新疆天業節水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

Stock Code: 840

*for identification purposes only

ANNUAL REPORT 2007

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Guo Qing Ren *(Chairman)*
Mr. Shi Xiang Shen
Mr. Li Shuang Quan
Mr. Zhu Jia Ji

Independent non-executive Directors

Mr. He Lin Wang
Mr. Xia Jun Min
Mr. Gu Lie Feng
Mr. Mak King Sau

SUPERVISORS

Ms. Ni Mei Lan
Mr. He Jie
Mr. Huang Jun Lin

QUALIFIED ACCOUNTANT

Mr. Wong Hon Kei, Anthony

COMPANY SECRETARY

Mr. Wong Hon Kei, Anthony

COMPLIANCE OFFICER

Mr. Shi Xiang Shen

AUDIT COMMITTEE

Mr. He Lin Wang
Mr. Xia Jun Min
Mr. Gu Lie Feng

COMPLIANCE COMMITTEE

Mr. Shi Xiang Shen
Mr. He Lin Wang
Mr. Gu Lie Feng
Mr. Xia Jun Min
Mr. Wong Hon Kei, Anthony

REMUNERATION COMMITTEE

Mr. Shi Xiang Shen
Mr. He Lin Wang
Mr. Xia Jun Min
Mr. Gu Lie Feng

NOMINATION COMMITTEE

Mr. He Lin Wang
Mr. Guo Qing Ren
Mr. Shi Xiang Shen
Mr. Xia Jun Min
Mr. Gu Lie Feng

COMPLIANCE ADVISER

KGI Capital Asia Limited
(effective from 24 January 2008)
27th Floor
ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Corporate Information

AUDITORS

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway
Hong Kong

REGISTERED OFFICE

No. 36, Bei San Dong Road
Shihezi Economic and
Technological Development Zone
Shihezi
Xinjiang
People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

21/F, New World Tower 1
18 Queen's Road Central
Central
Hong Kong

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
No. 62-5-6 Dong Liu Road
Shihezi
Xinjiang
PRC

Bank of China
No. 253-1415 Bei Si Road
Shihezi
Xinjiang
PRC

Agricultural Bank of China
No. 6 Dong Jiu Road
Shihezi
Xinjiang
PRC

Industrial and Commercial Bank of China
No. 8 Dong Jiu Road
Bei Si Road
Shihezi
Xinjiang
PRC

Bank of Communications
No 429 Xinhua Nan Road
Urumqi
Xinjiang
PRC

STOCK CODE

0840

WEBSITE

http://www.tianyejieshui.com.cn

Chairman's Statement

On behalf of the board of Directors (the "**Board**") of Xinjiang Tianye Water Saving Irrigation System Company Limited (the "**Company**") and its subsidiaries (the "**Group**"), I am pleased to announce the audited consolidated financial results of the Group for the year ended 31st December, 2007 together with the comparative figures for the previous year.

BUSINESS REVIEW

In 2007, the Group has effectively weathered the unfavorable factors including rising oil prices which aggravated the prices of the raw materials and managed to maintain a stable growth in sales and profits.

- Turnover for the year ended 31st December, 2007 was approximately RMB616,172,000, an increase of approximately 33.43% from 2006;

- Profit for the year ended 31st December, 2007 was approximately RMB70,154,000, an increase of approximately 16.82% from 2006, the profit attributable to equity holders of the Company was RMB70,287,000, an increase of approximately 12.46% from 2006;

- Basic Earnings per share for the year was approximately RMB0.14 (2006: approximately RMB0.13);

- The Board resolved to pay a final dividend of RMB0.036 per share (2006: RMB0.036 per share).

Chairman's Statement

PROSPECTS

Although more emphasis has been placed on the development and utilisation of water resources by the PRC government and the resources allocated to water conservancy construction in agriculture have been steadily increasing in recent years, China is still one of the countries with the lowest per capita resources. Therefore, the Directors of the Group expect the agricultural water saving irrigation equipment market will maintain the growth momentum. Looking forward, in order to maintain its competitiveness in the market and stable growth, the Group will continue to strictly control its costs, allocate more resources in new products research and development, and, when appropriate, expand into overseas markets, enlarge customer bases so as to secure booming results to shareholders.

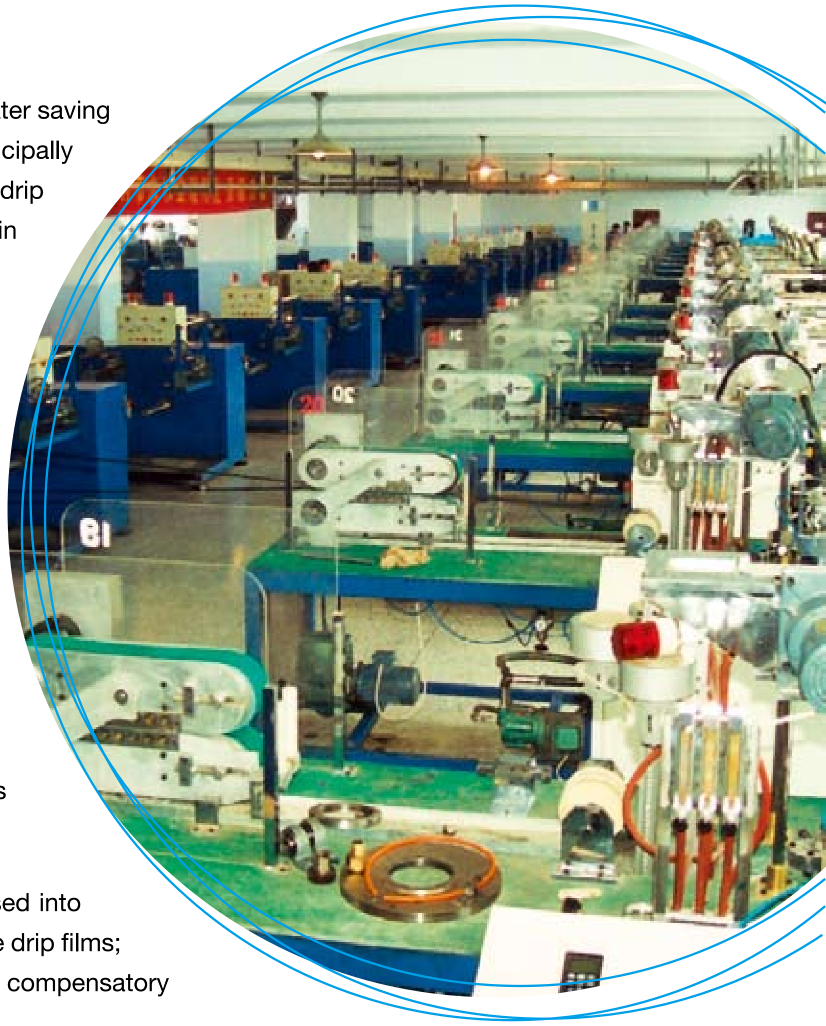
APPRECIATION

Finally, I would like to take this opportunity to thank the Group's shareholders and business partners for their support and encouragement for the Group during the past year. I would also like to thank our Directors and all staffs for the hard work and contribution to the Group. In particular, the Company successfully migrated from the Growth Enterprise Market ("**GEM**") to the Main Board ("**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and dealings in the H shares of the Company on the Main Board commenced on 24th January, 2008.

Yours sincerely,
Guo Qing Ren
Chairman of the Board
Xinjiang, the PRC

Management Discussion and Analysis

OVERVIEW



As a pioneer in providing one-stop solutions for water saving irrigation system in the PRC, 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. The Group is also engaged in the provision of installation services of water saving irrigation system for its customers. Drip irrigation system plays a significant role in water conservation. It is a slow water delivery system in which every drop of water can be applied to the soil surface near the root of plant. The burden of deciding the timing of irrigation and the required amount of water can be relieved from the properly designed automatic drip irrigation system. The potential and importance of water saving irrigation system have been recognised by both the PRC Government and producers of agricultural products in the PRC.

The drip films sold by the Group can be categorised into three types, including (i) single-sided labyrinth-style drip films; (ii) embedded-style drip films; and (iii) heavy flow compensatory style drip films.

Along with the opportunities and challenges, the Group may face certain risks involved in its business. The high oil price, as well as the continuous upward trend in the price of downstream plastic raw materials would lead to an increase in the costs of the Group's products, thus lowering their competitiveness. In the short term, the Group relies on its key management and personnel. The Group also relies on the stable business relationships with certain major customers. In view of these, the Group will continue to maintain good relationships with its staff and will continue to provide training to its staff. Moreover, the Group will place great emphasis on its after-sales services to its customers and will widen its customer bases by expanding its sales and distribution network.

Management Discussion and Analysis

RESULTS OF OPERATIONS

Turnover

For the year ended 31st December, 2007, the turnover of the Group was approximately RMB616,172,000, an increase of approximately 33.43% from approximately RMB461,809,000 for the year ended 31st December, 2006.

The following table summaries the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2007 by products or services:

	For the year ended 31st December, 2007		For the year ended 31st December, 2006		Year-on-year
		% to total		% to total	percentage
	Turnover	turnover	Turnover	turnover	change
Category	RMB'000	%	RMB'000	%	%
Drip films and drip assemblies	401,514	65.16	301,148	65.21	33.33
PVC/PE pipelines	212,188	34.44	157,602	34.13	34.64
Provision of installation services	2,470	0.40	3,059	0.66	-19.25
Total	616,172	100.00	461,809	100.00	

The change in turnover for the year ended 31st December, 2007 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2007, sales of drip films and drip assemblies increased by approximately 33.33% to approximately RMB401,514,000, while sales of PVC/PE pipelines increased by approximately 34.64% to approximately RMB212,188,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 25,913 tonnes for the year ended 31st December, 2006 to approximately 35,127 tonnes for the year ended 31st December, 2007, while the sales volume of PVC pipelines increased from approximately 24,389 tonnes for the year ended 31st December, 2006 to approximately 31,955 tonnes for the year ended 31st December, 2007. The increase in the sales volume of the Group's products was mainly attributable to the growth in demand for water saving irrigation system in the PRC. On the contrary, the decrease in the provision of installation services from approximately RMB3,059,000 to approximately RMB2,470,000 was mainly due to the fact that some of the Company's customers installed water saving irrigation system by themselves; hence, the Group's income generated by the provision of installation services had decreased. As a result, the turnover in provision of installation services decreased by approximately 19.25% for the period under review.

Management Discussion and Analysis

Cost of sales

For the year ended 31st December, 2007, cost of sales of the Group was approximately RMB496,881,000, with an increase of approximately 35.54% from approximately RMB366,601,000 for the year ended 31st December, 2006. Costs of sales for the year ended 31st December, 2007 comprised direct materials costs of approximately RMB428,360,000, direct labour costs of approximately RMB12,220,000 and production overhead of approximately RMB56,301,000, which accounted for approximately 86.21%, 2.46% and 11.33%, respectively, of total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2006 comprised direct materials of approximately RMB309,274,000, direct labour costs of approximately RMB10,187,000 and production overhead of approximately RMB47,140,000, which accounted for approximately 84.36%, 2.78% and 12.86%, respectively, of total costs of sales for 2006.

Gross profit

The Group realised a gross profit of approximately RMB119,291,000 for the year ended 31st December, 2007, with an increase of approximately RMB24,083,000 from approximately RMB95,208,000 for the year ended 31st December, 2006. The Group's gross profit margin decreased from approximately 20.62% for the year ended 31st December, 2006 to approximately 19.36% for the year ended 31st December, 2007. The decrease in gross profit margin was mainly due to the increase in costs of raw materials and recycle materials for the production of drip films driven by oil prices rise and hence the costs of mix formulas were increased during the year, which dragged down the overall gross profit margin for 2007.

Other operating income

Other operating income consists primarily of bank interest income and gain arising from sales of equity investments. Such income had decreased from approximately RMB6,983,000 for the year ended 31st December, 2006 to approximately RMB4,360,000 for the year ended 31st December, 2007. The decrease was mainly attributable to the decrease of gain arising from sales of equity investments and bank interest income for the year.

Distribution costs

Distribution costs were approximately RMB19,581,000 for the year ended 31st December, 2007, representing a decrease of approximately 14.74%. The amount accounted for approximately 3.18% of the total turnover for the year ended 31st December, 2007, is less than its share of total turnover of approximately 4.97% for the corresponding period in the previous year. Distribution costs mainly comprised transportation costs, salaries and traveling expenses, etc. For the year ended 31st December, 2007, sales and transportation costs, salaries and traveling expenses decreased by approximately 10.57%, 11.20% and 32.05% to approximately RMB6,672,000, RMB5,873,000 and RMB653,000, respectively. Other expenses decreased by approximately 19.49% to approximately RMB6,383,000.

Management Discussion and Analysis

Administrative expenses

Administrative expenses increased by approximately 52.77% to approximately RMB23,717,000 for the year ended 31st December, 2007. The amount accounted for approximately 3.85% of total turnover for the year ended 31st December, 2007, is more than its share of total turnover of approximately 3.36% for the corresponding period in the previous year. For the year ended 31st December, 2006, salary costs increased by 104.49% to approximately RMB7,112,000, impairment for trade receivables increased by approximately 6,698.08% to approximately RMB3,535,000 and listing fees increased by approximately 66.45% to approximately RMB3,031,000. Other expenses decreased by approximately 1.33% to approximately RMB10,039,000.

Profit from operations

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2007 was approximately RMB79,611,000, representing an increase of approximately 26.23% from approximately RMB63,070,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of profit from operations over the Group's turnover) were approximately 13.66% and 12.92% respectively for the years ended 31st December, 2006 and 2007.

Finance costs

Finance costs for the year ended 31st December, 2007 amounted to approximately RMB6,518,000, representing an increase of 69.74% as compared to the corresponding period in the previous year. Higher finance costs were mainly resulted from the increase of loans amount and lending rate.

Profit attributable to equity holders of the Company

As a result of the factors discussed above, the profit attributable to equity holders of the Company increased by approximately 12.46%, from approximately RMB62,497,000 for the year ended 31st December, 2006 to approximately RMB70,287,000 for the year ended 31st December, 2007. For the two years ended 31st December, 2006 and 2007, the Group's net profit margin was approximately 13.53% and 11.41%, respectively.

INDEBTEDNESS

Borrowings

As at 31st December, 2007, the Group had outstanding bank loans of RMB165,000,000, which will be due within a year at fixed interest rates ranging from 6.12% to 7.29% per annum.

Management Discussion and Analysis

For the outstanding bank loans of RMB165,000,000 as at 31st December, 2007, Xinjiang Tianye Company Limited ("**Tianye Company**") had granted guarantees to a bank for securing loans of RMB65,000,000 at an interest rate of 6.12% to 7.29% per annum. Of which, a loan amount of RMB30,000,000 has been settled on 22nd January, 2008, and the guarantees for the balances of the loans of RMB35,000,000 has also been released on 8th January, 2008.

Commitments

As at 31st December, 2007, the Group had contracted but not provided for capital commitments of RMB11,176,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2007 were approximately 2.57 and 1.20, respectively, representing a decrease of 1.72 and 1.23, respectively when compared to 31st December, 2006. This is primarily due to approximately 59.41% increase in inventories, approximately 67.56% increase in trade and other receivables as at 31st December, 2007 and approximately 40.63% decrease in bank balances and cash and approximately 84.17% decrease in bills receivable during the year under review. The decrease in liquidity ratios was mainly due to the increase in production reserve associated with a larger scale of production as compare to 2006 and therefore the related inventories and trade and other receivables have increased.

Financial resources

The Group currently finances its operations mainly by internal generated funds, bank loans and cash on hand. The Directors are of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances, when necessary.

Capital expenditures

For the year ended 31st December, 2007, capital expenditures of the Group in respect of acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB66,374,000 (2006: approximately RMB26,526,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2007, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 23.78% (2006: approximately 8.74%). This is primarily due to the increase in bank loans during the year. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2007.

Management Discussion and Analysis

Funding and treasury policies

The Directors confirm that the Group's funding and treasury policies are mainly based on its cash flow forecast and budgetary system to monitor and control the sources and applications of funds.

The objectives of the Group's funding and treasury policies are to prevent the unreasonable utilisation of funding, enhance the effectiveness on the utilisation of working capital, ensure the punctual repayment of the Group's liabilities upon the relevant maturity date and ensure liquidity of the working capital, so as to optimise the Group's net cash flow position.

Contingent liabilities

As at 31st December, 2007, the Group had no contingent liabilities.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are mainly carried out in the PRC, and all of the Group's receipts and payments in relation to the operations are denominated in Renminbi ("**RMB**"). In this respect, there is no significant currency mismatch in its operational cashflows and the Group is not exposed to any significant foreign currency exchange risk in its operation.

EMPLOYEE AND SALARY POLICIES

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2007, the Group had 854 employees.

RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staffs, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB2,738,000 for the year ended 31st December, 2007.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK$1,000 in respect of each employee) on a monthly basis to the fund.

Management Discussion and Analysis

HOUSING PENSION SCHEME

According to the relevant requirement under "The Decision Regarding the Reinforcement of Reform on Housing Systems in Cities and Towns by the State Council" (《國務院關於深化城鎮住房制度改革的決定》), "The Notice Regarding the Further Reinforcement of Reform on Housing Systems and Acceleration of Housing Facilities in Cities and Towns by the State Council" (《國務院關於進一步深化城鎮住房制度改革加快住房建設的通知》) and "Housing Pension Administrative Rules" (《住房公積金管理條例》), all administrative and business units and their staffs shall make contribution to a housing pension for the establishment of a housing pension scheme. Both the housing pensions contributed by each staff and by their respective units are vested to the staffs. The percentage of the housing pension contributed by the staffs and their unit shall not be less than 5% of the average monthly wages of such staffs of the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31st December, 2007, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

For the year ended 31st December, 2007, the Group had no material investments.

DIVIDEND

The Board has resolved to recommend a final dividend of RMB0.036 per share to the shareholders of the Company who are recorded on the register of members of the Company on 2nd April, 2008. Final dividend for domestic Shares of the Company will be declared and paid in RMB whereas dividend for H shares of the Company will be declared in RMB and paid in Hong Kong dollars. The proposal to declare and pay this final dividend will be submitted to the annual general meeting (the "**AGM**") to be held on 25th April, 2008. The register of Shareholders of the Company will be closed from 3rd April, 2008 to 25th April, 2008, both days inclusive. During this period, no share transfer will be registered.

There was no arrangement under which the Shareholders waived or agreed to waive any dividends during 2007.

Comparison between Business Objectives and Actual Business Progress

The following is a summary of the Group's actual business progress to date compared with the business objectives set out in the Company's prospectus dated 21st February, 2006 and the Company's introduction document dated 30th August, 2007 (collectively, the "**Listing Documents**") for the period from 1st January, 2007 to 31st December, 2007.

Business objectives disclosed in the Listing Documents	Actual business progress made by the Company
Expanding the markets in the PRC and developing the international markets	
To establish sales points and carry out marketing in Hebei and Shaanxi	Completed
To establish sales points and carry out marketing in Middle Asia and Middle East	The scale in Middle Asia and Middle East still has not been established and the Company decides to continue to carry out marketing and market development by the departmental staff of the Company, and suspends the establishment of points sales
To accomplish the service implemented for demonstration base in 2006	Completed
To undertake site inspection and data collection for four demonstration bases to be set up in the second half of 2007	Completed
To implement the Group's marketing programme in Middle Asia and Middle East	Completed
To set up four demonstration centres with an aggregate planned area of approximately 667 hectares	Completed
To set up maize demonstration zone in Inner Mongolia	Completed
To set up tangerines demonstration zone in Shanxi	Completed
To set up tobacco demonstration zone in Hebei	Completed
Strengthening of the R&D of new innovative products	
R&D of agricultural PVC pipes	Started mass production
R&D of co-extruded drip films	Started mass production
R&D of irrigation system in open fields	Started mass production

Comparison between Business Objectives and Actual Business Progress

Business objectives disclosed in the Listing Documents	Actual business progress made by the Company
Upgrading, reforming and expanding existing production facilities	
Automation and reforming of production lines of drip films	Completed
New production facilities in Alaer	As the development of water-saving irrigation market in Alaer region is slower than expected, the Company reallocated the proceeds from the original plan for setting up new production facilities in Alaer region to the establishment of new capacity in Xinjiang Kuitun region. The construction of new production line was completed in 2007
New production facilities in Shihezi	Completed

COMPARISON BETWEEN PROPOSED APPLICATIONS AND ACTUAL APPLICATIONS OF THE NET PROCEEDS RAISED FROM THE PLACING OF THE COMPANY'S H SHARES ON GEM

Business objectives	Proposed applications up to 31st December, 2007 as set out in the Listing Documents RMB million	Actual amount of proceeds used up to 31st December, 2007 RMB million
To expand production capacity for drip films	22.66	22.66
To acquire new production facilities in Alaer (Note 1)	76.14	66.00
To acquire new production facilities in Shihezi	84.30	84.30
Repay bank loans (Note 2)	30.78	30.78
Total	213.88	203.74

As at 31st December, 2007, unused proceeds were deposited with banks in the PRC and Hong Kong.

Notes:

1. As the development of water-saving irrigation market in Alaer region is slower than expected, the Company reallocated the proceeds from the original plan of setting up new production facilities in Alaer region to the establishment of new production lines in Xinjiang Kuitun region. The construction of the project was completed in 2007. The remaining amount of approximately RMB10,140,000 will be used as the working capital of the Group.

2. The remaining amount of the net proceeds of approximately RMB1,780,000 raised from the issue of the over-allotment shares was used to repay part of the principal of bank loans of RMB20,000,000, which was due on 11th December, 2006, as stated in the Listing Documents.

Corporate Governance Report

The Board of Directors (the "**Board**") is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2007.

CORPORATE GOVERNANCE PRACTICES

The Group believes that the application of rigorous corporate governance practices can lead to the improvement in its accountability and transparency and, thus, further instill confidence of shareholders and the public in the Group. Throughout the financial year ended 31st December, 2007, the Group has complied with the provisions in the "Code on Corporate Governance Practices" (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

THE BOARD

Composition

The Board comprises eight directors (the "**Director(s)**"), including four executive Directors and four independent non-executive Directors, as at 31st December, 2007. The Board members have no financials, business, family or other material/relevant relationships with each other. Members of the Board is composed of experts with various expertise and professional background in different industries, who have worked for the government agencies in the PRC, public listed companies or other entities. All Directors give sufficient time and attention to the affairs of the Group. The particulars of each Director are set out in the section of Directors and Senior Management on pages 24 to 26.

The presence of four independent non-executive Directors is considered by the Board to be a reasonable balance between executive and independent non-executive Directors, and the Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of the Group and its shareholders. The Group has appointed four independent non-executive Directors, all of whom possess appropriate professional qualifications and two of whom possess appropriate professional qualifications or accounting or related financial management expertise.

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, which has been verified. None of the independent non-executive Directors has served the Group for more than nine years.

All independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors.

Corporate Governance Report

Board Meetings

The Board is principally responsible for formulating and reviewing the overall strategies and the fundamental systems of the Group, and approving major transactions and other material operational and financial matters, as well as annual budget and quarterly and annual results. The Board shall meet, at least, every quarter and an extraordinary meeting may be held as required. The full Board met in person and met six times for the financial year ended 31st December, 2007. At least 14 days' notices of all meetings of the Board ("**Board Meetings**") were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion at the Board Meetings. The company secretary (the "**Company Secretary**") assisted the Chairman in preparing the agenda for the Board Meetings, and ensured that the Board procedures and all applicable rules and regulations were observed. The finalised agenda and accompanying board papers were then sent to all directors at least three days prior to the proposed Board Meeting.

The following is the attendance records of the Board Meetings by each Director:

Attendants	Number of Board Meetings Attended/Total	Percentage
Executive Directors		
Guo Qing Ren	6/6	100%
Shi Xiang Shen	6/6	100%
Li Shuang Quan	6/6	100%
Zhu Jia Ji	6/6	100%
Independent Non-executive Directors		
He Lin Wang	6/6	100%
Gu Lie Feng	6/6	100%
Xia Jun Min	6/6	100%
Mak King Sau	0	0%

During the Board Meetings, the Directors discussed and formulated the overall strategies of the Group, monitored financial performances and discussed the annual, interim and quarterly results, set next year's budgets, as well as discussed and decided other significant matters. Execution of daily operational matters of the Group is delegated to the management.

The Company Secretary recorded the proceedings of each Board Meeting in detail by keeping detailed minutes. Draft and finalised minutes of Board Meetings were circulated to all Directors for their comments and records respectively at any reasonable time as soon as practicable after each meeting. All minutes are open for inspection at any reasonable time on request by any Director.

All Directors have access to relevant and timely information at all times as the Chairman will ensure that the management will supply the Board and its Committees with all relevant information in a timely manner. They may make further enquiries if in their opinions it is appropriate or necessary to request for further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible for providing Directors with board papers and related materials to ensure all applicable laws and rules are fully complied with. If it is considered to be necessary and appropriate by the Directors, they may retain independent professional advisors at the Group's expense.

In case that a conflict of interest may arise on a matter to be considered by the Board which involves a substantial shareholder or a Director, such matter will be discussed through an actual Board Meeting and will not be dealt with by written resolutions. Independent non-executive Directors who do not have any conflict of interest on the matter will be present at such meetings and to deal with such conflicting issue.

The Board Committees (the "**Committees**"), including the Remuneration Committees, the Nomination Committee, the Audit Committee and the Compliance Committee have all adopted the applicable principles, procedures and arrangements used in Board Meetings.

Chairman and Chief Executive Officer of the Group

The Chairman of the Group is Mr. Guo Qing Ren and the Chief Executive Officer of the Group is Mr. Li Shuang Quan. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the daily operations of the Group.

The Chairman is responsible for leading the Board and ensuring the Board works effectively, through which the Chairman will ensure that good corporate governance practices and procedures are established and followed, and that all Directors receive all relevant information in a timely manner. Each Director should be properly notified the matters in question prior to each Board Meeting.

The Chairman will also encourage all Directors, including the independent non-executive Directors, to actively participate in all Board Meetings and the committee meetings.

Training and Support for Directors

For every Director, the Group provides various briefings and other trainings to develop and refresh the Directors' knowledge and skills. The Group will also continuously update all Directors on latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure the compliance with these rules and regulations by the Directors.

Corporate Governance Report

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions by Directors of the Company. Following specific enquiry made by the Company, all Directors have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2007.

REMUNERATION COMMITTEE

The Chairman of the Remuneration Committee is Mr. Shi Xiang Shen, an executive Director of the Company and other members include Mr. He Lin Wang, Mr. Xia Jun Min and Mr. Gu Lie Feng, all being the independent non-executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive Directors and senior management of the Group, and reviewing the Company's bonus structure, provident fund and other compensation-related issues. The Remuneration Committee will consult with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also have access to professional advice if considered necessary by the Remuneration Committee. The Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

For the year ended 31st December, 2007, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	**Number of Meetings Attended/Total**	**Percentage**
Shi Xiang Shen	1/1	100%
He Lin Wang	1/1	100%
Xia Jun Min	1/1	100%
Gu Lie Feng	1/1	100%

For the year ended 31st December, 2007, the Remuneration Committee reviewed matters relating to remuneration for the Directors and senior management, and discussed the remuneration policy of the Group.

Corporate Governance Report

NOMINATION COMMITTEE AND APPOINTMENT OF DIRECTORS

Nomination Committee

The Chairman of the Nomination Committee is Mr. He Lin Wang, an independent non-executive Director of the Company, and other members include Mr. Guo Qing Ren, Mr. Shi Xiang Shen, both being the executive Directors of the Company, Mr. Xia Jun Min and Mr. Gu Lie Feng, both being the independent non-executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of Directors and Board succession. It also develops selection procedures of candidates for nomination, reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee, and review and approval of such nomination by the Board. The Nomination Committee will evaluate potential candidates considering factors such as professional expertise, relevant experience, personal ethics and integrity.

For the year ended 31st December, 2007, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
He Lin Wang	1/1	100%
Guo Qing Ren	1/1	100%
Shi Xiang Shen	1/1	100%
Xia Jun Min	1/1	100%
Gu Lie Feng	1/1	100%

For the year ended 31st December, 2007, the Nomination Committee discussed and reviewed the Board composition as well as other related matters.

Corporate Governance Report

Terms of Appointment and Re-election

All independent non-executive Directors are appointed for a specific term of three years. All Directors, including the executive and independent non-executive Directors, would retire from office by rotation and are subject to reelection at the following annual general meeting once every three years.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and other financial disclosures. The management provides all relevant information to the Board enabling the Board to make an informed view of financial and other data.

The Chairman of the Audit Committee is Mr. He Lin Wang, and the other members are Mr. Xia Jun Min and Mr. Gu Lie Feng, all being the Independent Non-Executive Directors of the Company.

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports and the auditors' report present a true and fair assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Company Secretary keeps the minutes of all Audit Committee meetings. In line with practices consistent with the Board Meetings and other Committee meetings, draft and finalised minutes of Audit Committee meetings are circulated to all members of the Audit Committee as soon as practicable after each meeting. For the year ended 31st December, 2007, the Audit Committee held four meetings. The individual attendance records of each member are as follows:

Attendants	**Number of Meetings Attended/Total**	**Percentage**
He Lin Wang	4/4	100%
Xia Jun Min	4/4	100%
Gu Lie Feng	4/4	100%

During the year ended 31st December, 2007, the Audit Committee reviewed the final, first quarterly, interim and third quarterly results of the Group, and discussed and approved financial and other reports for the year. The Audit Committee also reviewed and discussed the Group's internal audit plans and arrangements for the upcoming year.

Corporate Governance Report

The level of fees in respect of audit and non-audit services provided by external auditors to the Company for the year ended 31st December, 2007 is as follows:

	2007 RMB'000	2006 RMB'000
Audit Service		
— SHINEWING (HK) CPA Limited	**880**	580
Non-audit services		
— SHINEWING (HK) CPA Limited (Note)	**1,500**	—
— Deloitte Touche Tohmatsu	**—**	443
	1,500	443

Note: The amounts represent the professional fees for the Company's listing on Main Board of the Stock Exchange and an internal control review during the year. Such expenses were included in listing expenses as disclosed in note 9 to the consolidated financial statements.

COMPLIANCE COMMITTEE

The Chairman of the Compliance Committee is Mr. Shi Xiang Shen, an executive Director of the Company, and other members include Mr. He Lin Wang, Mr. Gu Lie Feng and Mr. Xia Jun Min, all being the Independent Non-Executive Directors of the Company and Mr. Wong Hon Kei, Anthony, the Company Secretary of the Company.

The duties of the Compliance Committee include supervising the Company's effective implementation of various management measures of the Company and reviewing the Company's disclosure policies to ensure its compliance with the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the requirements of other regulatory authorities and making recommendations and giving opinions to the Board in this regard.

For the year ended 31st December, 2007, the Compliance Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	**Number of Meetings Attended/Total**	**Percentage**
Shi Xiang Shen	1/1	100%
He Lin Wang	1/1	100%
Gu Lie Feng	1/1	100%
Xia Jun Min	1/1	100%
Wong Hon Kei, Anthony	1/1	100%

Corporate Governance Report

For the year ended 31st December, 2007, the Compliance Committee discussed and reviewed the Company's disclosure policies as well as other related matters.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31st December, 2007, the Board has, through the Audit Committee with the assistance of the Internal Audit Manager, conducted a review on the Group's internal control system, including without limitation to financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems of the Group are effective and there is no non-compliance, impropriety, fraud or other deficiencies that suggest material deficiency in the effectiveness of internal control system of the Group.

The Board assesses the effectiveness of the internal controls by considering reviews conducted by the Audit Committee, senior management and both internal and external auditors. The Internal Audit Manager follows a risk-and-control-based approach. An audit plan would be formulated in a risk-weighted manner so that priorities and appropriate audit frequency could be given to areas with higher risks. The Internal Audit Manager performs regular financial and operational reviews on the Group. Summaries of major audit findings and possible control weaknesses, if any, are reviewed by the Audit Committee. The Internal Audit Manager monitors the follow-up actions agreed upon in response to the recommendations made by the Audit Committee.

DELEGATION BY THE BOARD

The Board is responsible for decision in relation to the overall strategic planning and development of the Group's business. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management. The Board has given clear directions as to the powers of management, and periodically reviews all delegations to management to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

Corporate Governance Report

All Committees, namely the Remuneration Committee, the Nomination Committee, the Audit Committee and the Compliance Committee have their specific terms of reference clearly defining the powers and responsibilities of the respective Committees. All Committees are required by their terms of reference to report to the Board in relation to their decisions, review findings or recommendations, and, in certain specific situations, to seek the Board's approval before taking any actions.

RELATIONS WITH SHAREHOLDERS

The Group is committed to maintaining the highest level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. This commitment to fair disclosure and comprehensive and transparent reporting of the Group's activities can be reflected in many aspects.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The annual general meeting ("**AGM**") of the Company provides an excellent opportunity for the Board to meet and communicate with the shareholders. All Directors make a special effort to attend the AGM so that they may answer any questions from the shareholders of the Company.

The Chairman is also actively involved in organising the AGM and personally chairs it, as to ensure that shareholders' views are delivered to the Board. Members of the Remuneration Committee, the Nomination Committee, the Audit Committee and the Compliance Committee, also attend the AGM to answer questions that shareholders may raise. A separate resolution is proposed by the Chairman in respect of each separate issue at the AGM.

The proceedings of the AGM are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. A circular in respect of the AGM, which is circulated to all shareholders at least 45 days prior to the AGM, sets out details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the Chairman again explains the procedures for demanding and conducting a poll. The Chairman indicates (except those where a poll is required) at the meeting the level of proxies lodged on each resolution, and the balance for and against such resolution.

The Company also communicates with its shareholders through its annual and interim reports. All such reports can also be accessed via the Company's website. The Directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.

INVESTOR RELATIONSHIPS

To strengthen its relationship with investors, the Group meets with analysts, accommodates visiting funds and investors, and participates in conferences and presentations.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Guo Qing Ren (郭慶人), aged 65, is the Chairman and a founder of the Group. Mr. Guo obtained a bachelor's degree from Xinjiang Technology College with a major in Geological Metal and Non-metal Mining and Exploration in 1964. He obtained a senior economist qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1993. He has been a director of Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") since 1996 and has been the chairman of Tianye Holdings since 6th June, 2007. He has been the chairman (until 30th June, 2007) and a director of Tianye Company since 1997. He has been a Director since he joined the Group in 1999. The research and development project of One-off Recycled Plastic Dripline Products undertaken by Mr. Guo was awarded the First Prize of Technology Improvement of the Eighth Agricultural Division and Shihezi City in 1999. In 2000, the water-saving irrigation pipelines project primarily developed by Mr. Guo was awarded the Innovative Technology Prize of the Autonomous Region. Mr. Guo joined the Group in 1999 and is responsible for overseeing all strategic planning of the Group as well as responsible for the overall management of the Group's operations. He is also responsible for the design and development of new products of the Group.

Mr. Shi Xiang Shen (師祥參), aged 63, is an executive Director. Mr. Shi graduated from Beijing Economic Correspondence University with a major in Economic Management in 1989. He obtained a senior accountant qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. He had worked as chief accountant in No. 141 Unit of No. 8 Division of Agricultural Construction of Xinjiang Production and Construction Regiment ("**XPCR**") for more than 10 years until 1995. Mr. Shi had been employed as the chief accountant of Tianye Holdings and was a director of Tianye Company from 1997 to August 2005. He has become a Director since he joined the Group in 2000 and is responsible for the Group's financial management and capital operation, and assisting the Chairman in overall strategic planning and management and business development of the Group.

Mr. Li Shuang Quan (李雙全), aged 43, is an executive Director and Chief Executive Officer of the Company. Mr. Li graduated from Nanjing Glass Fiber Research and Design Vocational University with a major in Silicate Technology in 1988. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2001. In 1998, he was recognized as the "Sixth Session Outstanding Calibre of the Agricultural No. 8 Division" in 1998, Mr. Li was also recognized as the "Tenth Session Outstanding Calibre of the Agricultural No. 8 Division" in 2003. He had worked as manager of technology and research and development department and was later promoted to factory director in Shihezi Plastic Factory for more than 10 years until 1996. He was a director of Tianye Company from April 2001 to June 2007 and was granted the special subsidies by the State Council of the PRC in 2004. He joined the Group in 1999 and has been a Director since 2002 and a deputy general manager of the Company since 2003. Mr. Li is responsible for the management of technology and research and development of the Group. He has extensive experience in the development, manufacture and sales of the products of the Group and the management of the Group.

Directors, Supervisors and Senior Management

Mr. Zhu Jia Ji (朱嘉冀), aged 44, is an executive Director and deputy general manager of the Group. Mr. Zhu graduated from Agricultural and Machinery School of Shihezi, Xinjiang. He obtained an engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2002. He has been a deputy sales manager of the Company since he joined the Group in December 1999. He is also the Chairman of Kuitun Tiantun and Hami Tianye, both are subsidiaries of the Company. Mr. Zhu was appointed as an executive Director on 10th May, 2007 and was appointed as a director of Tianye Company on 30th June, 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. He Lin Wang (何林望), aged 66, is an independent non-executive Director of the Company. Mr. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部). He had held the position of the chief engineer of Shihezi Water Conservation Bureau (石河子市水利局) and a director of the Xinjiang Agricultural Engineering Society. Mr. He has more than 10 years of experience in agricultural engineering industry. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Xia Jun Min (夏軍民), aged 37, is an independent non-executive Director of the Company. He graduated from Xinjiang Finance and Economic College majoring in Accounting in 1995 and obtained a bachelor's degree from the Central Communist Party Institution with a major in Politics and Law in 1998. He has obtained qualifications as a registered accountant and a registered assets valuer in the PRC. He is presently a deputy president of Xinjiang Fangxia Assets Valuation Company Limited, a president and a chief accountant of Xinjiang Fangxia Certified Public Accountants Company Limited. Mr. Xia has extensive experience in auditing, accounting and financial management. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Gu Lie Feng (顧烈峰), aged 68, is an independent non-executive Director of the Company. Mr. Gu attained university level and graduated from Water Conservancy Engineering Department of Tsinghua University in 1965. Mr. Gu obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. He had been appointed as chief commander of XPCR Water Conservation Bureau since August 1995 and was retired in August 2000. Mr. Gu has more than 20 years experience in agriculture industry. Since he joined the Group in April 2005, he has been an independent non-executive Director.

Mr. Mak King Sau (麥敬修), aged 33, is an independent non-executive Director of the Company. Mr. Mak has more than 10 years of experience in corporate finance and private equity fund investment industry. He was an associate director of an investment bank in Hong Kong. He had served as the chief investment officer in a Hong Kong listed company. Mr. Mak also worked for a private equity fund. He is a member of American Institute Certified Public Accountant, and graduated from Boston University with a bachelor degree in business administration in 1995 and from the University of London with a master degree in financial and management in 1997. He has been an independent non-executive Director of the Group since October 2007.

Directors, Supervisors and Senior Management

SUPERVISORS

Ms. Ni Mei Lan (倪美蘭), aged 48, is a supervisor and the Chairman of Supervisory Committee. Ms. Ni graduated from Urumqi Vocational University with a major in Economic Management in 1995. Ms. Ni obtained an assistant economist qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2000. She joined the Group in 2001 and has been a deputy general manager of the Company since 2003 and until 10th May, 2007. Ms. Ni was appointed as a supervisor on 10th May, 2007.

Mr. He Jie (何傑), aged 62, is a supervisor. Mr. He graduated from Tianjin Light Industry College in 1968 with a major in Plastic Modeling and Processing. He obtained a senior engineer qualification as approved by the Office of Professional Technical Staff of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區專業技術人員職稱辦公室) in 1992. He has been a supervisor since he joined the Group in April 2005.

Mr. Huang Jun Lin (黃俊林), aged 68, is a supervisor. Mr. Huang graduated from Xinjiang University in 1990 with a major in political theory. He is a senior administrator (高級政工師), and an outstanding caliber in Shihezi. He has been a supervisor since he joined the Group in April 2005.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Wong Hon Kei, Anthony (黃漢基), aged 34, is the financial Controller, Company Secretary, qualified accountant and one of the authorised representatives of the Company. He is responsible for the financial reporting procedures and internal control of the Group and secretarial affairs of the Company. Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants. Mr. Wong worked for an international accounting firm in Hong Kong. He has over 10 years of experience in the fields of professional accounting services, finance, and management. He joined the Group in August 2006.

COMPLIANCE OFFICER

Mr. Shi Xiang Shen, is an executive Director, assumes responsibility for acting as the Group's compliance officer, including advising on and assisting the Board in implementing procedures to ensure that the Group complies with the Listing Rules and other relevant laws and regulations applicable to the Group.

SENIOR MANAGEMENT

Mr. Wang Zhenhai (王振海), aged 39, graduated from Shihezi Workers' University (石河子職工大學) with a major in Economic Management in 2003. He joined the Group in 2004 and has been a deputy general manager of the Company since 2007.

Mr. Xiong Xin Yi (熊新義), aged 36, graduated from Xinjiang Finance and Economic College with a major in Economic Management and had passed the legal examinations of Xinjiang University. Mr. Xiong obtained an industrial economist qualification certificate issued by the Ministry of Personnel of the PRC in November 1997. He joined the Group in January 2003 and has been the secretary to the Board since 2005.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Group is engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in agricultural water saving irrigation system, and is also engaged in the provision of installation services of water saving irrigation system for its customers. Details of the principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 39.

The Directors recommend a final dividend of RMB0.036 per share (the "**Share**") to the shareholders of the Company (the "**Shareholders**") who are recorded on the register of members of the Company on 2nd April, 2008.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB66,374,000 on acquiring new plants and machines. Details of the above and of other movements in the property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders is the lower of its accumulated profits as stated in the statutory financial statements in the PRC and the financial statements prepared under Hong Kong Financial Reporting Standards (the "**HKFRSs**"). As at 31st December, 2007, the Company's reserves available for distribution to shareholders represent its accumulated profits of approximately RMB107,456,000 prepared in accordance with HKFRSs (2006: accumulated profits of approximately RMB59,064,000 prepared in accordance with HKFRSs).

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2007, sales to the largest customer and the five largest customers of the Group accounted for approximately 25% and 41% of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 23% and 53% respectively of the total purchases of the Group. At no time during the year did a Director, a Supervisor, their associates or any Shareholders (which to the knowledge of the Directors owned more than 5% of the Company's Share) have an interest in any of the five largest customers or suppliers of the Group.

DIRECTORS AND SUPERVISORS

The Directors and supervisors (the "**Supervisors**") of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Guo Qing Ren *(Chairman)*	
Mr. Shi Xiang Shen	
Mr. Li Shuang Quan	
Mr. Zhu Jia Ji	(appointed on 10th May, 2007)
Mr. Huang Yao Xin	(resigned on 10th May, 2007)

Independent non-executive Directors:

Mr. He Lin Wang	
Mr. Gu Lie Feng	
Mr. Xia Jun Min	
Mr. Mak King Sau	(appointed on 15th October, 2007)

Supervisors

Ms. Ni Mei Lan	(appointed on 10th May, 2007)
Mr. He Jie	
Mr. Huang Jun Lin	
Mr. Xia Yue Xing	(resigned on 10th May, 2007)

Pursuant to the articles of association of the Company, all Directors and Supervisors are appointed for a term of three years end are eligible for re-election upon expiry of term.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a fixed term of three years or until the expiry of the current session of the board of Directors subject to renewal upon approval by the Shareholders for one or more consecutive terms of three years.

Report of the Directors

In accordance with the provisions of the articles of association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the PRC Company Law, the term of office of the Supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, none of the Directors' and Supervisors' terms of office expires, and save as disclosed herein, all of the Directors and Supervisors continue in office.

Other than as disclosed above, none of the Directors and Supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company considered that the independent non-executive Directors to be independent.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2007, the interests of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (the "**SFO**") had applied to the Supervisors) or chief executives of the Company, including their respective associates, 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 Companies (the "**Model Code**") of the Listing Rules on the Stock Exchange, were as follows:

Name of Directors/ Supervisors	**Name of companies/ associated corporations**	**Capacity**	**Number and class of securities** (Note 1)	**Approximate percentage of shareholding**
Guo Qing Ren *(Director)*	Xinjiang Tianye Company Limited ("Tianye Company") (Note 2)	Beneficial owner	46,080 domestic Shares (L)	0.011%
Shi Xiang Shen *(Director)*	Tianye Company	Beneficial owner	34,864 domestic Shares (L)	0.008%
Huang Jun Lin *(Supervisor)*	Tianye Company	Beneficial owner	53,248 domestic Shares (L)	0.012%

Note:

1. The letter "L" represents the Directors' and Supervisors' long positions in such securities.

2. Tianye Company is a company established in the PRC with limited liability on 9th June, 1997, and 248,832,000 A shares of which are listed in the Shanghai Stock Exchange.

Other than as disclosed above, none of the Directors, Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation as at 31st December, 2007.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executives of the Company, including their respective associates, to acquire benefits by means of acquisition of Shares in, or debt securities (including debentures) of, the Company or any other related corporations.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY TRANSACTIONS", no contract of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

(A) Substantial Shareholders

As at 31st December, 2007, 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	Type/nature of interest	Capacity	Number of the domestic Shares of the Company held (Note 1)	Approximate percentage of the total issued share capital of the Company (Note 2)
Tianye Company	Corporate	Beneficial owner	202,164,995 (L)	38.91% (Note 3)
Xinjiang Tianye (Group) Limited ("Tianye Holdings") (Note 4)	Corporate	Interest in controlled corporation	202,164,995 (L)	38.91%
Shenzhen City Li Tai Lai Investment Development Company Limited ("Li Tai Lai")	Corporate	Beneficial owner	93,994,831 (L)	18.09% (Note 5)
Yang Ming Gui (Note 6)	Personal	Interest in controlled corporation	93,994,831 (L)	18.09%

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 Share 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.

4. The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

5. The domestic Shares held by Li Tai Lai were equivalent to approximately 29.64% of the total domestic Shares in issue.

6. The domestic Shares were held by Li Tai Lai. By virtue of the SFO, Yang Ming Gui, who is interested in 58% of the registered capital of Li Tai Li, is deemed to be interested in the 93,994,831 domestic Shares held by Li Tai Lai.

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

As at 31st December, 2007, save for the persons or entities disclosed in sub-section (A) above, the following persons or entities (other than a Director, Supervisor 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	Type of interest	Capacity	Number of H Shares of the Company held (Note 1)	Approximate percentage of the total issued share capital of the Company (Note 2)
UBS AG	Corporate	Investment manager	32,390,432 (L)	6.23% (Note 3)

Note:

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 UBS AG were equivalent to approximately 16.00% of the total H Shares in issue.

Save as disclosed above, as at 31st December, 2007, the Company was not aware of any persons (other than the Directors, the Supervisors and chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company.

CONNECTED AND RELATED PARTY TRANSACTIONS

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors, and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms or on terms no less favorable than terms available to or from independent third parties, and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Details of the continuing connected transactions during the year are included in note 30 to the consolidated financial statements. Save as the above, the Group also entered into following connected transactions agreements on 7th February, 2006:

- purchase agreement with Tianye Holdings (a substantial Shareholder of the Company), pursuant to which the Group agreed to purchase spare parts and used materials, including but not limited to diamond-shaped wheels and used drip films, from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those spare parts and used materials will be agreed from time to time between the parties concerned by reference to the prevailing market prices at the relevant time;

- master purchase agreement with Tianye Company (a substantial Shareholder of the Company), pursuant to which the Group agreed to purchase raw materials, including but not limited to PVC resins, contracting films, internal films and stabilisers, from Tianye Company and/or its subsidiaries and/or its controlled corporations from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those raw materials will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- sale agreement with Tianye Holdings (a substantial Shareholder of the Company), pursuant to which Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- master sale agreement with Tianye Company (a substantial Shareholder of the Company), pursuant to which Tianye Company and/or its subsidiaries and/or its controlled corporations agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- leases in respect of the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第三層) and the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94—22號) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2006 to 30th June, 2008 at the rent of RMB1,455,820 per annum (including property management fee);

- lease in respect of the office premises located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2005 to 30th June, 2008 at the rent of RMB3,500 per annum (including property management fee); and

- lease in respect of the office premises located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三社區94—2號) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2005 to 30th June, 2008 at the rent of RMB4,320 per annum (including property management fee).

The above connected transactions agreements and their proposed annual caps were approved by an ordinary resolution of a general meeting of the Company held on 7th February, 2006. The details of these transactions were disclosed in the prospectus dated 21st February, 2006 and the introduction document dated 30th August, 2007.

In respect of each of the related party transactions as listed in note 30 to the consolidated financial statements, which are also connected transactions, and the transaction contemplated under each of the above connected transactions agreements, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules.

Note: The term "controlled corporations" of Tianye Company mentioned above under the paragraph headed "Connected and Related Party Transactions" of this report refers to those corporations owned by Tianye Company as to 30% or more but less than 50% of their equity interests.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2007, the Directors are not aware of any business or interest of the Directors, the Supervisors, the management shareholders of the Company and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and Supervisors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on page 15 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year and the period from the listing of the Company up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 33 to the consolidated financial statements.

AUDITORS

On 16th February, 2007, Deloitte Touche Tohmatsu, who acted as auditors of the Group for the year ended 31st December, 2005, has been removed and SHINEWING (HK) CPA Limited were appointed as auditors of the Group. The financial statements for the year have been audited by SHINEWING (HK) CPA Limited. A resolution will be submitted in the forthcoming annual general meeting to re-appoint the auditors, SHINEWING (HK) CPA Limited as the auditors of the Group.

By Order of the Board

Mr. Guo Qing Ren
Chairman

Xinjiang, PRC
14th February, 2008

Report of the Supervisory Committee

To: All Shareholders

During the year ended 31st December, 2007, the Supervisory Committee of the Xinjiang Tianye Water Saving Irrigation System Company Limited (the "**Supervisory Committee**" or the "**Supervisors**"), in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "**Articles of Association**"), has conducted its work adhering to the fiduciary principle, and has taken up an active role to work faithfully and diligently to safeguard the interests of the Shareholders and the benefits of the staff of the Company.

In 2007, the Supervisors reviewed the operations of the Company and major issues, attended Board meetings, provided reasonable recommendation and advice to the Board and effectively monitored the members of the Board and senior management of the Company in performing their duties.

The Supervisory Committee is of the view that:

1. the Company's operation in the year 2007 complied with the relevant laws and regulations of the state and local governments of the PRC and the provisions of the Articles of Association;
2. the Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles of Association, and had not conducted any activities which were against the interests of the Company, and acted faithfully in exercising their authorities;
3. the connected transactions of the Company, which have fully complied with the relevant provisions of the GEM Listing Rules, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;
4. The Supervisory Committee's role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the financial statements and accounts of the Company. The Supervisory Committee believes that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly, and that no improper disclosures were identified; and
5. The Supervisory Committee has verified the financial information such as the financial statements and reports of results to be submitted to the forthcoming general meeting of shareholders by the Board, and is satisfied with the Report of the Directors and the audited financial statements. The Supervisory Committee believes that the audited financial statements for the year ended 31st December, 2007 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company for 2007 and has great confidence in the future of the Company and would like to extend its appreciation to all shareholders of the Company, the Directors and members of staff for their strong support to the Supervisory Committee's work.

By order of the Supervisory Committee

Ni Mei Lan
Chairman

Xinjiang, the PRC
14th February, 2008

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED
(incorporated in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of Xinjiang Tianye Water Saving Irrigation System Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 78, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practicing Certificate Number: P04798

Hong Kong
14th February, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	6	**616,172**	461,809
Cost of sales		**(496,881)**	(366,601)
Gross profit		**119,291**	95,208
Other operating income		**4,360**	6,983
Distribution costs		**(19,581)**	(22,965)
Administrative expenses		**(23,717)**	(15,525)
Other operating expenses		**(742)**	(631)
Profit from operations		**79,611**	63,070
Finance costs	8	**(6,518)**	(3,840)
Profit before taxation	9	**73,093**	59,230
Taxation	11	**(2,939)**	824
Profit for the year		**70,154**	60,054
Profit attributable to:			
Equity holders of the Company		**70,287**	62,497
Minority interests		**(133)**	(2,443)
		70,154	60,054
Dividends	12	**18,703**	34,860
Earnings per share — basic	13	**RMB0.14**	RMB0.13

Consolidated Balance Sheet

As at 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	197,369	154,508
Prepaid lease payments	15	8,207	8,386
Goodwill	16	98	98
		205,674	162,992
Current assets			
Inventories	17	426,775	267,723
Trade and other receivables	18	273,702	163,341
Bills receivable	19	4,350	27,477
Tax refundable		2,021	4,315
Bank balances and cash	20	91,394	153,938
		798,242	616,794
Current liabilities			
Trade and other payables	21	145,100	88,158
Short-term bank borrowings	22	165,000	55,500
		310,100	143,658
Net current assets		488,142	473,136
Total assets less current liabilities		693,816	636,128
Non-current liability			
Government grants	32	–	900
Net assets		693,816	635,228
Capital and reserves			
Share capital	25	519,522	519,522
Reserves		151,403	99,819
Equity attributable to equity holders of the Company		670,925	619,341
Minority interests		22,891	15,887
Total equity		693,816	635,228

The consolidated financial statements on pages 39 to 78 were approved and authorised for issue by the Board of Directors on 14th February, 2008 and are signed on its behalf by:

Mr. Guo Qing Ren
Director

Mr. Shi Xiang Shen
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Share capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2006	317,122	–	5,503	2,752	53,631	379,008	12,017	391,025
Profit for the year and total recognised income for the year	–	–	–	–	62,497	62,497	(2,443)	60,054
Issue of H Shares through placing	202,400	44,791	–	–	–	247,191	–	247,191
Share issue expenses	–	(34,495)	–	–	–	(34,495)	–	(34,495)
Dividends paid to equity holders of the Company	–	–	–	–	(34,860)	(34,860)	–	(34,860)
Dividends paid to a minority shareholder of a subsidiary	–	–	–	–	–	–	(287)	(287)
Capital contributions from minority shareholders of subsidiaries	–	–	–	–	–	–	6,600	6,600
Transfer	–	–	9,192	(2,752)	(6,440)	–	–	–
At 31st December, 2006 and 1st January, 2007	519,522	10,296	14,695	–	74,828	619,341	15,887	635,228
Profit for the year and total recognised income for the year	–	–	–	–	70,287	70,287	(133)	70,154
Dividends paid to equity holders of the Company	–	–	–	–	(18,703)	(18,703)	–	(18,703)
Dividends paid to a minority shareholder of a subsidiary	–	–	–	–	–	–	(333)	(333)
Capital contributions from minority shareholders of subsidiaries	–	–	–	–	–	–	7,470	7,470
Transfer	–	–	7,180	–	(7,180)	–	–	–
At 31st December, 2007	519,522	10,296	21,875	–	119,232	670,925	22,891	693,816

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	73,093	59,230
Adjustments for:		
Interest expenses	6,518	3,840
Interest income	(935)	(2,209)
Government grant	(900)	—
Amortisation of prepaid lease payments	179	38
Depreciation of property, plant and equipment	23,513	22,910
Loss on disposal of property, plant and equipment	—	770
Listing expenses paid	3,031	1,821
Write-down for inventories	2,299	—
Gain arising from sale of equity investment	(750)	(2,500)
Impairment for trade receivables	3,535	52
Operating cash flow before movements in working capital	109,583	83,952
Increase in inventories	(161,351)	(78,104)
Increase in trade and other receivables	(113,896)	(41,386)
Decrease (increase) in bills receivable	23,127	(11,477)
Increase in trade and other payables	56,942	28,812
Cash used in operations	(85,595)	(18,203)
Tax paid	(3,756)	(8,437)
Tax refunded	3,111	—
Interest paid	(6,518)	(3,840)
NET CASH USED IN OPERATING ACTIVITIES	(92,758)	(30,480)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(66,374)	(18,857)
Purchases of prepaid lease payments	—	(7,669)
Purchases of equity investments	(9,744)	(35,000)
Proceeds from sale of equity investments	10,494	37,500
Interest received	935	2,209
NET CASH USED IN INVESTING ACTIVITIES	(64,689)	(21,817)

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Issue of shares	–	247,191
Bank loans raised	165,000	55,500
Capital contributions from minority shareholders of subsidiaries	7,470	6,600
Repayment of bank loans	(55,500)	(80,000)
Dividends paid to equity holders of the Company	(18,703)	(40,386)
Listing expenses paid	(3,031)	(36,316)
Dividends paid to a minority shareholder of a subsidiary	(333)	(287)
NET CASH FROM FINANCING ACTIVITIES	94,903	152,302
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(62,544)	100,005
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	153,938	53,933
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	91,394	153,938

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

1. GENERAL

新疆天業節水灌溉股份有限公司 Xinjiang Tianye Water Saving Irrigation System Company Limited (the "Company") formerly known as 新疆石河子天業節水器具開發有限公司 and 新疆石河子市綠州節水灌溉有限公司 was established as a limited liability company in the People's Republic of China (the "PRC") on 27th December, 1999. Pursuant to an approval granted by the relevant PRC authorities on 18th December, 2003, the Company restructured its capital and was converted into a joint stock limited liability company. On 28th February, 2006, the Company's H Shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 23rd January, 2008. On 24th January, 2008, the Company's H Shares are listed on the Main Board of the Stock Exchange.

The Company's immediate holding company is Xinjiang Tianye Company Limited ("Tianye Company") (新疆天業股份有限公司), a company established in the PRC with its shares listed on the Shanghai Securities Exchange. Xinjiang Tianye (Group) Limited ("Tianye Holdings") (新疆天業（集團）有限公司), a private limited company established in the PRC, is the holding company of the Tianye Company and is the ultimate holding company of the Company.

The Company and its subsidiaries are engaged in the development, manufacture, installation and sale of irrigation system and equipment. Details of it subsidiaries are set out in note 24.

Hereinafter, the Company and its subsidiaries are collectively referred to as the "Group". Tianye Holdings and its subsidiaries other than the Group is hereinafter collectively referred as the "Tianye Holdings Group".

The address of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" of the Company's annual report.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new or revised Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("INTs") (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/ CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has also issued the following New HKFRSs that are not yet effective. In the opinion of the directors of the Company, the Group has considered the following standards and interpretations but does not expect they will have a material effect on the results and financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-INT 12	Service Concession Arrangements[3]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK(IFRIC)-INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1st January, 2009.

[2] Effective for annual periods beginning on or after 1st March, 2007.

[3] Effective for annual periods beginning on or after 1st January, 2008.

[4] Effective for annual periods beginning on or after 1st July, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are initially measured at fair value. The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (i.e. entities controlled by the Company). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Capitalised goodwill on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of that year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss recognised for goodwill is not reversed in subsequent consolidated periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivables and represents amounts receivable from goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Sales of equity investments are recognised on a trade date basis when the risks and rewards of ownership are transferred and title has passed.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental payables under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the results for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The liability for current tax of the Group is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences are related to goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the consolidated income statement, except which it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost, less any identified impairment loss. Costs includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until construction is completed and the assets are ready for their intended use. Construction in progress is transferred to the appropriate categories of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the group entities become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition, transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Trade receivables, bills receivable and other receivables

Trade receivables, bills receivable and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Interest is recognised as an effective interest basis for the debt instruments other than those financial assets designated as at fair value through profit or loss of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Trade receivables, bills receivable and other receivables (Continued)

Impairment loss for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year, as well as observable changes in national or local economic conditions that correlate with default on receivables. The impairment loss recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Other investment in equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. The fair value of equity securities are calculated using quoted prices. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchases/sell the investments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Short-term bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expenses is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss of which the interest expenses is included in net gains or losses.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Impairment for trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by- product basis at each balance sheet date and makes allowance for obsolete items.

Fair value of financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Taxation

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank borrowings and bank balances and cash. The Group has various other financial instruments such as trade and other receivables, bills receivable and trade and other payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are raw material price risk, credit risk, interest rate risk, liquidity risk and foreign currency risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Raw material price risk

The Group is subject to risk from increases in the price of raw material, Polyethylene and Polyvinyl Chloride, by-products of petroleum which are used in the production of inventories. To minimise this risk, the Group closely monitors its inventories level and enters into contracts with suppliers in advance and make prepayments to suppliers to secure future supplies.

Credit risk

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

As at 31st December, 2007, the Group has certain concentration of credit risk as 32% (2006: 6%) of the total trade receivables, bills receivable and other receivables were due from the Group's largest customer.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances/deposits from these entities.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing borrowings. The Group's exposure to interest rate risk is minimal as all the Group's bank borrowings are at fixed interest rate.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Groups' exposure to liquidity risk is minimal.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cashflows. The management considers the Group does not expose to significant foreign currency risk as majority of its operations and transactions are in the PRC and denominated in RMB.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 25, reserves and accumulated profits as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new borrowings or repayment of existing borrowings. The Group's approach to capital management remains unchanged throughout the year. The Group has no covenant with banks for the banking facilities granted.

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For the year ended 31st December, 2007

6. TURNOVER

Turnover is measured at the fair value of the consideration received and receivable for goods sold to external customers, net of value-added tax, returns and discounts, and the consideration received and receivable for the services provided during the year, and is analysed as follows:

	2007 RMB'000	2006 RMB'000
Drip films and drip assemblies	401,514	301,148
PVC/PE pipelines	212,188	157,602
Provision of installation service	2,470	3,059
	616,172	461,809

Note: According to the sales mix of the Group, drip assemblies are usually sold as auxiliary products of drip films. Therefore, drip films and drip assemblies are classified under the same category.

7. BUSINESS AND GEOGRAPHICAL SEGMENT

During the year, the sole principal activity of the Group was the development, manufacture, installation and sale of irrigation system and equipment and related operations in the PRC and accordingly, no analysis of business and geographical segment is presented.

8. FINANCE COSTS

The amounts represent interest paid on bank borrowings wholly repayable within one year.

9. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' and supervisors' emoluments		
— salaries and allowances	30,228	25,662
— retirement benefit scheme contributions	2,738	2,426
Total staff costs	32,966	28,088
Auditor's remuneration	880	580
Amortisation of prepaid lease payments	179	38
Depreciation of property, plant and equipment	23,513	22,910
Write-down for inventories	2,299	—
Impairment for trade receivables	3,535	52
Loss on disposal of property, plant and equipment	—	770
Listing expenses	3,031	1,821
and after crediting:		
Bank interest income	935	2,209
Gain arising from sale of equity investments	750	2,500
Government grants	900	—

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Emoluments of directors and supervisors

	2007 RMB'000	2006 RMB'000
Directors and supervisors		
— fee	—	—
— salaries and other benefits	613	453
— bonuses (Note)	—	40
— retirement benefit scheme contributions	44	57
Total emoluments	657	550

Note: The amount represents bonuses of RMB20,000 each paid to Mr. Shi Xiang Shen and Mr. Li Shuang Quan during the year ended 31st December, 2006.

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

(a) Emoluments of directors and supervisors (Continued)

Details of emoluments of directors and supervisors for the year are analysed as follows:

	2007 RMB'000	2006 RMB'000
Name of executive directors:		
Mr. Guo Qing Ren (Note 1)	—	—
Mr. Shi Xiang Shen (Note 2)	100	100
Mr. Huang Yao Xin (Note 3) (resigned on 10th May, 2007)	42	119
Mr. Li Shuang Quan (Note 4)	144	119
Mr. Zhu Jia Ji (Note 5) (appointed on 10th May, 2007)	118	—
Total emoluments	404	338
Name of independent non-executive directors:		
Mr. He Lin Wang (Note 6)	30	27
Mr. Xia Jun Min (Note 6)	30	27
Mr. Gu Lie Feng (Note 6)	30	27
Mr. Mak King Sau (Note 6) (appointed on 15th October, 2007)	13	—
Total emoluments	103	81
Name of supervisors:		
Mr. Xia Yue Xing (Note 3) (resigned on 10th May, 2007)	28	77
Mr. He Jie	30	27
Mr. Huang Jun Lin	30	27
Ms. Ni Mei Lam (Note 7) (appointed on 10th May, 2007)	62	—
Total emoluments	150	131
Total	657	550

Notes:

1. The salary and retirement benefit of Mr. Guo Qing Ren, were paid by Tianye Company. The Group is not required to reimburse the salary and retirement benefit paid by Tianye Company.

2. Mr. Shi Xiang Shen has retired from Tianye Holdings and he has obtained his entitlement of retirement benefit from Tianye Holdings. Therefore, Mr. Shi does not entitle any retirement benefit of the Group.

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

(a) Emoluments of directors and supervisors (Continued)

Notes: (Continued)

3. The amount include retirement benefit scheme contributions for the year ended 31st December, 2007 amounted to approximately RMB8,000 (2006: RMB19,000).

4. The amount include retirement benefit scheme contributions for the year ended 31st December, 2007 amounted to approximately RMB11,000 (2006: RMB19,000).

5. The amount include retirement benefit for the year ended 31st December, 2007 amounted to approximately RMB9,000 (2006: Nil).

6. The independent non-executive directors entitle their respective retirement benefits from the respective organisations or companies which they are serving. Therefore, they do not entitle any retirement benefits of the Group.

7. The amount include retirement benefit scheme contributions for the years ended 31st December, 2007 amounted to approximately RMB8,000 (2006: Nil).

None of the directors or supervisors waived any emoluments during the year (2006: Nil).

(b) Employee's emoluments

For the year ended 31st December, 2007, the five highest paid individuals include two directors, one supervisor and two employees (2006: three directors and two employees).

The emoluments of the five highest paid individuals during the year were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	915	880
Bonuses	—	20
Retirement benefit scheme contributions	48	57
	963	957

During both years, no emoluments were paid by the Group to the five highest paid individuals, directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During both years, the emoluments of each of the five highest paid individuals were below HK$1,000,000 (equivalent to approximately RMB943,000; 2006: equivalent to approximately RMB1,020,000).

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11. TAXATION

During each of the two years ended 31st December, 2006 and 31st December, 2007, pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax ("EIT") of 33%. Pursuant to "Notice of Issue on Certain Incentives Policy on the Development of Western China" Cai Shui Zi [2001] No. 202 (Notice No. 202") (財稅字[2001] 202號《關於西部大開發稅收優惠政策問題的通知》), for an entity operated in the western part of the PRC which is mainly engaged in the business prescribed in Industries currently encouraged to be developed by the State, Technical Catalog of Products (2000 Revision) (當前國家重點鼓勵發展的產業、產品的技術目錄(2000年修訂))and that such business contributes to over 70% of its operating income (the "Prescribed Business"), such entity is entitled to specific tax relief. Certain entities comprising the Group satisfied these requirements and, on the assumptions that they will continue to meet these requirements in the relevant periods, these entities were entitled to certain tax relief as follows:

Name of entity	Notes	**2007**	2006
The Company	(i)	**Exempted**	15%
石河子天業物資回收有限責任公司 ("Tianye Recycling")		**33%**	33%
甘肅省張掖市天業節水器材有限公司 ("Gansu Tianye")	(ii)	**Exempted**	15%
石河子開發區天業節水工程安裝有限責任公司 ("Tianye Installation")		**33%**	33%
新疆阿拉爾天農節水灌溉有限責任公司 ("Alaer Tiannong")	(iii)	**15%**	33%
哈密天業紅星節水灌溉有限責任公司 ("Hami Tianye")	(iv)	**15%**	15%
肇慶天業塑膠製品有限公司 ("Zhaoquing Tianye")		**33%**	33%
奎屯天屯節水有限責任公司 ("Kuitun Tiantun")		**33%**	33%
哈密惠民回收有限責任公司 ("Hami Huimin")		**33%**	N/A
新疆天瑞節水器材有限公司 ("Tianrui")		**33%**	N/A
北京天業潤華節水灌溉技術有限公司 ("Beijing Tianye")		**33%**	N/A

11. TAXATION (Continued)

Notes:

(i) Pursuant to "Notice of EIT on Certain Incentives Policy", Cai Shui Zi [1994] No. 1 (財稅字[1994]1號《關於企業所得稅若干優惠政策的通知》), issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總司), "EIT Exemption Management Method of State Administration of Taxation of Xinjiang Uygur Autonomous Region", Xin Guo Shui Fa [1999] No. 120 (新國稅發[1999]120號《新疆維吾爾自治區國家稅務局企業所得稅減免稅管理辦法》), "Approval of Exemption from EIT regarding Xinjiang Shihezi Tianye Water Saving Equipment Development Company Limited", Xin Guo Shui Ban [2001] No. 177 (新國稅辦[2001]177號《關於新疆石河子天業節水器具開發有限公司免徵企業所得稅的批覆》), issued by the State Administration of Taxation of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國家稅務局), Notice No. 202, "Notice of Adjustment of Level of Authorities in Approval of EIT Exemption and Related Issues", Xin Guo Shui Han [2003] No. 134 (新國稅函[2003]134號《關於調整企業所得稅減免稅審批權限及有關問題的通知》), issued by the State Administration of Taxation of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國家稅務局) and "Approval Document of Exemption from EIT regarding Xinjiang Tianye Water Saving Irrigation System Company Limited", Shi Guo Shui Ban [2004] No. 118 (石國稅辦[2004]118號《關於新疆天業節水灌溉股份有限公司減徵企業所得稅的批覆), issued by the State Administration of Taxation of Shihezi (石河子國家稅務局), the Company was granted a reduced EIT tax rate of 15% for the seven years ending 31st December, 2010;

Pursuant to "Approval Notice of Exemption Notice from EIT regarding Xinjiang Tianye Water Saving Irrigation System Company Limited", Kai Guo Shui Ban [2006] No. 72 (開國稅辦[2006]72號《關於新疆天業節水灌溉股份有限公司減免企業所得稅的通知》), issued by the State Administration of Taxation of Shihezi Economic and Technology Development Zone, Shuhezi (石河子經濟技術開發區國家稅務局), the Company is exempted from EIT for the two years ending 31st December, 2008 and was granted a 50% reduction in EIT for the period from 1st January, 2009 to 31st December, 2011;

(ii) Pursuant to Notice No. 202 and Approval Application Document [2002] No. 44 issued by the State Administration of Taxation of Gansu Province (甘肅省國家稅務局[2002]44號批文), Gansu Tianye was granted a reduced EIT tax rate of 15% for the period from 1st January, 2002 to 31st December, 2010;

Pursuant to the "Provisional Regulations for Investments in the PRC by Enterprises with Foreign Investment" (《關於外商投資企業境內投資的暫行規定》), "Approval Notice for the Transaction of Taxation Issue related to Enterprise Income Tax from State Tax Bureau of Ganzhou District" (Gan Qu Kuo Shui Fi Zi [2007] No. 001 ((甘區國稅批字[2007]001號《甘州區國稅局企業所得稅務處理事項批覆通知書》), Gansu Tianye was granted a reduced EIT tax rate of 15% from 1st January, 2007 to 31st March, 2007 and exempted from EIT during the period from 1st April, 2007 to 31st December, 2007;

(iii) Pursuant to Approval Application Document [2007] No. 122 issued by the State Administration of Taxation of the Alaer Region (阿拉爾國家稅務局[2007]122號批文) approved on 29th September, 2007, Alaer Tiannong was granted a reduced EIT tax rate of 15% for the year ended 31st December, 2007; and

(iv) Pursuant to "Approval of EIT Exemption of State Administration of Taxation of Hami Region to Hami Tianye Hongxing Water Saving Irrigation Company Limited", Ha Guo Shui Ban [2005] No. 32 (哈國稅辦[2005]32號《哈密地區國家稅務局關於對哈密天業紅星節水灌溉有限責任公司減徵企業所得稅的批覆》)issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局) on 28th January, 2005, Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1st January, 2004 to 31st December, 2007.

11. TAXATION (Continued)

The EIT for the year ended 31st December, 2007 is calculated at the EIT rate applicable to each of the entities comprising the Group as shown above.

During the 5th Session of the 10th National People's Congress, which was concluded on 16th March, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1st January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The tax rate of certain subsidiaries will change from 33% to 25 % from 1st January, 2008. The Company and certain subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Corporate Income Tax Law.

The Group is not subject to Hong Kong profits tax as the Group's income neither arises in, nor is derived from, Hong Kong.

	2007 **RMB'000**	2006 RMB'000
Tax charge (credit) comprises:		
Charge for the year	**1,327**	591
Under-provision (over-provision) of tax in previous years	**1,612**	(1,415)
	2,939	(824)

11. TAXATION (Continued)

The charge (credit) for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000
Profit before taxation	73,093	59,230
Tax at the statutory EIT rate of 33%	24,120	19,546
Tax effect on income not taxable for tax purposes	(323)	(490)
Tax effect on expenses not deductible for tax purposes	1,118	446
Reduction of income tax in respect of the tax benefit on locally purchased machinery (Note)	(1,043)	(9,539)
Effect of tax exemption and reduction granted to the Group	(22,545)	(9,372)
Under-provision (over-provision) of tax in previous years	1,612	(1,415)
Tax charge (credit)	2,939	(824)

Note: The amount represents an additional deduction when calculating the income tax provision for machinery purchased locally in accordance with the relevant PRC tax regulations and approval of the local tax authority.

There was no significant deferred taxation for the year or at the balance sheet date.

12. DIVIDENDS

A final dividend for the year ended 31st December, 2004 amounting to RMB5,526,372 was paid to the shareholders of the Company during the year ended 31st December, 2006.

A final dividend for the year ended 31st December, 2005 of RMB0.0671 per share, amounting to RMB34,859,897 in aggregate, has been declared and paid to the shareholders of the Company during the year ended 31st December, 2006.

A final dividend for the year ended 31st December, 2006 of RMB0.036 per share, amounting to RMB18,702,776 in aggregate, has been declared and paid to the shareholders of the Company during the year ended 31st December, 2007.

A final dividend of RMB0.036 per share, amounting to RMB18,702,776 in aggregate, has been proposed by the directors of the Company in respect of the year ended 31st December, 2007 and is subjected to the approval of shareholders in general meeting.

13. EARNINGS PER SHARE — BASIC

The calculations of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately RMB70,287,000 (2006: RMB62,497,000) and on the weighted average number of 519,521,560 (2006: 485,623,477) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the two years ended 31st December, 2007 and 2006 as there was no dilutive shares outstanding during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1st January, 2006	3,648	18,094	207,103	2,609	1,184	232,638
Additions	13,205	265	4,944	98	345	18,857
Transfer	(3,759)	304	3,455	–	–	–
Disposals	–	–	(1,071)	–	–	(1,071)
At 31st December, 2006 and 1st January, 2007	13,094	18,663	214,431	2,707	1,529	250,424
Additions	62,496	450	2,665	165	598	66,374
Transfer	(5,346)	606	4,740	–	–	–
At 31st December, 2007	70,244	19,719	221,836	2,872	2,127	316,798
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1st January, 2006	–	2,162	69,536	1,380	229	73,307
Provided for the year	–	634	21,870	343	63	22,910
Disposal	–	–	(301)	–	–	(301)
At 31st December, 2006 and 1st January, 2007	–	2,796	91,105	1,723	292	95,916
Provided for the year	–	783	22,213	385	132	23,513
At 31st December, 2007	–	3,579	113,318	2,108	424	119,429
NET CARRYING VALUE						
At 31st December, 2007	70,244	16,140	108,518	764	1,703	197,369
At 31st December, 2006	13,094	15,867	123,326	984	1,237	154,508

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following annual rates are used for the depreciation of property, plant and equipment on a straight line basis after considering their respective useful lives:

Buildings	20 to 40 years
Plant and machinery	8 to 14 years
Motor vehicles	6 years
Furniture, fixtures and equipment	5 years

The buildings of the Group are situated in the PRC.

The construction in progress of the Group represents buildings, plant and machinery under construction which are situated in the PRC.

At 31st December, 2007, buildings, plant and machinery of the Group with an aggregate net carrying value of approximately RMB65,055,000 (2006:Nil) were pledged to secure bank borrowings of approximately RMB30,000,000 granted to the Group.

15. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1st January, 2006	783
Additions	7,669
At 31st December, 2006, 1st January, 2007 and 31st December, 2007	8,452
ACCUMULATED AMORTISATION	
At 1st January, 2006	28
Provided for the year	38
At 31st December, 2006 and 1st January, 2007	66
Provided for the year	179
At 31st December, 2007	245
NET CARRYING AMOUNT	
At 31st December, 2007	8,207
At 31st December, 2006	8,386

The amounts represented medium-term land use rights in the PRC and are amortised over the terms of the respective land use rights on a straight-line basis.

16. GOODWILL

	RMB'000
COST	
Arising from acquisition of a subsidiary and balance at 31st December, 2006 and 2007	98

The Group tests goodwill annually for impairment, or any time if there are indications that goodwill might be impaired.

17. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	223,266	160,849
Finished goods	203,509	106,874
	426,775	267,723

At 31st December, 2007, the Group's finished goods of approximately RMB3,342,000 (2006: Nil) was carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

Sales to farmer unions are normally on cash basis. The credit term to other customers is normally one year.

Included in the trade and other receivables of the Group were trade receivables (less impairment) with the following aging analysis:

	2007 RMB'000	2006 RMB'000
Aged:		
Within 1 year	194,244	105,725
1-1.5 years	7,453	5,612
Trade receivables	201,697	111,337
Other receivables and prepayments	32,064	26,944
Prepayments to suppliers	39,941	25,060
	273,702	163,341

18. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the impairment for trade receivables:

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	6,415	6,363
Impairment recognised in profit or loss	3,535	52
Balance at end of the year	9,950	6,415

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB7,453,000 (2006: RMB5,612,000) which are past due at the respective balance sheet date for which the Group has not provided impairment loss. Receivables that were past due but not impaired were all aged over one year but within 1.5 years and related to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Pursuant to a contract entered into between the Company and Tianye Group in November 2004, prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of approximately RMB667,000 (2006: RMB1,273,000), for sourcing and supply of raw materials. All balances aged within one year from the respective balance sheet dates.

The directors consider that the carrying amounts of trade and other receivables approximate their fair values due to their short-term of maturities.

19. BILLS RECEIVABLE

Bills receivable aged within one year from the respective balance sheet dates. The directors consider that the carrying amounts of bills receivable approximate their fair values because of their short-term of maturities.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry fixed interest at prevailing market rates.

Included in bank balances and cash as at 31st December, 2006 is an amount of RMB 35,000,000 deposited in a financial institution (2007: Nil).

The directors consider that carrying amounts of these assets approximate their fair values due to their short-term of maturities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

21. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Aged:		
0–180 days	87,635	11,147
181–365 days	2,831	31,693
1–2 years	427	2,324
Over 2 years	3,846	1,419
	94,739	46,583
Other payables and accruals	12,004	11,360
Deposits and prepayments received from customers	38,357	30,215
	145,100	88,158

The directors consider that the carrying amounts of trade and other payables approximate their fair values due to their short-term of maturities.

As at 31st December, 2007, deposits and prepayments received from customers of the Group include deposits and prepayments from Tianye Holdings Group of approximately RMB105,000 (2006: Nil). All of these balances aged within one year from the balance sheet date.

22. SHORT-TERM BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
Short-term bank borrowings are analysed as follows:		
Secured	30,000	–
Unsecured	135,000	55,500
	165,000	55,500

At 31st December, 2007 and 2006, certain bank borrowings of the Group were guaranteed by Tianye Holdings Group, details of which are set out in note 30(b).

All bank loans as at 31st December, 2007 are at fixed interest rates ranging from 6.12% to 7.655% per annum during the year.

The Group's bank loan of RMB 30,000,000 as at 31st December, 2007 is at fixed interest rate at 6.12% per annum and was secured by charged over the buildings, plant and machinery of the Company with an aggregate net carrying value of approximately RMB 65,055,000 as at 31st December, 2007.

Bank loans of RMB55,500,000 as at 31st December, 2006 were at fixed interest rates ranging from 6.12% to 7.956% per annum during the year and were fully repaid during the year ended 31st December, 2007.

The above bank borrowings are all contracted for a term of one year and denominated in RMB and expose the Group to fair value interest rate risk. The directors consider that the carrying amounts of bank borrowings approximate their fair values because of the borrowing rate currently available for bank borrowings with similar terms and maturities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

23. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date is as follows:

	2007 RMB'000	2006 RMB'000
Non-current assets		
Property, plant and equipment	152,975	119,367
Prepaid lease payments	7,532	7,653
Investments in subsidiaries	65,795	50,265
	226,302	177,285
Current assets		
Inventories	372,843	234,687
Trade and other receivables	240,837	132,624
Bills receivable	4,300	27,477
Amounts due from subsidiaries	46,817	33,295
Tax refundable	3,000	4,315
Bank balances and cash	50,447	129,720
	718,244	562,118
Current liabilities		
Trade and other payables	117,948	65,197
Amounts due to subsidiaries	2,977	11,998
Short-term bank borrowings	165,000	50,000
	285,925	127,195
Net current assets	432,319	434,923
Total assets less current liabilities	658,621	612,208
Non-current liability		
Government grants	–	900
Net assets	658,621	611,308
Capital and reserves		
Capital	519,522	519,522
Reserves	139,099	91,786
Total equity	658,621	611,308

24. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted investments, at cost	65,795	50,265

At 31st December, 2007, the Company has the following subsidiaries:

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Effective equity interest	Principal activities
Directly held by the Company					
Tianye Recycling	25th December, 2002 The PRC	Limited liability company	RMB2,500,000	98%	Recycling of used materials
Gansu Tianye	4th April, 2002 The PRC	Limited liability company	RMB11,050,000	90%	Trading of PVC pipes
Tianye Installation	22th December, 2003 The PRC	Limited liability company	RMB10,000,000	95%	Installation of irrigation system
Alaer Tiannong	6th August, 2002 The PRC	Limited liability company	RMB10,000,000	51%	Manufacture and sale of irrigation system and equipment
Hami Tianye	15th October, 2003 The PRC	Limited liability company	RMB19,000,000	60%	Manufacture and sale of irrigation system and equipment
Zhaoquing Tianye	5th September, 2006 The PRC	Limited liability company	RMB3,000,000	80%	Recycling of used materials
Kuitun Tiantun	4th September, 2006 The PRC	Limited liability company	RMB12,000,000	80%	Manufacture and sale of irrigation system and equipment
Tianrui (note (i))	6th August, 2007 The PRC	Limited liability company	RMB20,000,000	70%	Not yet commence business
Beijing Tianye (note (ii))	13th September, 2007 The PRC	Limited liability company	RMB3,000,000	51%	Not yet commence business

24. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Effective equity interest	Principal activities
Indirectly held by the Company					
Hami Huimin (note (iii))	20th March, 2007 The PRC	Limited liability company	RMB500,000	100%	Recycling of used materials

Notes:

(i) Tianrui was established under the laws of the PRC with limited liability on 6th August, 2007 with an operating period of twenty years. The registered capital of Tianrui was RMB20,000,000 which is owned as to 70% by the Company and 30% by Xinjiang Corps No. 13 Agricultural Division Assets Operation Company. Pursuant to the verification report issued by 新疆阿勒泰金城有限責任會計師事務所 dated 31st July, 2007, the registered capital has been fully paid up as to RMB14,000,000 by the Company and RMB6,000,000 by Xinjiang Corps No. 13 Agricultural Division Assets Operation Company, respectively in July 2007.

(ii) Beijing Tianye was established under the laws of the PRC with limited liability on 13th September, 2007 with an operating period of twenty years. The registered capital of Beijing Tianye was RMB3,000,000 which is owned as to 51% by the Company and 49% by Runhua Rural Water Resources Industrial Development Corporation. Pursuant to the verification report issued by 北京華泰會計師事務所有限公司 dated 2nd April, 2007, the registered capital has been fully paid up as to RMB1,530,000 by the Company and RMB1,470,000 by Runhua Rural Water Resources Industrial Development Corporation, respectively in March 2007.

(iii) Hami Huimin was established under the laws of the PRC with limited liability on 20th March, 2007 with an operating period of 10 years. The initial registered capital of Hami Huimin was RMB100,000 and wholly owned by Hami Tianye. Pursuant to a verification report dated 6th March, 2007, the initial registered capital of RMB100,000 has been fully paid up by Hami Tianye as of 6th March, 2007. On 19th June, 2007, Hami Tianye increased the amount of the registered capital of Hami Huimin to RMB500,000. Pursuant to the capital verification report issued by Hami branch of Xinjiang Ruixxin Limited Liability Certified Public Accountants (新疆瑞新有限責任會計師事務所哈密分所) dated 19th June, 2007, the said increased amount of the registered capital of Hami Huimin was fully paid up by Hami Tianye as of 19th June, 2007.

25. SHARE CAPITAL

Ordinary shares of RMB1.00 each	2007 No. of shares ('000)	2007 RMB'000	2006 No. of shares ('000)	2006 RMB'000
Authorised:				
At 1st January	519,522	519,522	317,122	317,122
Increase during the year	–	–	202,400	202,400
At 31st December	519,522	519,522	519,522	519,522
Issued and fully paid:				
At 1st January	519,522	519,522	317,122	317,122
Issue of H shares through the Placing	–	–	202,400	202,400
At 31 December	519,522	519,522	519,522	519,522

26. RESERVES

(i) As stipulated by the relevant laws and regulations in the PRC, each of the entities comprising the Group is required to set aside 10% of its net profit for a statutory reserve fund (except where the reserve balance has reached 50% of the contributed capital of the relevant entity).

The statutory reserve fund can be used to:

- set-off against prior periods' losses; and
- convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory reserve fund does not fall below 25% of the contributed capital of the relevant entity.

(ii) The appropriation to the statutory reserve fund and statutory welfare fund has been made in accordance with the reported profits of the relevant entity prepared under the PRC accounting standards and regulations.

Profit of the Company is to be appropriated in the following sequence:

- set-off against prior years' losses;
- transfer to statutory reserve fund and statutory welfare fund; and
- distribution of dividends.

27. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure of the Group in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	11,176	2,657

28. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The Group's and the employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

The employees of the Group are members of state-managed retirement benefit schemes (the "Schemes") operated by the PRC government. The Group is required to contribute 23% of the applicable payroll costs of permanent employees to the Schemes to fund the benefits. The only obligation of the Group with respect to the Schemes is to make the required contributions under the Schemes.

29. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	2007 RMB'000	2006 RMB'000
Plant and machinery	280	280
Premises	1,745	1,531
	2,025	1,811

At the respective balance sheet dates, the Group had commitments for future minimum lease payment under non-cancellable operating lease which fall due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	1,307	1,940
In second to fifth year inclusive	911	1,588
	2,218	3,528

Operating lease payments represent rentals payable by the Group for a factory premise and an office premise. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

30. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had entered into the following significant transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary and usual course of the Group's business:

Nature of transactions/business	Notes	2007 RMB'000	2006 RMB'000
Sales of finished goods	(i)	14,050	13,537
Purchase of raw materials	(i)	58,148	59,741
Purchases of property, plant and equipment	(i)	2,510	780
Rentals of plant and machinery	(ii)	280	280
Rentals of premises	(iii)	1,464	1,464

Notes:

(i) These transactions were carried out based on normal commercial terms and with reference to prevailing market prices under the sale/purchase agreements.

(ii) The rentals were paid with reference to the annual depreciation of the relevant asset and the percentage mark up ranging from 41% to 49%.

(iii) Pursuant to an agreement entered into by the Company and Tianye Company in 2002 which expires on 31st October, 2012, the Company is obliged to pay an annual rental to Tianye Company for the use of a piece of land on which certain of the Company's buildings are erected. The agreement was terminated effective from 1st January, 2006 and replaced by a new rental agreement for use of certain buildings and the land for a period up to 30th June, 2008.

(iv) A trademark licence agreement dated 1st June, 2004 entered into between the Company and Tianye Company whereby Tianye Company granted to the Company the right to use a trademark for the period from 1st June, 2003 to 1st June, 2006 at nil consideration. On 25th May, 2006, the trademark licence agreement has been renewed for a period from 1st June, 2006 to 13th February, 2011 at nil consideration.

(b) Corporate guarantees

At the balance sheet dates, the Group's banking facilities were secured by the corporate guarantees given by Tianye Holdings Group:

	2007 RMB'000	2006 RMB'000
To the extent to:	65,000	50,000

All guarantees as at 31st December, 2007 provided by Tianye Holdings Group have been released on or before 22nd January, 2008.

30. RELATED PARTY TRANSACTIONS (Continued)

(c) Details of the balances with related parties are set out on the consolidated balance sheet and notes 18 and 21.

(d) Compensation to key management personnel

The remuneration paid to the directors, supervisors and other key management personnel of the Company are as follows:

	2007 RMB'000	2006 RMB'000
Directors and supervisors	657	550
Other key management personnel	612	191
Total	1,269	741

Details of the remuneration paid to the directors and supervisors are set out in note 10.

31. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Tianye Holdings which is controlled by the PRC government. Apart from the transactions with Tianye Holdings and fellow subsidiaries disclosed in note 30 above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

31. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC (Continued)

Material transactions/balances with other state-controlled entities are as follows:

(a) Material transactions

Nature of transactions	2007 RMB'000	2006 RMB'000
Sales of goods	466,422	297,763
Purchase of raw material	209,664	191,605
Interest expense	6,409	3,840

(b) Material balances

	2007 RMB'000	2006 RMB'000
Bank balances	89,231	118,938
Trade and other receivables	12,784	82,439
Trade and other payables	175,586	7,970
Bank borrowings	165,000	55,500

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

32. GOVERNMENT GRANTS

During the year ended 31st December, 2003, the Group received government grants of RMB900,000 which were designated for the development of two specific water efficient irrigation system projects. During the year ended 31st December, 2007, all conditions in respect of such government grants had been fulfilled and such government grants were recognised as income during the year accordingly.

33. SUBSEQUENT EVENT

Subsequent to the year ended 31st December, 2007, the Company's H Shares were withdrawn from GEM listing on 23rd January, 2008 and listed on the Main Board of the Stock Exchange on 24th January, 2008.

Five Years Financial Summary

The table below summarises the audited results, assets and liabilities of the Group for the year ended 31st December, 2007, 2006, 2005, 2004 and 2003. Such information is compiled based on the Hong Kong Financial Reporting Standards.

RESULTS

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	**616,172**	461,809	376,251	389,183	241,878
Profit Attributable to Shareholders of the Company	**70,287**	62,497	52,658	42,432	23,537

ASSETS AND LIABILITIES

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Total Assets	**1,003,916**	779,786	541,743	557,074	464,226
Total Liabilities	**310,100**	144,558	150,718	183,528	134,983
Minority Interests	**(22,891)**	(15,887)	(12,017)	(12,313)	(1,563)
Equity Attributable to Equity holders of the Company	**670,925**	619,341	379,008	361,233	327,680

Property Interests Held by The Group in the PRC

Commercial Property	Lease term	Percentage of interests attributable to the Group	Floor Area (sq.m.)
1. A parcel of land and various buildings erected thereon, West of Qing Song Nan Road and North of Sheng Li Boulevard, Alaer Shi, Xinjiang Uygur Autonomous Region, the PRC	Long	51%	3,207.54
2. A parcel of land and various buildings and structures erected thereon, No. 1 Hong Guang Road, Hami Shi, Xinjiang Uygur Autonomous Region, the PRC	Medium	60%	4,600.86
3. A parcel of land and various buildings and structures erected thereon, District No. 81, Shihezi Economic and Technological Development Zone, Xinjiang Uygur Autonomous Region, the PRC	Long	100%	4,491.8