



新疆天业节水灌溉股份有限公司
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 840)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

SUMMARY

- Turnover for the six months ended 30th June, 2008 was approximately RMB394,679,000, an increase of approximately 32.80% from RMB297,205,000 for the corresponding period in the previous year.
- Profit for the six months ended 30th June, 2008 was approximately RMB32,342,000, an increase of approximately 0.59% from the corresponding period in the previous year, the profit attributable to equity holders of the Company was approximately RMB30,458,000, a decrease of approximately 3.32% from the corresponding period in the previous year.
- Basic earnings per share for the period was approximately RMB0.059 (for the corresponding period in 2007: approximately RMB0.061).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2008.

* For identification purpose only

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

The board of directors (the “Board”) of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) and its subsidiaries (the “Group”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30th June, 2008, together with the comparative figures of the unaudited consolidated results for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | For the six months ended | |
|-------------------------------|--------------|---------------------------------|---------------------------|
| | | 30th June, | |
| | <i>Notes</i> | 2008 | 2007 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| | | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Turnover | 3 | 394,679 | 297,205 |
| Cost of sales | | <u>(336,832)</u> | <u>(243,637)</u> |
| Gross profit | | 57,847 | 53,568 |
| Other operating income | | 1,219 | 2,240 |
| Distribution costs | | (13,292) | (10,546) |
| Administrative expenses | | (7,943) | (9,665) |
| Other operating expenses | | <u>(382)</u> | <u>(573)</u> |
| Profit from operations | 5 | 37,449 | 35,024 |
| Finance costs | | <u>(4,815)</u> | <u>(2,688)</u> |
| Profit before taxation | | 32,634 | 32,336 |
| Taxation | 6 | <u>(292)</u> | <u>(183)</u> |
| Profit for the period | | <u>32,342</u> | <u>32,153</u> |
| Profit attributable to: | | | |
| Equity holders of the Company | | 30,458 | 31,504 |
| Minority interests | | <u>1,884</u> | <u>649</u> |
| | | <u>32,342</u> | <u>32,153</u> |
| Dividends | 7 | <u>—</u> | <u>—</u> |
| Earnings per share — basic | 8 | <u>RMB0.059</u> | <u>RMB0.061</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30th June, 2008 <i>RMB'000</i> <i>(unaudited)</i> | As at 31st December, 2007 <i>RMB'000</i> <i>(audited)</i> |
|---|----|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 218,618 | 197,369 |
| Prepaid lease payments | | 8,124 | 8,207 |
| Goodwill | | <u>98</u> | <u>98</u> |
| | | <u>226,840</u> | <u>205,674</u> |
| Current assets | | | |
| Inventories | | 378,283 | 426,775 |
| Trade and other receivables | 10 | 264,930 | 273,702 |
| Bills receivable | 11 | 17,707 | 4,350 |
| Tax refundable | | 4,936 | 2,021 |
| Bank balances and cash | | <u>64,058</u> | <u>91,394</u> |
| | | <u>729,914</u> | <u>798,242</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | 139,299 | 145,100 |
| Short-term bank borrowings | | <u>110,000</u> | <u>165,000</u> |
| | | <u>249,299</u> | <u>310,100</u> |
| Net current assets | | <u>480,615</u> | <u>488,142</u> |
| Net assets | | <u>707,455</u> | <u>693,816</u> |
| Capital and reserves | | | |
| Share capital | | 519,522 | 519,522 |
| Reserves | | <u>163,158</u> | <u>151,403</u> |
| Equity attributable to equity holders of the Company | | 682,680 | 670,925 |
| Minority interests | | <u>24,775</u> | <u>22,891</u> |
| Total equity | | <u>707,455</u> | <u>693,816</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

| | Share capital | Share premium | Statutory reserve fund | Accumulated profits | Attributable to equity holders of the Company | Minority interests | Total |
|--|--------------------|--------------------|------------------------|---------------------|---|--------------------|--------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| At 1st January, 2007 | 519,522 | 10,296 | 14,695 | 74,828 | 619,341 | 15,887 | 635,228 |
| Profit for the period and total recognised income for the period | — | — | — | 31,504 | 31,504 | 649 | 32,153 |
| Dividends declared to equity holders of the Company | — | — | — | (18,703) | (18,703) | — | (18,703) |
| Dividends paid to a minority shareholder of a subsidiary | — | — | — | — | — | (333) | (333) |
| Transfer | — | — | 7,767 | (7,767) | — | — | — |
| At 30th June 2007 | <u>519,522</u> | <u>10,296</u> | <u>22,462</u> | <u>79,862</u> | <u>632,142</u> | <u>16,203</u> | <u>648,345</u> |
| At 1st January, 2008 | 519,522 | 10,296 | 21,875 | 119,232 | 670,925 | 22,891 | 693,816 |
| Profit for the period and total recognised income for the period | — | — | — | 30,458 | 30,458 | 1,884 | 32,342 |
| Dividends declared to equity holders of the Company | — | — | — | (18,703) | (18,703) | — | (18,703) |
| Transfer | — | — | 7,013 | (7,013) | — | — | — |
| At 30th June 2008 | <u>519,522</u> | <u>10,296</u> | <u>28,888</u> | <u>123,974</u> | <u>682,680</u> | <u>24,775</u> | <u>707,455</u> |

CONDENSED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

| | 2008 RMB'000 (unaudited) | 2007 <i>RMB'000</i> <i>(unaudited)</i> |
|--|---|--|
| Net cash from (used in) operating activities | 78,135 | (20,343) |
| Net cash used in investing activities | (35,877) | (14,037) |
| Net cash (used in) from financing activities | (69,594) | <u>35,464</u> |
| Net (decrease) increase in cash and cash equivalents | (27,336) | 1,084 |
| Cash and cash equivalents at 1st January | 91,394 | <u>153,938</u> |
| Cash and cash equivalents at 30th June | 64,058 | <u>155,022</u> |

Notes to Condensed Consolidated Financial Statements

For the six months ended 30th June, 2008

1. GENERAL

The Company was established as a limited liability company in the People's Republic of China (the "PRC") in 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 were 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 limited liability company established in the PRC, is the holding company of Tianye Company and 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.

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 to as the "Tianye Holdings Group".

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosures required by the Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standards ("HKASs") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were in consistent with those applied to the annual financial statements of the Group for the year ended 31st December, 2007.

During the period, the Group has applied, for the first time, a number of new or revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("INTs") (hereinafter collectively referred to as "New HKFRSs") issued by the HKICPA, which are effective for the Group's accounting periods beginning on 1st January, 2008. 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.

The HKICPA has also issued the following New HKFRSs that are not yet effective.

| | |
|--------------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ² |
| HKAS 32 & 1 (Amendments) | Puttable Financial Concernments and Obligations Arising on Liquidation ¹ |
| HKFRS 2 (Revised) | Vesting Conditions and Cancellation ¹ |
| HKFRS 3 (Revised) | Business Combinations ² |
| HKFRS 8 (Revised) | Operating Segments ¹ |
| HK(IFRIC)-INT 13 | Customer Loyalty Programmes ³ |

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

² Effective for annual periods beginning on or after 1st July, 2009.

³ Effective for annual periods beginning on or after 1st July, 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period on or after 1st July, 2009. HKAS 27 (Revised) will not affect the accounting treatment for changes in the parent's interest in a subsidiary due to a loss of control, which will be accounted for as equity transactions. In the opinion of the directors of the Company, the Group has considered the other New HKFRSs above but does not expect these standards and interpretations will have a material effect on the preparation and presentation methods of the results and financial position of the Group.

3. 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 period, and is analysed as follows:

| | For the six months ended | |
|-----------------------------------|--------------------------|----------------|
| | 30th June, | |
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Drip films and drip assemblies | 248,180 | 202,441 |
| PVC/PE pipelines | 146,365 | 92,800 |
| Provision of installation service | 134 | 1,964 |
| | <u>394,679</u> | <u>297,205</u> |

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.

4. BUSINESS AND GEOGRAPHICAL SEGMENT

During the period, 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.

5. PROFIT FROM OPERATIONS

| | For the six months ended 30th June, | |
|--|--|------------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Profit from operations has been arrived at after charging: | | |
| Depreciation | 15,847 | 11,702 |
| and after crediting: | | |
| Bank interest income | <u>1,219</u> | <u>370</u> |

6. TAXATION

| | For the six months ended 30th June, | |
|------------|--|------------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Income tax | <u>292</u> | <u>183</u> |

Pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax ("EIT") of 25%.

Pursuant to "Notice regarding the Exemption from EIT of 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 (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 ended 31st December, 2008 and shall be exempted for half of its EIT for the period from 1st January, 2009 to 31st December, 2011. Pursuant to Document "Guo Fa [2007] No. 39" ([2007]國發39號), from 1st January, 2008, enterprises currently enjoying fixed term preferential tax treatment such as "full exemption for the first two years and 50% exemption for three years onwards (兩免三減半)" and "full exemption for the first five years and 50% exemption for five years onwards (五免五減半)" shall continue to enjoy the preferential treatment and terms in accordance with the existing tax law, administrative regulations and relevant documents after the implementation of the new Enterprise Income Tax Law until the respective terms expire. The above preferential treatment of exemption and reduction of tax currently enjoyed by the Company will stay unchanged.

Pursuant to approval of the "Notice regarding the Continual Reduction of EIT of Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited", Alaer Guo Shui Ban [2008] No. 76 (阿拉爾國稅辦[2008]76號批文《關於繼續減徵新疆阿拉爾天農節水灌溉有限責任公司企業所得稅的通知》) issued by the State Administration of Taxation of the Alaer Region (阿拉爾地區國家稅務局) on 9th May, 2008, Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited was granted a reduced EIT tax rate of 15% from 2008 to 2010.

Pursuant to "Approval from State Administration of Taxation of Hami Region of Application for Reduction of EIT by Hami Tianye Hongxing Water Saving Irrigation Company Limited", Ha Guo Shui Ban [2007] No. 527 (哈國稅辦[2007]527號《哈密地區國家稅務局關於減徵哈密天業紅星節水灌溉有限責任公司申請減徵企業所得稅的批復》) issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局), Hami Tianye Hongxing Water Saving Irrigation Company Limited was granted a reduced EIT tax rate of 15% from 2008 to 2010.

7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2008 (for the corresponding period in 2007: nil).

8. BASIC EARNINGS PER SHARE

The calculations of basic earnings per share for the six months ended 30th June, 2008 are based on the profit attributable to the equity holders of the Company of approximately RMB30,458,000 (for the corresponding period in 2007: approximately RMB31,504,000) and the weight average number of 519,521,560 (for the corresponding period in 2007: 519,521,560) ordinary shares in issue during the period.

No diluted earnings per share has been presented for the two periods ended 30th June, 2008 and 2007 as there was no dilutive share outstanding during both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB37,096,000 (for the corresponding period in 2007: approximately RMB15,120,000) on the purchase of the property, plant and equipment.

10. 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:

| | As at 30th June, 2008 RMB'000 | As at 31st December, 2007 RMB'000 |
|-----------------------------------|--|--|
| Aged: | | |
| Within 1 year | 203,278 | 194,244 |
| 1–1.5 years | <u>6,501</u> | <u>7,453</u> |
| Trade receivables | 209,779 | 201,697 |
| Other receivables and prepayments | 17,306 | 32,064 |
| Prepayments to suppliers | <u>37,845</u> | <u>39,941</u> |
| | <u>264,930</u> | <u>273,702</u> |

Pursuant to a contract entered into between the Company and Tianye Company in November 2004, prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of approximately RMB586,000 (31st December, 2007: approximately RMB667,000) 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 because of their short-term of maturities.

11. BILLS RECEIVABLE

Bills receivable aged 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.

12. TRADE AND OTHER PAYABLES

Included in the balance of the Group were trade payables with the following aging analysis:

| | As at 30th June, 2008 <i>RMB'000</i> | As at 31st December, 2007 <i>RMB'000</i> |
|--|---|---|
| Aged: | | |
| 0–180 days | 60,944 | 87,635 |
| 181–365 days | 7,795 | 2,831 |
| 1–2 years | 665 | 427 |
| Over 2 years | <u>1,288</u> | <u>3,846</u> |
| | 70,692 | 94,739 |
| Other payables and accruals | 11,292 | 12,004 |
| Deposits and prepayments received from customers | <u>57,315</u> | <u>38,357</u> |
| | <u><u>139,299</u></u> | <u><u>145,100</u></u> |

As at 31st December, 2007, deposits and prepayments received from customers of the Group include deposits and prepayments of approximately RMB105,000 (30th June, 2008: Nil) from Tianye Holdings Group. All of these balances aged within one year from the respective balance sheet dates.

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

13. CAPITAL COMMITMENTS

| | As at 30th June, 2008 <i>RMB'000</i> | As at 31st December, 2007 <i>RMB'000</i> |
|--|---|---|
| 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 | <u>2,013</u> | <u>11,176</u> |

14. RELATED PARTY TRANSACTIONS

(a) Transactions

During the period, the Group had the following significant transactions with Tianye Holdings Group:

| | For the six months ended | |
|--------------------------------|--------------------------------------|------------------------|
| | 30th June, 2008 <i>RMB'000</i> | 2007 <i>RMB'000</i> |
| Nature of transaction/business | | |
| Sales of finished goods | 241 | 14,050 |
| Purchase of raw materials | 29,627 | 18,469 |
| Rentals of plant and machinery | — | 140 |
| Rentals of premises | <u>732</u> | <u>732</u> |

(b) Corporate guarantee

The Group's banking facilities were secured by the corporate guarantee given by the following company:

| | For the six months ended | |
|-----------------------|---------------------------------|-----------------------|
| | 30th June, | |
| | 2008 | 2007 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Tianye Holdings Group | <u>90,000</u> | <u>80,000</u> |

(c) Balances

Details of the balances of related parties are set out on the unaudited condensed consolidated balance sheet and notes 10 and 12.

(d) Compensation to key management personnel

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

| | For the six months ended | |
|--------------------------------|---------------------------------|-----------------------|
| | 30th June, | |
| | 2008 | 2007 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Directors and supervisors | 314 | 237 |
| Other key management personnel | <u>353</u> | <u>400</u> |
| Total | <u>667</u> | <u>637</u> |

15. MAJOR 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 14 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 or not the counterparty is a State-controlled Entities.

Material transactions/balances with other State-controlled Entities are as follows:

(a) **Material transactions**

| | For the six months ended | |
|---------------------------|--------------------------|--------------|
| | 30th June, | |
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Nature of transaction | | |
| Sales of goods | 302,800 | 295,828 |
| Purchase of raw materials | 123,114 | 92,119 |
| Interest expenses | <u>4,815</u> | <u>2,512</u> |

(b) **Material balances**

| | For the six months ended | |
|-----------------------------|--------------------------|----------------|
| | 30th June, | |
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Bank balances | 64,048 | 152,022 |
| Trade and other receivables | 208,984 | 137,452 |
| Trade and other payables | 19,140 | 22,548 |
| Bank borrowings | <u>110,000</u> | <u>110,000</u> |

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30th June, 2008, the unaudited turnover of the Group was approximately RMB394,679,000, representing an increase of approximately 32.80% from approximately RMB297,205,000 for the corresponding period in the previous year. The increase in turnover is mainly attributable to the development of new markets including Southern Xinjiang and growth in product sales of the Company.

Gross Profit

For the six months ended 30th June, 2008, the unaudited gross profit was approximately RMB57,847,000, with gross profit margin of approximately 14.66%, while the unaudited gross profit and gross profit margin for the corresponding period in the previous year were approximately RMB53,568,000 and approximately 18.02% respectively, representing an decrease of 3.36% in gross profit margin. This was mainly due to the higher costs of purchasing raw materials of the Group and the followed soar in production costs driven by a sharp rise in crude oil price, and therefore a fall in sales gross profit.

Operating Costs and Expenses

Distribution costs for the six months ended 30th June, 2008 and the corresponding period in the previous year was approximately RMB13,292,000 and approximately RMB10,546,000 respectively, representing an increase of RMB2,746,000 or approximately 26.04%. This was mainly attributable to the rise in expenses incurred from sales personnel and selling service as the market areas expand.

Administration expenses for the six months ended 30th June, 2008 and the corresponding period in the previous year was approximately RMB7,943,000 and approximately RMB9,665,000 respectively, representing a drop of approximately RMB1,722,000 or approximately 17.82%, which was mainly due to a decrease in expenses used in transferring from the GEM to the Main Board as compared to the corresponding period in the previous year.

Finance costs for the six months ended 30th June, 2008 and the corresponding period in the previous year was approximately RMB4,815,000 and approximately RMB2,688,000 respectively, an increase of approximately RMB2,127,000 or approximately 79.13%, which was mainly resulted from the increase of loans amount and lending rate as compared to the corresponding period in the previous year.

For the six months ended 30th June, 2008 and the corresponding period in the previous year, taxation was approximately RMB292,000 and approximately RMB183,000 respectively, representing a rise of approximately RMB109,000 or approximately 59.56%, which was mainly due to a rise in the profits of subsidiaries.

For the six months ended 30th June, 2008, the Group recorded approximately RMB30,458,000 for the unaudited profit attributable to equity holders of the Company, representing a decrease of approximately RMB1,046,000 or approximately 3.32% from approximately RMB31,504,000 for the corresponding period in the previous year. This was mainly attributable to the rise in costs of the Group driven by crude oil price.

Prospects

The Group maintained a continued growth in sales for the six months ended 30th June, 2008. Meanwhile, the Group was also concerned for the negative effects caused by the rising raw material price to the Group. The Group believes that those negative effects can be controlled by means of exploring new markets, developing new product application, and the development and application of new materials to ensure stable gains in the future.

Liquidity, financial resources and capital structure

During the period, the Group raised funding principally from cash generated from its business operations and banking facilities. The short-term borrowings of the Group decreased from approximately RMB165,000,000 as at 31st December, 2007 to approximately RMB110,000,000 as at 30th June, 2008, which were used principally for the daily operations of the Group. All bank borrowings of the Group as at 30th June 2008 are at fixed rate ranging from 7.29% to 7.65% per annum. The Group's exposure to interest rate risk is minimal as all bank borrowings are denominated in RMB. The borrowings of the Group are due within one year.

As at 30th June, 2008, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 15.55% (as at 31st December, 2007: approximately 23.78%). Cash and cash equivalents decreased from approximately RMB91,394,000 as at 31st December, 2007 to approximately RMB64,058,000 as at 30th June, 2008. Most bank deposits of the Group are deposited in the bank in RMB for short-term deposit.

Contingent Liabilities

As at 30th June, 2008, the Group had no significant contingent liabilities.

Foreign currency exposure

As confirmed by the directors of the Company (“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 basically 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 30th June, 2008, the Group had 813 full-time 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 staff, whereby the Group is required to make monthly contributions to these schemes. The Company 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 Company in connection with these retirement benefit plans were approximately RMB1,999,000 for the period ended 30th June, 2008.

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. The accrued benefits are all vested to the employees. The expenses arising from the provident fund of the Company for the period ended 30th June, 2008 were HK\$6,000.

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 staff members shall make contribution to a housing pension for the establishment of a housing pension scheme. Both the housing pensions contributed by each staff member and by their respective units are vested to the staff members. The percentage of the housing pension contributed by the staff members and their units shall not be less than 5% of the average monthly wages of such staff members of the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

Future plan for material investment

As at 30th June, 2008, the Group had no material investment plan.

Material acquisitions and disposals

For the six months ended 30th June, 2008, the Group had no material acquisitions nor disposals of subsidiaries and associated companies.

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

As at 30th June, 2008, the interests or short positions 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 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) | 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 on 9th June, 1997, 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 30th June, 2008.

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 body corporates.

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

(A) Substantial Shareholders

As at 30th June, 2008, 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 <i>(Note 1)</i> | Approximate percentage of the total issued share capital of the Company <i>(Note 2)</i> |
|------------------------------------|-------------------------|------------------------------------|--|--|
| Tianye Company | Corporate | Beneficial owner | 202,164,995(L) | 38.91% <i>(Note 3)</i> |
| Tianye Holdings <i>(Note 4)</i> | Corporate | Interest in controlled corporation | 202,164,995(L) | 38.91% |
| Guo Shu Qing | Personal | Beneficial owner | 61,386,798(L) | 11.82% <i>(Note 5)</i> |
| Wang Xiao Xian | Personal | Beneficial owner | 50,335,128(L) | 9.69% <i>(Note 6)</i> |

Notes:

1. The letter "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
3. The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issue.
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 Guo Shu Qing were equivalent to approximately 19.36% of the total issued domestic Shares of the Company.
6. The domestic Shares held by Wang Xiao Xian were equivalent to approximately 15.87% of the total issued domestic Shares of the Company.

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

As at 30th June, 2008, 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 <i>(Note 1)</i> | Approximate percentage of the total issued share capital of the Company <i>(Note 2)</i> |
|--|-------------------------|--------------------|--|---|
| UBS AG | Corporate | Investment manager | 52,630,432(L) | 10.13% <i>(Note 3)</i> |
| Julius Baer Multipartner SICAV, Luxembourg | Corporate | Investment manager | 12,280,000(L) | 2.36% <i>(Note 4)</i> |

Notes:

1. The letter "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 26.00% of the total H Shares in issue of the Company.
4. The H Shares held by Julius Baer Multipartner SICAV, Luxembourg were equivalent to approximately 6.07% of the total issued H Shares of the Company.

Save as disclosed above, as at 30th June, 2008, the Directors, Supervisors and chief executives of the Company were not aware of any persons (other than the Directors, Supervisors and chief executives of the Company) who had an interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

For the period ended 30th June, 2008, the Directors are not aware of any business or interests 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters, including reviewing the unaudited interim financial accounts.

CODE ON CORPORATE GOVERNANCE PRACTICES

By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved and further instill confidence of shareholders and the public in the Group. Throughout the period ended 30th June, 2008, the Group has complied with the requirements of the “Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 by the Company, all Directors of the Company have confirmed that they have complied with the required standard under the Model Code for the period ended 30th June, 2008.

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 will oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE OF REDEMPTION OF SHARES

The Company and/or any of its subsidiaries did not purchase, sell or redeem any of the Company’s listed securities for the six months ended 30th June, 2008.

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

Xinjiang, the PRC, 15th August, 2008

* *For identification purpose only*