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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)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **PREVIOUS CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the Listing Document as regards continuing connected transactions, which the Company had previously entered into (1) Old Purchase Agreement, (2) Old Master Purchase Agreement, (3) Old Sales Agreement and (4) Old Master Sales Agreement. At the time of application for listing the H Shares of the Company on the Main Board by way of introduction, the Company had applied for a wavier from the Stock Exchange, from strict compliance with the announcement (but not reporting) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the Wavier was granted on 28 August 2007. The Wavier was expired on 31 December 2008.

### **NEW CONTINUING CONNECTED TRANSACTIONS**

The Board announces that on 16 March 2009, the Company and Tianye Holdings entered into (1) the Master Purchase Agreement in respect of purchase of diamond-shaped wheels, packaging films and PVC resins and (2) the Master Sales Agreement in respect of sale of PVC/PE pipelines, drip films and drip assemblies. These agreements set out the framework within which the relevant products and components to be purchased or sold by the Group and in particular the key terms and conditions and general principles to be adopted by the Group when they place specific orders with or accept specific orders from Tianye Holdings Group.

### **LISTING RULES IMPLICATIONS**

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

As the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement is more than 2.5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Master Purchase Agreement, together with the proposed annual caps, are subject to reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(3) and (4) of the Listing Rules. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders on the terms of the Master Purchase Agreement. An independent financial adviser shall be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Tianye Holdings and its associates will abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Purchase Agreement shall be conducted by poll.

As the applicable percentage ratios (other than profit ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Sales Agreement is less than 2.5% under Rule 14A.34 of the Listing Rules, the transactions contemplated under the Master Sales Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders approval requirements.

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

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

The proposed continuing connected transactions comprise transactions carried out by the Group pursuant to the following agreements with Tianye Holdings Group:

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

### **(1) Master Purchase Agreement**

Date of agreement: 16 March 2009

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

Subject: Purchase of diamond-shaped wheels, packaging films and PVC resins.

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

**Term:** With effect from the date of approval by the Independent Shareholders up to 31 December 2011.

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

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

The proposed annual caps under the Master Purchase Agreement shall not exceed RMB83,940,000, RMB83,940,000 and RMB83,940,000 for the three years ending 31 December 2011 respectively. The proposed annual caps have been determined by reference to the sale price of the related transactions for the two years ended 31 December 2008 and any other relevant factors (including but not limited to increase of cost of raw material) which may have influence on the sale price and the management's view of the Group on the market conditions for the increase in demand for and the unit price of all kinds of diamond-shaped wheels, packaging films and PVC resins taking into account of the increase of cost of raw material in the forthcoming three years. The total historical transaction amounts in respect of purchase of diamond-shaped wheels, packaging films and PVC resins under the Old Purchase Agreement and the Old Master Purchase Agreement for the two years ended 31 December 2008 are RMB60,658,000 and RMB66,176,000.

## **(2) Master Sales Agreement**

**Date of agreement:** 16 March 2009

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

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

**Term:** With effect from the date of approval by the Independent Shareholders up to 31 December 2011.

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

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

The proposed annual caps under the Master Sales Agreement shall not exceed RMB6,000,000, RMB6,000,000 and RMB6,000,000 for the three years ending 31 December 2011 respectively. The proposed annual caps have been determined by reference to the value of the transactions for the two years ended 31 December 2008. The Parties also acknowledge that the demand of Tianye Holdings Group fluctuates materially based upon a variety of factors, including without limitation demand from its customers, and the portfolio of their equipment available for projects at any particular time. The total historical transaction amounts in respect of sales of drip films, PVC/PE pipelines and drip assemblies under the Old Sales Agreement and the Old Master Sales Agreement for the two years ended 31 December 2008 are RMB14,050,000 and RMB5,369,000.

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

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

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

Reference is made to the Listing Document as regards continuing connected transactions, which the Company had previously entered into (1) Old Purchase Agreement, (2) Old Master Purchase Agreement, (3) Old Sales Agreement and (4) Old Master Sales Agreement. At the time of application for listing of H Shares of the Company on the Main Board of the Stock Exchange by way of introduction, the Company had applied for a waiver from the Stock Exchange, from strict compliance with the announcement (but not reporting) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the Waiver

was granted on 28 August 2007. The Waiver was expired on 31 December 2008. The annual caps granted under the Waiver and the historical transaction amounts for each of Old Purchase Agreement, Old Master Purchase Agreement, Old Sales Agreement and Old Master Sales Agreement are below:

**(1) Old Purchase Agreement**

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps granted under the Waiver	9,760	9,760
Historical transaction amounts	6,858	9,488

**(2) Old Master Purchase Agreement**

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps granted under the Waiver	61,220	61,220
Historical transaction amounts	53,800	56,688

**(3) Old Sales Agreement**

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps granted under the Waiver	16,200	16,200
Historical transaction amounts	13,165	4,126

**(4) Old Master Sales Agreement**

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps granted under the Waiver	1,250	1,250
Historical transaction amounts	885	1,243

The historical transactions amounts of the Old Sales Agreement decreases from RMB13,165,000 for the year ended 31 December 2007 to RMB4,126,000 for the year ended 31 December 2008. The reason for such decrease is that 149 Regiment of No.8 Division is no longer a wholly-owned subsidiary of Tianye Holdings and becomes an independent third party to the Group by the end of 2007 and hence the transactions between 149 Regiment and the Group will not be considered as continuing connected transactions. The annual demand by 149 Regiment of No.8 Division for drip films, PVC/PE pipelines and drip assemblies is approximately between RMB8,000,000 to RMB12,000,000.

The Group intends to improve the costs and operational efficiency, and therefore has arranged to enter into Master Purchase Agreement and Master Sales Agreement with Tianye Holdings, instead of entering into two sales agreements and/or two purchase agreements with both Tianye Holdings and Tianye Company. Having considered that the factory of Tianye Holdings Group is nearby, the Group can lower the transportation costs if the Group purchases diamond-shaped wheels, packaging films and PVC resins from Tianye Holdings Group. Furthermore, in the event of shortage of any raw material or competents in the market, Tianye Holdings Group agrees to give priority to the Group to purchase at the market price the diamond-shaped wheels, packaging films and 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 raw materials and other components. Furthermore, the Group supplies the drip films, PVC/PE pipelines and drip assemblies to Tianye Holdings Group. The Directors consider that it is in the interest of the Group to enter into the Master Sales Agreement as sales to Tianye Holdings Group will increase the volume of sales on the Group's products and the profit of the Group.

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

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

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

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

#### **LISTING RULES IMPLICATIONS**

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

As the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement is more than 2.5% and the annual consideration is more than HK\$10,000,000, the transactions

contemplated under the Master Purchase Agreement, together with the proposed annual caps, are subject to reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(3) and (4) of the Listing Rules. An Independent Board Committee of the Company will be formed to advise the Independent Shareholders on the terms of the Master Purchase Agreement. An independent financial adviser shall be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Tianye Holdings and its associates will abstain from voting at the AGM and the vote to be taken at the AGM with respect of the Master Purchase Agreement shall be conducted by poll.

As the applicable percentage ratios (other than profit ratio) under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Sales Agreement is less than 2.5% under Rule 14A.34 of the Listing Rules, the Continuing Connected Transaction contemplated under the Master Sales Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders approval requirements.

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

#### **TERMS USED IN THIS ANNOUNCEMENT**

“AGM”	an annual general meeting of the Company to approve the transactions contemplated under the Master Purchase Agreement and the Master Sales Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司), a joint stock limited company established in the PRC with limited liability on 18 December 2003 under the Company Law or its predecessor
“Company Law”	The Company Law of the PRC as enacted by the Standing Committee of the Eighth National People's Congress of the PRC on 29 December 1993 and came into force on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors (including the independent non-executive Directors) of the Company

“Domestic Share(s)”	domestic shares of nominal value RMB1.00 each in the registered capital of the Company which are subscribed for or credited as fully paid up in Renminbi
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of nominal value 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 Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent committee of the board of the Company comprising all independent non-executive Directors, Mr. He Lin Wang, Mr. Xia Jun Min, Mr. Gu Lie Feng and Mr. Mak King Sau, which will be formed to advise the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement
“Independent Shareholders”	Shareholders other than Tianye Holdings and its associates
“Listing Document”	listing document of the Company dated 30 August 2007
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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 16 March 2009 for the purchase by the Group from Tianye Holdings Group of the diamond-shaped wheels, packaging films and 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 16 March 2009 for the sales by the Group to Tianye Holdings Group of the PVC/PE pipelines, drip films and drip assemblies
“No. 8 Division”	No. 8 Division of Agricultural Construction of XPCR (新疆生產建設兵團農業建設第八師), an administrative management unit under supervision of XPCR
“Old Master Purchase Agreement”	a master purchase agreement entered into between the Company and Tianye Company on 7 February 2006 in respect of purchase of PVC resins, packaging films and stabilizers by the Group
“Old Purchase Agreement”	a purchase agreement entered into between the Company and Tianye Holdings on 7 February 2006 in respect of purchase of spare parts and used materials by the Group

“Old Master Sales Agreement”	a master sales agreement entered into between the Company and Tianye Company on 7 February 2006 in respect of sale of drip films, PVC/PE pipelines and drip assemblies by the Group
“Old Sales Agreement”	a sales agreement entered into between the Company and Tianye Holdings on 7 February 2006 in respect of sale of drip films, PVC/PE pipelines and drip assemblies by the Group
“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Shares
“Tianye Company”	Xinjiang Tianye Company Limited* (新疆天業股份有限公司), a company established in the PRC with limited liability on 9 June 1997, and 248,832,000 A shares of which were listed on the Shanghai Stock Exchange as at the date hereof
“Tianye Company Group”	Tianye Company and its subsidiaries
“Tianye Holdings”	Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司), which was established in the PRC with limited liability on 28 June 1996, was wholly owned by SACC of No. 8 Division and engages in the production and sales of tomato paste, citric acid, vehicles and road transportation, production and sales of plastic products; sale of steel, building, materials, textile, car accessories, livestock products, dried and fresh fruits, mechanical equipment and chemical industrial products; growing, cultivation, promotion of water saving agricultural technology, research on water saving agricultural projects, import and export business. It owns approximately 43.27% of the registered capital of Tianye Company as the date hereof
“Tianye Holdings Group”	Tianye Holdings and its subsidiaries (including Tianye Company Group but excluding the Group)

“Waiver”

the waiver obtained from the Stock Exchange on 28 August 2007 upon application for listing of H Shares of the Company on the Main Board of the Stock Exchange by way of introduction in respect of the application by the Company from the Stock Exchange for waiver from strict compliance with the announcement (but not reporting) and Independent Shareholders’ approval requirements under Rule 14A.42(3) of the Listing Rules for the Old Purchase Agreement, the Older Master Purchase Agreement, the Old Sales Agreement and the Old Master Sales Agreement

“XPCR”

Xinjiang Production and Construction Regiment (新疆生產建設兵團), a provincial administrative managerial authority

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

Xinjiang, PRC, 17 March 2009

*As at the date of this announcement, the Board comprises four executive Directors namely Guo Qing Ren, Shi Xiang Shen, Li Shuang Quan and Zhu Jia Ji, and four independent non-executive Directors namely He Lin Wang, Xia Jun Min, Gu Lie Feng and Mak King Sau.*

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

\* *For identification purposes only*