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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)

**RENEWAL OF
THE EXISTING CONTINUING CONNECTED TRANSACTION:
(1) NEW MASTER PURCHASE AGREEMENT; AND
(2) NEW MASTER SALES AGREEMENT**

INTRODUCTION

Reference is made to the announcements of the Company dated 4 April 2018 and 28 May 2018 and the circular dated 29 May 2018 in relation to, among other things, the existing continuing connected transactions of the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement between the Company and Tianye Group on 4 April 2018. As the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement will expire on 31 December 2020, the Company has agreed to renew the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement by entering into New Master Purchase Agreement and New Master Sales Agreement with Tianye Group on 26 November 2020.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tianye Group is a controlling shareholder of the Company holding approximately 60.42% of the issued share capital of the Company in total, and Tianye Group is therefore a connected person of the Company. The transactions under both the New Master Purchase Agreement and the New Master Sales Agreement constitute continuing connected transactions of the Company 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 New Master Sales Agreement and the New Master Purchase Agreement respectively are more than 5% and the consideration for each of the transactions mentioned above is more than HK\$10,000,000, the transactions contemplated under the New Master Sales Agreement and the New Master Purchase Agreement respectively, together with the proposed annual caps thereunder, constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An Independent Board Committee of the Company comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

An EGM of the Company will be held for considering and approving, among others, the ordinary resolutions in respect of the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps). A circular containing, among other things, (i) the further details of the New Master Purchase Agreement and the New Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps); (ii) the recommendation from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser in relation to the terms of the New Master Purchase Agreement and the New Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps); (iv) a notice of the EGM; and (v) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 17 December 2020 and published on the websites of the Stock Exchange and the Company.

INTRODUCTION

Reference is made to the announcements of the Company dated 4 April 2018 and 28 May 2018 and the circular dated 29 May 2018 in relation to, among other things, the existing continuing connected transactions of the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 4 April 2018. As the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement will expire on 31 December 2020, the Company has agreed to renew the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement by entering into New Master Purchase Agreement and New Master Sales Agreement with Tianye Group on 26 November 2020.

1. New Master Purchase Agreement

Principal terms

Date of agreement: 26 November 2020

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

Subject: Purchase of PVC resins.

Condition Precedent: (i) Tianye Company Group's general meeting (where applicable) and the Board have passed and agreed by a resolution on the authorization to sign the New Master Purchase Agreement; and
(ii) The Company has fulfilled and complied with the relevant requirements and provisions of the Listing Rules (including but not limited to obtaining its Independent Shareholders' approval) in respect of the transactions contemplated under the New Master Purchase Agreement.

Term: With effect from 1 January 2021 to 31 December 2023.

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 in the New Master Purchase Agreement 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 date of this announcement, to the best of the knowledge of the Directors there is no government pricing policy in place which is applicable to PVC resins.

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 Group Companies on terms mutually agreed in accordance with the terms and conditions of the New Master Purchase Agreement. It is generally expected that the payment shall be made in full before delivery.

Pricing basis

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 Group Companies 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 into without the approval of the senior management of the Company.

There is no standard market price for PVC resins, and market price varies by regions. In relation to the average market price of the PVC resins, the average purchase prices under the 2018 Master Purchase Agreement were approximately RMB5,957/tons, RMB5,974/ton and RMB5,912/ton for the financial years 2018, 2019 and for the ten months ended 31 October 2020 respectively.

The Directors believe that the above procurement process will ensure the terms of the New 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.

Historical caps and transaction amount

The following table summarizes the annual caps and the historical transaction amount of the 2018 Master Purchase Agreement for each of the two years ended 31 December 2019 and for the ten months ended 31 October 2020:

	As of 31 December 2018 (Audited historical transaction amount)	As of 31 December 2019 (Audited historical transaction amount) (RMB)	As of 31 October 2020 (Unaudited historical transaction amount)
Annual caps	250,000,000	250,000,000	250,000,000
Historical transaction amount	100,760,000	121,435,000	119,394,000

Annual caps and the basis of determination

After consideration of the above factors, the annual caps for each of the three years ended 31 December 2023 under the New Master Purchase Agreement are as follows:

	For the year ended 31 December		
	2021	2022	2023
	(RMB)		
Annual caps	250,000,000	250,000,000	250,000,000

The proposed annual caps have been determined by reference to (i) the estimated growing demand of the Group's customers for PVC pipelines and the expected trend of market price based on the supportive policies from the government and an expected increase in customer base of Tianye Group; (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 2021 to 2023; (iii) the 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) the fact that all of the Group's PVC resins for the past three years were sourced from Tianye Group Companies; and (v) the value of transactions for the two years ended 31 December 2019 and for the ten months ended 31 October 2020.

2. New Master Sales Agreement

Principal terms

- Date of agreement: 26 November 2020
- Parties: (1) Tianye Group (for itself and on behalf of its subsidiaries) as the purchaser; and
(2) the Company (for itself and on behalf of its subsidiaries) as the seller.
- Subject: Sale of PVC/PE pipelines, drip tapes and drip assemblies.
- Condition Precedent: (i) Tianye Company Group's general meeting (where applicable) and the Board have passed and agreed by a resolution on the authorization to sign the New Master Sales Agreement; and
(ii) The Company has fulfilled and complied with the relevant requirements and provisions of the Listing Rules (including but not limited to obtaining its Independent Shareholders' approval) in respect of the transactions contemplated under the New Master Sales Agreement.
- Term: With effect from 1 January 2021 to 31 December 2023.
- 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 by independent third parties at Shihezi or region near Shihezi from time to time and pursuant to the terms set out in the New Master Sales Agreement 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 date of this announcement, 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 tapes and drip assemblies.

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 Group Companies on terms mutually agreed in accordance with the terms and conditions of the New Master Sales Agreement. It is generally expected that the payment shall be made in full before delivery.

Pricing basis

Based on the current price fluctuation of raw materials in the market and with reference to the product costs, the Group 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 with Tianye Group Companies.

In relation to the average market price of the PVC pipelines, the average sale price under the 2018 Master Sales Agreement were approximately RMB7,200/ton, RMB7,300/ton and RMB7,200/ton for the financial years 2018, 2019 and for the ten months ended 31 October 2020.

In relation to the average market price of the PE pipelines, the average sale price under the 2018 Master Sales Agreement were approximately RMB11,000/ton, RMB12,000/ton and RMB11,500/ton for the financial years 2018, 2019 and for the ten months ended 31 October 2020.

In relation to the average market price of the drip tapes, the average sale price under the 2018 Master Sales Agreement were approximately RMB0.125/metre, RMB0.125/metre and RMB0.125/metre for the financial years 2018, 2019 and for the ten months ended 31 October 2020.

The Directors believe that the above sales process will ensure the terms of the New 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.

Historical caps and transaction amount

The following table summarizes the annual caps and the historical transaction amount under the 2018 Master Sales Agreement for the two years ended 31 December 2019 and for the ten months ended 31 October 2020:

	As of 31 December 2018 (Audited historical transaction amount)	As of 31 December 2019 (Audited historical transaction amount) <i>(RMB)</i>	As of 31 October 2020 (Unaudited historical transaction amount)
Annual caps	18,000,000	18,000,000	18,000,000
Historical transaction amount	13,862,000	6,530,000	5,426,000

Annual caps and the basis of determination

After consideration of the above factors, the annual caps for each of the three years ended 31 December 2023 under the New Master Sales Agreement are as follows:

	For the year ended 31 December		
	2021	2022	2023
Annual caps	30,000,000	30,000,000	30,000,000

(RMB)

The proposed annual caps have been determined by reference to (i) the value of transactions for the two years ended 31 December 2019 and for the ten months ended 31 October 2020; (ii) the estimated growth in the demand of Tianye Group and its customers; (iii) the increase in customers base of Tianye Group; and (iv) the estimated growth in the demand of Tianye Group Companies after one of the Group's major customers who was an independent third party became a subsidiary of Tianye Group in December 2019.

3. REASONS FOR THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

Given the fact that the factory of Tianye Group Companies is located nearby, the Group can lower the transportation costs if it purchases PVC resins from Tianye Group Companies.

Furthermore, in the event of shortage of PVC resins in the market, Tianye Group Companies agrees to give priority to the Group to purchase the PVC resins from them at the market price. 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 is provided with a more favourable price for PVC resins with similar quality by the independent third parties.

The Group supplies the drip tapes, PVC/PE pipelines and drip assemblies to Tianye Group Companies and its customers, which will increase the Group's source of revenue. The Directors consider that it is in the interest of the Group to enter into the New Master Sales Agreement as sales to Tianye Group Companies 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) consider that (i) the annual caps and the terms of the New Master Purchase Agreement is on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interest of the Company and its Shareholders as a whole; and (ii) the annual caps and the terms of the New Master Sales Agreement is on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

4. General

Mr. Chen Lin, the executive director the Company, had abstained from voting at the Board meeting approving the New Master Purchase Agreement and the New Master Sales Agreement, as he/she has a material interest therein as a member of the party committee of Tianye Group. Save as disclosed above, none of the directors has a material interest in the New Master Purchase Agreement and/or the New Master Sales Agreement.

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, and is also engaged in the provision of installation services of water saving irrigation system for its customers as well as engaged in land circulation and engineering business, and strategic developing digital agriculture and agriculture service business.

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 from the government of the PRC), construction material, hardware and electric apparatus, steel productions, grain and cotton, textiles products, vehicle accessories, livestock products and dried and fresh fruits; agricultural cultivation, livestock feeding and exploitation of cultivated land and water for agricultural use; production and sales of tomato paste; recycling, processing and sales of used plastic; import and export of goods and technologies; and processing of agricultural by-products.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tianye Group is a controlling shareholder of the Company holding approximately 60.42% of the issued share capital of the Company in total, and Tianye Group is therefore a connected person of the Company. In the circumstances, Tianye Group is a connected person of the Company and the transactions under both the New Master Purchase Agreement and the New Master Sales Agreement constitute continuing connected transactions of the Company 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 New Master Sales Agreement and the New Master Purchase Agreement respectively are more than 5%, the transactions contemplated under the New Master Sales Agreement and the New Master Purchase Agreement respectively, together with the proposed annual caps thereunder, are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An Independent Board Committee of the Company comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

An EGM of the Company will be held for considering and approving, among others, the ordinary resolutions in respect of the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps).

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the New Master Sales Agreement and the New Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

To the best of the knowledge, information and belief of the Directors, as at the date of this announcement, apart from Tianye Company, Tianye Group and their associate(s), no other Shareholders will be required to abstain from voting at the EGM and the vote to be taken at the EGM in respect of the New Master Purchase Agreement and the New Master Sales Agreement shall be conducted by poll.

GENERAL

A circular containing, among other things, (i) the further details of the New Master Purchase Agreement and the New Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps); (ii) the recommendation from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser in relation to the terms of the New Master Purchase Agreement and the New Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps); (iv) a notice of the EGM; and (v) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 17 December 2020 and published on the websites of the Stock Exchange and the Company.

DEFINITION

“2018 Master Purchase Agreement”	the master purchase agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 4 April 2018 for the purchase by the Group from Tianye Group Companies of PVC resins for the period from 1 January 2018 to 31 December 2020;
“2018 Master Sales Agreement”	the master sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 4 April 2018 for the sales by the Group to Tianye Group Companies of the PVC/PE pipelines, drip tapes and drip assemblies for the period from 1 January 2018 to 31 December 2020;
“associate(s)”	has the meaning as defined under the Listing Rules;
“Board”	the board of directors of the Company;

“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;
“continuing connected transaction(s)”	has the meaning as defined under the Listing Rules;
“Directors”	the directors of the Company;
“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;
“EGM”	the extraordinary general meeting (and any adjournment thereof) of the Company to be held to consider and approve, among others, the New Master Purchase Agreement, the New Master Sales Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;
“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 People’s Republic of China;
“Independent Financial Adviser” or “INCUB”	INCUB Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, 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 New Master Purchase Agreement and the New Master Sales Agreement respectively;

“Independent Shareholders”	Shareholders other than Tianye Group, and Tianye Company and their associates;
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming, Ms. Gu Li and Mr. Hung Ee Tek;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Master Purchase Agreement”	the master purchase agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 26 November 2020 for the purchase by the Group from Tianye Group Companies of PVC resins;
“New Master Sales Agreement”	the master sales agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Tianye Group (for itself and on behalf of its subsidiaries) on 26 November 2020 for the sales by the Group to Tianye Group Companies of the PVC/PE pipelines, drip tapes and drip assemblies;
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“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;
“Substantial Shareholder(s)”	has the meaning as defined under the Listing Rules;

“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 date of this announcement;
“Tianye Company Group”	Tianye Company and its subsidiaries;
“Tianye Group”	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 SAAC of No. 8 Division. It owns approximately 53.57% and 21.51% of the registered capital of Tianye Company and the Company respectively at the date of this announcement;
“Tianye Group Companies”	Tianye Group and its subsidiaries (including Tianye Company Group but excluding the Group); and
“%”	percent.

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

Hong Kong, 26 November 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Lin (Chairman), Mr. Huang Dong and Mr. Tan Xinmin, and four independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming, Ms. Gu Li and Mr. Hung Ee Tek.

* *For identification purpose only*