

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO THE PROJECT CONSTRUCTION
SERVICES FRAMEWORK AGREEMENT**

**Independent Financial Adviser to
Independent Board Committee and Independent Shareholders**



On 7 October 2022, the Company and Tianye Group entered into the Project Construction Services Framework Agreement, pursuant to which, Tianye Group agreed to purchase infrastructure construction services from the Group for a period from 1 January 2022 to 31 December 2024.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tianye Group is the actual controller of the Company and holds a total of approximately 60.42% of the issued share capital of the Company directly and indirectly, therefore Tianye Group is a connected person of the Company. In light that Tianye Group is a connected person of the Company, the transactions contemplated under the Project Construction Services Framework Agreement constitute the continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules.

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the proposed annual caps of the Project Construction Services Framework Agreement is more than 5%, the transactions contemplated under the Project Construction Services Framework Agreement, together with the proposed annual caps, are subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

An Independent Board Committee of the Company comprising all independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Project Construction Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and whether they are 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 terms of the Project Construction Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and whether they are in the interests of the Company and its Shareholders as a whole.

An extraordinary general meeting of the Company will be held to consider and approve, among other things, ordinary resolutions in respect of the Project Construction Services Framework Agreement and its transactions contemplated thereunder (including the proposed annual caps). A circular containing, among other things, (i) further details of the Project Construction Services Framework Agreement and its transactions contemplated thereunder (including the proposed annual caps); (ii) recommendation from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser in relation to the terms of the Project Construction Services Framework Agreement and its transactions contemplated thereunder (including the proposed annual caps); (iv) a notice of convening the extraordinary general meeting; and (v) other information as required under the Listing Rules, will be dispatched to the Shareholders on or before 28 October 2022 and published on the websites of the Stock Exchange and the Company.

1. INTRODUCTION

On 7 October 2022, the Company and Tianye Group entered into the Project Construction Services Framework Agreement, pursuant to which, Tianye Group agreed to purchase infrastructure construction services from the Group for a period from 1 January 2022 to 31 December 2024.

2. PROJECT CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

Principal terms

- Date of agreement : 7 October 2022
- Parties : (i) the Company (for itself and on behalf of its subsidiaries), as the vendor; and
(ii) Tianye Group (for itself and on behalf of its subsidiaries), as the purchaser.
- Transactions : The Group will provide Tianye Group with various infrastructure construction services, including but not limited to Project Construction Services related to construction, works, maintenance, and safety rectification.
- Conditions precedent : The Project Construction Services Framework Agreement will come into effect upon the following conditions being satisfied:
(i) the Project Construction Services Framework Agreement has been duly executed and sealed by both the Company and Tianye Group;
(ii) the Project Construction Services Framework Agreement and the transactions contemplated thereunder have been approved by the relevant regulatory authorities (including but not limited to the relevant government authorities and the Stock Exchange); and
(iii) the Company has complied with the relevant requirements under the Listing Rules in relation to the Project Construction Services Framework Agreement and the transactions contemplated thereunder, including but not limited to making a report to the Stock Exchange, issuing an announcement and obtaining the approval from its Independent Shareholders in respect of the Project Construction Services Framework Agreement.
- Term : From 1 January 2022 to 31 December 2024.

Pricing policies : The following pricing principles shall apply to the pricing of services contemplated under the Project Construction Services Framework Agreement in the following order:

- (i) Government-mandated and government-suggested prices:

Where the government prescribes that pricing applies to products, technologies, or services of any specific type (at any time), the supply/provision of such products, technologies, or services shall be based on the applicable government-mandated prices. In case of applicable government-suggested pricing standards, the relevant prices shall refer to government-suggested pricing agreements. In accordance with the requirements under the national standard GB50500-2013 “Code of Valuation with Bill of Quantities of Construction Works”* (《建設工程工程量清單計價規範》), any construction project subject to the invitation to tender as required by law must implement the invitation to tender for bill of quantities and prepare pricing limits for the invitation to tender; and

This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, turnkey project services, engineering project management services, and tender management services. Among which, the relevant government-mandated and government-suggested prices for pre-construction engineering services, turnkey project services, and engineering project management services currently and mainly refer to the Regulations on Construction Project Supervision and Associated Service Fees Management* (《建設工程監理與相關服務收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for survey, design and technical services currently and mainly refer to the Project Survey and Design Fee Management Regulations* (《工程勘察設計收費管理規定》) issued by the Ministry of Housing and Urban-Rural Development of the PRC on its website. The relevant government-mandated and government-suggested prices for tender management services currently and mainly refer to the Provisional Measures on the Administration of Service Fees Charged for Tender Agency Services* (《招標代理服務收費管理暫行辦法》) issued by the National Development and Reform Commission.

(ii) Market prices:

Prices quoted by independent third parties for comparable or similar products or services on general commercial terms in the ordinary course of business; and

This pricing principle mainly applies to pre-construction engineering services, survey, design and technical services, and turnkey project services. Mainly in reference to the Regulations on the Implementation of the Tender and Bidding Law of the PRC* (《中華人民共和國招標投標法實施條例》), prices for equipment, materials, services, and others in relation to project construction are obtained in the market by way of public tender or independent third-party markets.

- (iii) Agreed prices: prices are determined by reasonable costs plus specific reasonable profits.

This pricing principle has limited applications, with a few applications in survey, design and technical services, as well as engineering project management services of the works. Costs of these services mainly include (i) service costs related to purchase activities in the market or service costs as listed in the internal pricing standards of Tianye Group and the Group; and (ii) staff costs and travel expenses incurred over the course of services management of the Group (which are determined according to staff costs and travel standards of the Group). Profits of these services are mainly derived from management fees of the Group charged to the aforesaid costs. The management rate is mainly affected by (i) the market share of similar services; and (ii) changes in costs due to inflation, which is determined by the transaction parties through negotiations on general commercial terms.

The final price shall be determined after arms' 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.

As at the date of this announcement, to the best knowledge of the Directors, no governmental pricing policies apply to the Project Construction Services Framework Agreement. Where any governmental pricing or suggested pricing applies to the relevant transactions in the future, the parties to this agreement shall first implement such governmental pricing or suggested pricing. As for market prices, the Company will mainly take into consideration the fair prices quoted by third parties for comparable or similar project construction services in, or in areas in proximity to, Shihezi City.

Payment terms : The consideration in respect of the said services may be settled on a lump sum basis or by installation, and details of the payment terms shall be defined in each of the separate contracts to be entered into by the Group and Tianye Group on terms mutually agreed in accordance with the terms and conditions of the Project Construction Services Framework Agreement.

Historical transaction amount

The Company has no previous transactions similar to those contemplated under the Project Construction Services Framework Agreement with Tianye Group. Therefore, there is no historical amount in respect of the transactions contemplated under the Project Construction Services Framework Agreement as at the date of this announcement.

Annual caps and the basis of determination

With the following factors taken into account, the annual caps for each of the three years ending 31 December 2024 under the Project Construction Services Framework Agreement are as follows:

	For the year ending 31 December		
	2022	2023	2024
		<i>(RMB)</i>	
Annual caps	110,000,000	310,000,000	310,000,000

In determining the aforesaid annual caps under the Project Construction Services Framework Agreement, the Directors have taken into consideration various factors, including (i) transaction amounts contemplated under the contracts signed and to be signed with Tianye Group, as well as the future transaction plans; (ii) the impact of the contract signing time and performance progress on the expense recognition; (iii) the construction and maintenance plans for various projects of Tianye Group in the next three years and its business development plan, including projects as contemplated under the letter of intent for strategic cooperation with governments at all levels, as well as the expected service demands of Tianye Group; and (iv) the buffer budgeted to cope with potential increase in the relevant service demands of Tianye Group, as well as estimated increase in average market prices for similar services due to inflation and expected increase in costs.

3. REASONS OF PROPOSED CONTINUING CONNECTED TRANSACTIONS

(i) As the construction project segment is a major development direction under the Group's development strategy, five subsidiaries of the Group that are in possession of the third-grade qualifications for building construction, water conservancy and hydropower construction, and municipal construction have the capabilities to engage in infrastructure construction for workshops, houses and water conservancy facilities, demonstrating their advantages and qualifications in project construction experiences, technologies, market position, personnel, and other areas; (ii) based on the excellent track record of the Company and its subsidiaries in providing engineering and construction services, as well as the reliable quality of engineering and construction services, the project construction quality can be guaranteed to be higher than the average level of third party units if the infrastructure construction projects of Tianye Group were undertaken by the Company and its subsidiaries; (iii) the project construction and installation services of Tianye Group undertaken by the Company and its subsidiaries are normal business transactions, which are in line with the actual operation and development needs of the Company, and at the same time follow the market pricing principle. The transaction price is fair and reasonable, which is conducive to ensuring the efficient and orderly project development, improving the efficiency of capital operation, and reducing operating costs for projects undertaken by the Company; (iv) the Company and its subsidiaries has a management team with qualifications and good construction technologies fit for project construction, as the team has stellar performances and experiences, and can provide convenient services with proven track records of contract performances, which is conducive to advancing the progress of Tianye Group's construction projects and improving the Company's benefits; (v) the Company and its subsidiaries have the capability to effectively manage and control their subcontractors; and (vi) the Company and its subsidiaries are committed to the vertically integrated expansion of construction, operation and services, and strive to establish a unique market position in the engineering and construction business sector in which the Company is engaged, therefore creating a competitive advantage in the Xinjiang region and across the country that is difficult to be imitated by competitors.

4. INTERNAL CONTROL PROCEDURES

The Group has adopted the following internal control procedures to standardize and prescribe pricing policies, mechanism, terms of reference, and decision-making agencies so that the continuing connected transactions are conducted in accordance with their framework agreement and in strict compliance with the relevant pricing policies.

Particularly for the purposes of the continuing connected transactions contemplated under the Project Construction Services Framework Agreement and the annual caps (non-exempt continuing connected transactions), the guiding principles will apply and the relevant internal control procedures are as follows:

- (i) The finance department of the Company will closely monitor and record actual transaction amounts of the continuing connected transactions contemplated under the Project Construction Services Framework Agreement to ensure the annual caps therein will not be exceeded;
- (ii) The relevant officers of the business department of the Company will conduct regular inspections to review and assess whether the transactions contemplated under the Project Construction Services Framework Agreement proceed in accordance with the terms therein, so as to consider whether specific transaction prices are fair and reasonable and in compliance with the aforesaid pricing policies: (a) in connection with governmental pricing principles, the Group will review the relevant government-mandated or government-suggested prices to ensure that prices quoted to Tianye Group will be in compliance with the relevant government-mandated or government-suggested prices; (b) in connection with the market pricing principle, as far as provision of services to Tianye Group is concerned, the Group will review terms offered to independent third parties, and ensure principal terms offered to Tianye Group will be favorable to the Group and no less favorable to terms offered by the Group to independent third parties; (c) in connection with the agreed pricing principle, where neither the governmental pricing principle nor market pricing principle apply, prices offered to Tianye Group will be determined by reference to reasonable costs plus specific reasonable profits, in which case the Group will ensure the relevant profit margin will not be less favorable than those offered by independent third parties;
- (iii) In accordance with the Listing Rules, the auditor of the Company will review the continuing connected transactions (which shall be subject to annual review and disclosure requirements under the Listing Rules) on an annual basis, and confirm whether (a) the transactions contemplated under the Project Construction Services Framework Agreement are approved by the Board; (b) these transactions are in compliance with the pricing policies of the Group in all material aspects; (c) these transactions are entered into in accordance with the Project Construction Services Framework Agreement; and (d) annual caps are exceeded; and
- (iv) In accordance with the Listing Rules, the independent non-executive Directors shall conduct annual reviews (which shall be subject to annual review and disclosure requirements under the Listing Rules) to confirm that the transactions contemplated under the Project Construction Services Framework Agreement are conducted (a) in the ordinary and usual course of

business of the Group; (b) on normal commercial or better terms; and (c) in accordance with the Project Construction Services Framework Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Where the proposed annual caps in preceding paragraphs are exceeded, the agreement is renewed, or material changes take place, the Company will be required to re-comply with the reporting, announcement, and Independent Shareholders' approval requirements under Rules 14A.35 to 14A.47 of the Listing Rules.

5. OPINIONS OF DIRECTORS ON THE CONTINUING CONNECTED TRANSACTIONS AND ABSTENTION FROM VOTING ON RESOLUTIONS BEFORE THE BOARD

The Directors (including the independent non-executive Directors) believe that the annual caps contemplated under the Project Construction Services Framework Agreement and the terms therein are determined in the ordinary and usual course of business on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Ms. Yang Ling and Mr. Jiang Dayong, Executive Directors of the Company, have abstained from voting on the approval of the Project Construction Services Framework Agreement at the meeting of the Board, as they have material interests therein as a member of the Party Committee and the director of the operation and management department of Tianye Group, respectively. Save as disclosed above, none of the Directors have material interests in the Project Construction Services Framework Agreement.

6. INFORMATION ABOUT THE COMPANY AND TIANYE GROUP

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 Group is mainly engaged in the manufacturing and sales of chlor-alkali; sales of sulfuric acid, hydrochloric acid, sodium hydroxide (protopine, alkali, solid caustic soda, caustic soda) calcium hypochlorite, sodium hypochlorite, lime, high boiling materials (dichloroethane); transportation of in-road general cargos; manufacturing and sale of 1,4-butanediol, glycol, chemicals, solid mercury catalysts, cement and cement products, plastic products, calcium carbonate and sodium carbonate; sale of steel, building materials, livestock products, machinery and equipment and chemical products; promotion of farming, aquaculture, water-saving agriculture technologies,

research of water-saving agriculture technologies, import and export, international freight forwarding, property management, rail transportation through self-built railways; loading and unloading and handling, testing equipment technology consulting and services, machinery and equipment leasing services, processing and manufacturing of moulds and spare parts; advertisement design, production, publishing and agency; warehousing services (other than for hazardous chemicals), domestic freight forwarding agency services, customs clearance and inspection services, development and sale of computer software, information technology services and consultation, information system integration engineering, network cabling engineering, automation control system, sale, installation and maintenance of industrial monitoring equipment, design, production and maintenance of websites; agricultural planning and design, agricultural technology research and promotion, plantation and sales of crops, agricultural product processing and sales; engineering design, construction, contracting, and technology transfer; thermal power generation; heat supply; sales of electricity and steam; electrical testing; vehicle leasing; catering services; sales of calcium carbide, coal and coal products; and sales of mineral products and metal materials. As at the date of this announcement, Tianye Group is wholly owned by the State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division.

7. LISTING RULES IMPLICATIONS

As at the date of this announcement, Tianye Group is the actual controller of the Company and holds a total of approximately 60.42% of the issued share capital of the Company directly and indirectly, therefore Tianye Group is a connected person of the Company. In light that Tianye Group is a connected person of the Company, the transactions contemplated under the Project Construction Services Framework Agreement constitute the continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules.

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the proposed annual caps of the Project Construction Services Framework Agreement is more than 5%, the transactions contemplated under the Project Construction Services Framework Agreement, together with the proposed annual caps, are subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. EXTRAORDINARY GENERAL MEETING AND ABSTENTION FROM VOTING AT EXTRAORDINARY GENERAL MEETING

An Independent Board Committee of the Company comprising all independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Project Construction Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and whether they are in the interests of the Company and its Shareholders as a whole.

An extraordinary general meeting of the Company will be held to consider and approve, among other things, ordinary resolutions in respect of the Project Construction Services Framework Agreement and its 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 Project Construction Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and whether they are in the interests of the Company and its Shareholders as a whole.

To the best knowledge, information, and belief of the Directors, as at the date of this announcement, save for Tianye Group and its associates, no other Shareholders shall be required to abstain from voting at the extraordinary general meeting, and the vote to be taken at the extraordinary general meeting in respect of the Project Construction Services Framework Agreement shall be conducted by poll.

9. GENERAL

A circular containing, among other things, (i) further details of the Project Construction Services Framework Agreement and its transactions contemplated thereunder (including the proposed annual caps); (ii) recommendation from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser in relation to the terms of the Project Construction Services Framework Agreement and its transactions contemplated thereunder (including the proposed annual caps); (iv) a notice of convening the extraordinary general meeting; and (v) other information as required under the Listing Rules, will be dispatched to the Shareholders on or before 28 October 2022 and published on the websites of the Stock Exchange and the Company.

DEFINITIONS

“associate(s)”	has the meaning as defined under the Listing Rules
“Board”	the board of directors
“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, 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
“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
“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 in HK\$
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “Euto Capital”	Euto Capital Partners 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 Project Construction Services Framework Agreement
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China, but for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Project Construction Services Framework Agreement”	the project construction services framework agreement entered into between the Company and Tianye Group on 7 October 2022 in relation to the provision of infrastructure construction services
“Project Construction Services”	various infrastructure construction services to be provided by the Group to Tianye Group under the Project Construction Services Framework Agreement, including but not limited to project construction services and other services related to construction, works, maintenance, and safety rectification
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the registered holders of H Shares and Domestic Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianye Group”	Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司), a company established in the PRC with limited liability on 28 June 1996, which is wholly owned by State-owned Assets Supervision and Administration Commission of the Xinjiang Production and Construction Corps Eighth Agricultural Division. It is directly and indirectly interested in a total of approximately 60.42% of the issued share capital of the Company as at the date of this announcement
“%”	per cent.

By order of the Board
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Li He
Chairman

Hong Kong, 7 October 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Li He (Chairman), Ms. Yang Ling and Mr. Jiang Dayong, and four independent non-executive Directors, namely Mr. Li Lianjun, Ms. Gu Li, Mr. Hung Ee Tek and Mr. He Xinlin.

* For identification purposes only