share repurchase on the Stock Exchange if such repurchase would result in the requirements under Rule 8.08 of the Listing Rules not being complied with.

SECURITIES REPURCHASE MADE BY THE COMPANY

The Company had not purchased any H Shares (whether on the Stock Exchange or otherwise) during the six months immediately preceding the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually 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, there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors, supervisors and chief executive of the Company

Directors', Supervisors' and Chief Executives' interests in Shares, underlying Shares and Debentures

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company, including their respective associates, have any interests in the Shares and/or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) of the Listing Rules on the Stock Exchange.

Substantial shareholders of the Company

(A) Substantial Shareholders

As at the Latest Practicable Date, the register of Substantial Shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following persons or entities (other than a Director, Supervisor or chief executives) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

Name	Capacity of interests held	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)
Tianye Company (Note 3)	Beneficial owner	202,164,995 (L)	63.75%	38.91%
Xinjiang Tianye (Group) Limited (“ Tianye Holdings ”) (Note 4)	Beneficial owner Interest in controlled corporation	111,721,926 (L) 202,164,995 (L)	35.23% 63.75%	21.50% 38.91%

Notes:

1. “L” denotes the person’s/entity’s long positions 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 were equivalent to approximately 63.75% of the total domestic Shares in issue.

202,164,995 domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 42.05% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

(B) Other persons who are required to disclose their interests pursuant to Division 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, save for the persons or entities disclosed in subsection (A) above, the following persons or entities (other than Directors, Supervisors or chief executives of the Company) had notified the Company of relevant interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO:

Name of shareholders	Capacity	Number of H Shares of the Company held (Note 1)	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Ding Wai (“Mr. Ding”)	Beneficial owner	14,407,000(L)	7.12%	2.77%
Wang Bing (“Ms. Wang”) (Note 5)	Interest in spouse	14,407,000(L)	7.12%	2.77%

Notes:

1. “L” denotes the person’s/entity’s long positions 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 Mr. Ding were equivalent to approximately 7.12% of the total H Shares in issue of the Company.
4. 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.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors, proposed directors, supervisors or proposed supervisors of the Company had any existing or proposed service contract with any member of the Group excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. INTEREST IN CONTRACT

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group, and which was significant in relation to the business of the Group.

5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the directors of the Company and its subsidiaries, or their respective associates has interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries.

7. EXPERT

The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
INCU	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

- (a) As at the Latest Practicable Date, INCU was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any H Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), 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.

- (b) INCU does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Company were made up.
- (c) INCU has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (d) The letter and recommendation given by INCU are given as of the date of this circular for incorporation herein.

8. LITIGATION

No member of the Company and its subsidiaries is at present engaged in any litigation or arbitration of material importance to the Company and its subsidiaries and no litigation or claim of material importance to the Company and its subsidiaries is known to the Directors or the Company to be pending or threatened by or against any member of the Company and its subsidiaries.

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Master Purchase Agreement and the Master Sales Agreement, the consent letter and the letter of advice from INCU are available for inspection at 22nd Floor, Worldwide House, 19 Des Voeux Road Central, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the AGM.

10. MISCELLANEOUS

- (a) The English text of this circular shall prevail over the Chinese text.
- (b) The registered and head office of the Company is situated at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

The place of business of the Company in Hong Kong is at Unit A, 27/F., Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.

NOTICE OF ANNUAL GENERAL MEETING



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 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the “AGM”) 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, 15 June 2018 at 10:30 a.m. (or at any adjournment thereof) for the following purposes and to pass the following resolutions:

ORDINARY RESOLUTIONS

1. To consider and approve the report of the directors (the “**Directors**”) of the Company for the year ended 31 December 2017;
2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2017;
3. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries and the auditors’ report for the year ended 31 December 2017;
4. To consider and approve the resolution for making appropriation to statutory surplus reserve fund for the year ended 31 December 2017;
5. To authorize the board of Directors (the “**Board**”) to fix the remuneration of the Directors and the supervisors of the Company for the year 2017;
6. To consider and approve the re-appointment of Pan-China Certified Public Accountants LLP as auditors of the Company and to authorize the Board to fix their remunerations;
7. To consider and appoint Mr. Chen Cailai as shareholders representative Supervisor with effect from the date of passing of this resolution for a term of one year;

* For identification purpose only

NOTICE OF ANNUAL GENERAL MEETING

8. To consider and approve that:
- (a) the agreement (the “**Master Purchase Agreement**”) dated 4 April 2018 entered into between the Company and Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司) (“**Tianye Holdings**”) (a copy of which is produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose) in relation to the purchase by the Group on an ongoing basis of certain PVC resins which may be required by the Group, and the terms of and the transactions contemplated under the Master Purchase Agreement and the implementation thereof be and are hereby approved, confirmed and ratified;
 - (b) the proposed annual caps in relation to the transactions under the Master Purchase Agreement for the period from 1 January 2018 until the end of the financial year ending 31 December 2018 to 2020 will not exceed RMB250,000,000, RMB250,000,000 and RMB250,000,000 respectively be and are hereby approved; and
 - (c) any one director of the Company, be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with transactions contemplated under the Master Purchase Agreement.
9. To consider and approve that:
- (a) the agreement (the “**Master Sales Agreement**”) dated 4 April 2018 entered into between the Company and Tianye Holdings (a copy of which is produced to the meeting marked “B” and initialed by the chairman of the meeting for identification purpose) in relation to the sales by the Group on an ongoing basis of certain PVC PE pipelines, drip tape and drip assemblies which may be required by Tianye Holdings, and the terms of and the transactions contemplated under the Master Sales Agreement and the implementation thereof be and are hereby approved, confirmed and ratified;
 - (b) the proposed annual caps in relation to the transactions under the Master Sales Agreement for the period from 1 January 2018 until the end of the financial year ending 31 December 2018 to 2020 will not exceed RMB18,000,000, RMB18,000,000 and RMB18,000,000 respectively be and are hereby approved; and
 - (c) any one director of the Company, be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with transactions contemplated under the Master Sales Agreement.

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL RESOLUTIONS

1. “THAT:

- (A) there being granted to the Board an unconditional general mandate (“**Issue Mandate**”) to issue, allot and deal with additional domestic shares of nominal value of RMB1.00 each in the registered capital of the Company (the “**Domestic Shares**”) and/or overseas-listed foreign invested shares of nominal value of RMB1.00 each in the share capital of the Company (the “**H Shares**”), to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
- (a) the aggregate number of Domestic Shares and/or H Shares to be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Board shall not exceed 20 percent of the issued share capital of that class as at the date of passing of this resolution;
 - (b) the General Mandate shall not extend beyond the period from the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the 12-month period following the passing of this resolution; or
 - (iii) the date on which the authority as set out in this resolution is revoked or varied by a special resolution of the Shareholders in a general meeting.
 - (c) the Board will only exercise its power under the Issue Mandate in accordance with the Companies Law of the PRC, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as may be amended from time to time) and other relevant laws and regulations of Hong Kong and the PRC, and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained;
- (B) contingent on the Board resolving to issue additional shares pursuant to (A) above, the Board be authorised to:
- (a) increase the registered capital of the Company in accordance with the issue of the Domestic Shares and/or H Shares aforesaid, and attend to the relevant registration procedures with the relevant authorities in the PRC and Hong Kong;
 - (b) make appropriate amendments to the relevant provisions in articles of association of the Company (the “**Articles of Association**”) in relation to the registered capital of the Company and any other articles that require

NOTICE OF ANNUAL GENERAL MEETING

corresponding amendments so as to reflect the change in the registered capital and shareholding structure of the Company as a result of the allotment or issue of new shares and to submit the relevant amendments to the Articles of Association to the relevant authorities of the PRC and Hong Kong for approval and record (as the case may be); and

- (c) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares.”
2. To authorise the Board of the Company to repurchase H Shares subject to the following conditions:
- (a) subject to paragraphs (b) and (c) below, during the Relevant Period (as defined in paragraph (d) below), the Board may exercise all the powers of the Company to repurchase H Shares in issue of the Company on the Stock Exchange, subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the Stock Exchange or of any other governmental or regulatory body be and is approved;
 - (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
 - (c) the approval in paragraph (a) above shall be conditional upon:
 - (i) the passing of a special resolution in the same terms as this Special Resolution No. 2 (except for this sub-paragraph (c)(i)) at the class meeting for holders of H Shares of the Company to be held on Friday, 15 June 2018 (or on such adjourned date as may be applicable); and the class meeting for holders of Domestic Shares of the Company to be held on Friday, 15 June 2018 (or on such adjourned date as may be applicable); and
 - (ii) the approval of the State Administration of Foreign Exchange of the PRC and/or any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
 - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedures set out in the Articles of Association;

NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this special resolution, “**Relevant Period**” means the period from the passing of this special resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting following the passing of this special resolution;
 - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
 - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting or by a special resolution of holders of H Shares or holders of Domestic Shares of the Company at their respective class meetings; and
 - (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board be hereby authorized to:
 - (i) make such amendments to the Articles of Association of the Company as it thinks fit so as to reduce the registered capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares as contemplated in paragraph (a) above; and
 - (ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC and Hong Kong.
3. “**THAT** conditional upon the passing of special resolutions nos. 1 and 2 set out in the notice convening this meeting, the aggregate nominal amount of shares of RMB1.00 each in the share capital of the Company which is purchased or repurchased by the Company pursuant to the authority granted to the Board of the Company by special resolution no. 2 set out in the notice convening this meeting shall be added to the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the directors of the Company pursuant to special resolution no. 1 set out in the notice convening this meeting, provided that such shares shall not exceed 10 percent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution.”

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

Xinjiang, PRC, 30 April 2018

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the AGM is entitled to appoint in written form for one or more than one proxy to attend and vote at the AGM on his behalf. A proxy need not be a member of the Company.
2. The form of proxy for the AGM 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, Level 22, Hopewell Centre, 183 Queen's Road East, 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), not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM or any adjourned meeting should you so wish.
3. Shareholders or their proxies shall present proofs of identities when attending the AGM.
4. The register of the members of the Company will be closed from Friday, 25 May 2018 to Friday, 15 June 2018 (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 annual 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 in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4: 30 p.m. on Thursday, 24 May 2018.
5. Shareholders who intend to attend the AGM should complete and return the enclosed reply slip for attendance to the H Share registrar and transfer office of the Company in Hong Kong at Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of H Shares only) or to 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), by hand, by post or by fax (the fax number of the Company's H Share registrar and transfer office: (852) 28611465 (for holders of H Shares only) or the Company's fax number: (86993) 2623183 (for holders of Domestic Shares only)) on or before 4:30 p.m. on 24 May 2018.
6. As required under the Listing Rules, voting of the resolutions as set out in this notice will be by poll.
7. The AGM is expected to last for less than half day. The Shareholders and proxies attending the AGM shall be responsible for their own travelling and accommodation expenses.

NOTICE OF ANNUAL GENERAL MEETING

8. The Company's registered address:

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

Fax: (86993) 2623183



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)

NOTICE OF H SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN THAT a class meeting for holders of H Shares (the “**H Shareholders' Class Meeting**”) 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 PRC on Friday, 15 June 2018 at 10:30 a.m. (or at any adjournment thereof) for the following purposes and to pass the following resolutions:

SPECIAL RESOLUTION

1. To authorize the board (the “**Board**”) of directors (the “**Directors**”) of the Company to repurchase H Shares of the Company (the “**H Shares**”) subject to the following conditions:
 - (a) subject to paragraphs (b) and (c) below, during the Relevant Period (as defined in paragraph (d) below), the Board may exercise all the powers of the Company to repurchase H Shares in issue of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the Stock Exchange or of any other governmental or regulatory body be and is approved;
 - (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
 - (c) the approval in paragraph (a) above shall be conditional upon:
 - (i) the passing of a special resolution in the same terms as this Special Resolution No. 1 (except for this sub-paragraph (c)(i)) at the annual general meeting for holders of shares of the Company to be held on Friday, 15 June 2018 (or on such adjourned date as may be applicable);

* For identification purpose only

NOTICE OF H SHAREHOLDERS' CLASS MEETING

and the class meeting for holders of Domestic Shares of the Company to be held on Friday, 15 June 2018 (or on such adjourned date as may be applicable); and

- (ii) the approval of the State Administration of Foreign Exchange of the PRC and/or any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
 - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedures set out in the Articles of Association;
- (d) for the purpose of this special resolution, “**Relevant Period**” means the period from the passing of this special resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting following the passing of this special resolution;
 - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
 - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting or by a special resolution of holders of H Shares or holders of Domestic Shares of the Company at their respective class meetings; and
- (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board be hereby authorized to:
- (i) make such amendments to the Articles of Association of the Company as it thinks fit so as to reduce the registered capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares as contemplated in paragraph (a) above; and
 - (ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC and Hong Kong.

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

Xinjiang, PRC, 30 April 2018

* *For identification purpose only*

NOTICE OF H SHAREHOLDERS' CLASS MEETING

Notes:

1. The register of the members of the Company will be closed from Friday, 25 May 2018 to Friday, 15 June 2018 (both days inclusive), during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H Shares of the Company (the “**H Shareholders**”) for attending the H Shareholders’ Class Meeting. In order to determine the eligibility to attend the H Shareholders’ Class Meeting, the last lodgment for H Share transfer should be made on Thursday, 24 May 2018 at Tricor Investor Services Limited by or before 4:30 p.m. The H Shareholders or their proxies being registered before the close of business on Thursday, 24 May 2018 are entitled to attend the H Shareholders’ Class Meeting by presenting their identity documents. The address of Tricor Investor Services Limited is Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
2. Each H Shareholder having the rights to attend and vote at the H Shareholders’ Class Meeting is entitled to appoint one or more proxies (whether a H Shareholder or not) to attend and vote on his behalf.
3. H Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the registered address of the Company in not less than 24 hours before the time scheduled for the holding of the H Shareholders’ Class Meeting or any adjournment thereof.
4. H Shareholders who intend to attend the H Shareholders’ Class Meeting are requested to deliver the duly completed and signed reply slip for attendance to the Company’s registered and principal office in person, by post or by facsimile on or before 4:30 p.m., Thursday, 24 May 2018.
5. H Shareholders or their proxies shall present proofs of their identities upon attending the H Shareholders’ Class Meeting. Should a proxy be appointed, the proxy shall also present the Proxy Form.
6. The H Shareholders’ Class Meeting is expected to last for less than one day. The H Shareholders and proxies attending the H Shareholders’ Class Meeting shall be responsible for their own travelling and accommodation expenses.
7. The Company’s registered address:

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

Fax: (86993) 2623183



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 DOMESTIC SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN THAT a class meeting for holders of Domestic Shares (the “**Domestic Shareholders’ Class Meeting**”) 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 PRC on Friday, 15 June 2018 at 10:30 a.m. (or at any adjournment thereof) for the following purposes and to pass the following resolutions:

SPECIAL RESOLUTION

1. To authorize the board (the “**Board**”) of directors (the “**Directors**”) of the Company to repurchase H Shares of the Company (“**H Shares**”) subject to the following conditions:
 - (a) subject to paragraphs (b) and (c) below, during the Relevant Period (as defined in paragraph (d) below), the Board may exercise all the powers of the Company to repurchase H Shares in issue of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), subject to and in accordance with all applicable laws, rules and regulations and/or requirements of the governmental or regulatory body of securities in the PRC, the Stock Exchange or of any other governmental or regulatory body be and is approved;
 - (b) the aggregate nominal value of H Shares authorized to be repurchased pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 percent of the aggregate nominal value of H Shares in issue of the Company as at the date of the passing of this resolution;
 - (c) the approval in paragraph (a) above shall be conditional upon:
 - (i) the passing of a special resolution in the same terms as this Special Resolution No.1 (except for this sub-paragraph (c)(i)) at the annual general meeting for holdings of shares of the Company to be held on Friday, 15 June 2018 (or on such adjourned date as may be applicable);

* For identification purpose only

NOTICE OF DOMESTIC SHAREHOLDERS' CLASS MEETING

and the class meeting for holders of H Shares of the Company to be held on Friday, 15 June 2018 (or such adjourned date as may be applicable); and

- (ii) the approval of the State Administration of Foreign Exchange of the PRC and/or any other regulatory authorities as may be required by the laws, rules and regulations of the PRC being obtained by the Company if appropriate; and
 - (iii) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the notification procedures set out in the Articles of Association;
- (d) for the purpose of this special resolution, “**Relevant Period**” means the period from the passing of this special resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting following the passing of this special resolution;
 - (ii) the expiration of a period of twelve months following the passing of this special resolution; or
 - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in any general meeting or by a special resolution of holders of H Shares or holders of Domestic Shares of the Company at their respective class meetings; and
- (e) subject to approval of all relevant governmental authorities in the PRC for the repurchase of such H Shares being granted, the Board be hereby authorized to:
- (i) make such amendments to the Articles of Association of the Company as it thinks fit so as to reduce the registered capital of the Company and to reflect the new capital structure of the Company upon the repurchase of H Shares as contemplated in paragraph (a) above; and
 - (ii) file the amended Articles of Association of the Company with the relevant governmental authorities of the PRC and Hong Kong.

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

Xinjiang, PRC, 30 April 2018

* *For identification purpose only*

NOTICE OF DOMESTIC SHAREHOLDERS' CLASS MEETING

Notes:

1. The register of the members of the Company will be closed from Friday, 25 May 2018 to Friday, 15 June 2018 (both days inclusive), during which no transfer of domestic shares of the Company (“**Domestic Shares**”) will be registered in order to determine the list of holders of Domestic Shares of the Company (the “**Domestic Shareholders**”) for attending the Domestic Shareholders’ Class Meeting. In order to determine the eligibility of attending the Domestic Shareholders’ Class Meeting, the last lodgment for Domestic Share transfer should be made on Thursday, 24 May 2018 at the Company’s registered and principal office by or before 4:30 p.m. The Domestic Shareholders or their proxies being registered before the close of business on Thursday, 24 May 2018 are entitled to attend the Domestic Shareholders’ Class Meeting by presenting their identity documents.
2. Each Domestic Shareholder having the rights to attend and vote at the Domestic Shareholders’ Class Meeting is entitled to appoint one or more proxies (whether a Domestic Shareholder or not) to attend and vote on his behalf.
3. Domestic Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to the registered address of the Company in not less than 24 hours before the time scheduled for the holding of the Domestic Shareholders’ Class Meeting or any adjournment thereof.
4. Domestic Shareholders who intend to attend the Domestic Shareholders’ Class Meeting are requested to deliver the duly completed and signed reply slip for attendance to the Company’s registered and principal office in person, by post or by facsimile on or before 4:30 p.m., on 24 May 2018.
5. Domestic Shareholders or their proxies shall present proofs of their identities upon attending the Domestic Shareholders’ Class Meeting. Should a proxy be appointed, the proxy shall also present the Proxy Form.
6. The Domestic Shareholders’ Class Meeting is expected to last for less than one day. The Domestic Shareholders and proxies attending the Domestic Shareholders’ Class Meeting shall be responsible for their own travelling and accommodation expenses.
7. The Company’s registered address:

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

Fax: (86993) 2623183