新疆天業節水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

Stock Code: 8280

Annual Report 2005

* for identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligations to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Xinjiang Tianye Water Saving Irrigation System Company Limited* (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the requirement of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

Contents

Corporate Information

DIRECTORS

Executive Directors

Guo Qing Ren (郭慶人)
Shi Xiang Shen (師祥參)
Huang Yao Xin (黃耀新)
Li Shuang Quan (李雙全)

Independent non-executive Directors

He Lin Wang (何林望)
Xia Jun Min (夏軍民)
Gu Lie Feng (顧烈峰)

SUPERVISORS

Xia Yue Xing (夏月星)
He Jie (何杰)
Huang Jun Lin (黃俊林)

QUALIFIED ACCOUNTANT

Pak Wai Keung, Martin

COMPANY SECRETARY

Pak Wai Keung, Martin

COMPLIANCE OFFICER

Shi Xiang Shen

AUDIT COMMITTEE

He Lin Wang
Xia Jun Min
Gu Lie Feng

COMPLIANCE COMMITTEE

Shi Xiang Shen
He Lin Wang
Gu Lie Feng
Xia Jun Min
Pak Wai Keung, Martin

REMUNERATION COMMITTEE

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

COMPLIANCE ADVISER

Sun Hung Kai International Limited
Level 12
One Pacific Place
88 Queensway
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

No. 36., Bei San Dong Road
Shihezi Economic and Technological Development Zone
Shihezi
Xinjiang
PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite no. L3947, Level 39
One Exchange Square
8 Connaught Place
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

STOCK CODE

8280

WEBSITE

http://www.tianyejieshui.com

Chairman's Statement

I, on behalf of the board (the "Board") of Directors of Xinjiang Tianye Water Saving Irrigation System Company Limited* (the "Company") and its subsidiaries (the "Group"), am pleased to announce the audited consolidated financial results of the Group for the year ended 31st December, 2005 together with the comparative figures for the previous year.

APPRECIATION

During the year, the Group continued to maintain a fast pace of development and its results recorded a significant growth. On behalf of the Directors, I hereby sincerely thank the investors, customers and all suppliers for their patronage and firm support to the Group during the reporting period.

* *For identification purpose*

BUSINESS REVIEW

- As the Chinese economy grows rapidly, there is a shortage of the supply of water resources, which has led to a strong demand for various water saving products in the Chinese market. In 2005, 175,000 hectares of farming areas were installed with the Group's water saving irrigation systems, an increase of 9.38% from 2004. The Group continued to maintain its role as the leading supplier of agricultural water saving irrigation systems in the Chinese market.
- Turnover was approximately RMB376,251,000, a decrease of approximately 3.3% from 2004;
- Gross profit was approximately RMB95,878,000, an increase of approximately 19.5% from 2004;
- Gross profit margin was approximately 25.5%, an increase of approximately 4.9% from 2004;
- Profit for the year was approximately RMB55,039,000 an increase of approximately 24.8% from 2004, profit attributable to equity holders of the Company was approximately RMB52,658,000 an increase of approximately 24.1% from 2004;
- Earnings per Share for the year was approximately RMB0.17 (2004: approximately RMB0.13).

Chairman's Statement

During the year ended 31st December 2005, the turnover of the Group decreased because the Group's customers installed products by themselves, which led to a decrease in installation income of the water saving irrigation systems of the Group but indicated that the increasing popularity of the products of the Group; the growth in gross profit and gross profit margin was mainly due to the growth in sales income of drip films and polyvinyl chloride ("PVC") pipelines which are the major products of the Group, and the lowering of production costs by the Group through technology development.

OUTLOOK

On 31st December, 2005, the Central Government of the Peoples' Republic of China ("the PRC") and the State Council issued "Certain Opinions Related to the Promotion of Socialistic New Agricultural Construction by the Central Government of the PRC and the State Council" (中共中央國務院關於推進社會主義新農村建設的若干意見), which emphasized "The Speeding Up of Water Saving Irrigation; Continue to Construct Large Scale Auxiliary Drip Zones and Undergo Water Saving Reform to Focus on Agricultural Fixed Assets Investments; Heavy Promotion of Water Saving Technology. Implementation of Responsibilities Sharing by the Central Government and Local Government; Gradually Expand the Size of Subsidies for Small Scale Farmland Irrigation Projects." Therefore, the Group expects the agricultural water saving irrigation equipment market will continue to grow rapidly in 2006. The Group will fully utilize the strengths of the Group and to use innovative technology to firmly grasp market opportunities, for expansion of the business and increase the profit of the Group, thus bringing good returns to the shareholders.

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

Overview

As a pioneer in providing one-stop solution for water saving irrigation system in the PRC, the Group is principally engaged in the design, manufacturing and sales of drip films, PVC and Polyethylene ("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 water can be applied, drop by drop, to the soil surface near the root of plant. A properly designed automatic drip irrigation system can save the troubles of deciding when to irrigate and the amount of water to apply. The potential and importance of water saving irrigation system have been recognised by both the PRC Government and the 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 down-stream plastic raw materials would lead to an increase in the cost of the Group's product, 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 customers base by expanding its sales and distribution network.

Results of Operations

Turnover

For the year ended 31st December, 2005, the turnover of the Group was approximately RMB376,251,000, with a decrease of 3.3% from approximately RMB389,183,000 for the year ended 31st December, 2004. The Directors consider that the Group's turnover of drip films increased of RMB29,104,000 by 17.5% comparing with the preceding year. Sales of drip films were exempted from value-added tax in 2004. Value-added tax of sales of drip films was paid at a rate of 13% in 2005, therefore deducting the accrued value-added tax from the Group's turnover. RMB25,905,000 was deducted from the Group's turnover as value-added tax was paid at the same rate during the year. The above factors reduced the turnover of drip films by 13.3% of RMB25,905,000. With an increase of sales of diversion pipelines, sales of PVC/PE pipelines of the year increased by 12.3%, which is RMB13,569,000, from RMB110,216,000 in the preceding year to RMB123,785,000. Sales of Drip assemblies of the year decreased from RMB81,105,000 of the preceding year to RMB53,047,000, representing approximately 34.6% decrease of RMB28,058,000. In order to increase the number of customers using the Group's drip system and lower their usage cost per hectare, the Group has altered the design of drip system, reduced the number of pipelines connecting accessories, hence reducing the amount of drip fittings and corresponding revenue. The

Group's turnover generated by the provision of installation services had decreased from RMB32,006,000 during the preceding year to RMB4,459,000 this year, representing a 86.1% of RMB27,547,000. This was mainly due to the fact that some of the Company's customers installed water saving irrigation system by themselves after grasping the installation technique, hence the Group's turnover generated by the provision of installation services had decreased.

In conclusion, turnover of the year decreases by 3.3% as compared to last year, which was mainly attributable to a 17.5% and 12.3% increase of sales of drip films and PVC/PE pipelines respectively, and a 34.6% and 86.1% decrease in turnover of drip assemblies and provision of installation.

The following table highlights the breakdown of total turnover of the Group for each of the two years ended 31st December, 2005 by products or services:

Category	For the year ended 31st December, 2004 Turnover RMB'000	% to total turnover	**For the year ended 31st December, 2005 Turnover RMB'000**	**% to total turnover**	**Year-on-year percentage change (%)**
Drip films	165,856	42.6%	**194,960**	**51.8%**	**17.5%**
PVC/PE pipelines	110,216	28.3%	**123,785**	**32.9%**	**12.3%**
Drip assemblies	81,105	20.9%	**53,047**	**14.1%**	**-34.6%**
Provision of installation services	32,006	8.2%	**4,459**	**1.2%**	**-86.1%**
Total	389,183	100%	**376,251**	**100%**	

The change in turnover for the twelve months ended 31st December, 2005 was mainly attributable to the overall effect of an expansion of farmland fitted with the Company's water saving irrigation products and the decrease in provision of installation services. For the twelve months ended 2005, sales volume of drip films increased by approximately 17.5% of approximately RMB29,104,000, while sales volume of PVC/PE pipelines increased by approximately 12.3% of approximately RMB13,569,000. At the same time, selling price of both drip films and PVC pipelines increased from approximately RMB12.54 per tonne and RMB6.28 per tonne, respectively, for the twelve months ended 31st December, 2004 to that of approximately RMB15.73 per tonne and RMB7.45 per tonne, respectively, for the twelve months ended 31st August, 2005. The increase in both the sales volume and selling price of the Group's products were 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 RMB32,006,000 to approximately RMB4,459,000 was mainly due to the fact that some of the Group's customers installed water saving irrigation system by themselves, hence the Group's turnover generated by the provision of installation services had decreased. As a result, the turnover in provision of installation services decreased by approximately 86.1% for the year under review.

Cost of sales

For the year ended 31st December, 2005, cost of sales of the Group was approximately RMB280,373,000, with a decrease of approximately 9.2% from approximately RMB308,947,000 compared to the previous year. For the year ended 31st December, 2005, costs of sales comprised direct materials of approximately RMB222,025,000, direct labors of approximately RMB9,949,000 and production overhead of approximately RMB48,399,000, which accounted for approximately 79.2%, 3.5% and 17.3%, respectively, of total costs of sales for the year under review. For the year ended 31st December, 2004, costs of sales comprised direct materials of approximately RMB226,298,000, direct labors of approximately RMB12,247,000 and production overhead of approximately RMB70,402,000, which accounted for approximately 73.2%, 4% and 22.8% respectively, of total costs of sales for the year under review.

Gross profit

The Group realised a gross profit of approximately RMB95,878,000 for the year ended 31st December, 2005, representing an increase of approximately 19.5% compared to the previous year. The Group's gross profit margin increased from 20.6% for the year ended 31st December, 2004 to 25.5% for the year ended 31st December, 2005. The increase in gross profit margin was due to the overall effect of increase in recycle rate of drip films, decrease of prescription cost of raw materials.

Other operating income

Other operating income consists primarily of interest income. It decreased from RMB1,769,000 for the year ended 31st December, 2004 to RMB336,000 for the year ended 31st December, 2005.

Distribution costs

Distribution costs increased by approximately 30.6% to RMB18,512,000 for the year ended 31st December, 2005. It accounted for approximately 4.9% of total turnover for the year ended 31st December, 2005, increased from that of approximately 3.6% of total turnover for the corresponding period in the previous year. Distribution costs mainly comprised of transportation costs, sales services expenses, salaries, commissions for sales staff, depreciation charges, traveling expenses and business entertainment fees, etc.

Administrative expenses

Administrative expenses decreased by approximately 8% to approximately RMB11,197,000 for the year ended 31st December, 2005. It accounted for approximately 3.0% of total turnover for the year ended 31st December, 2005, which was comparable to that of approximately 3.1% of total turnover for the corresponding period in the previous year. For the year ended 31st December, 2005, salary costs decreased by 19.6% to RMB3,353,000, labour insurance increased by 15.6% to RMB2,725,000, business entertainment fees increased by 32.8% to RMB393,000 and allowance for bad debts decreased by approximately 46.4% to approximately RMB1,343,000.

Operating profit

As a result of the factors discussed above, the Group's operating profit for the year ended 31st December, 2005 was approximately RMB66,200,000, representing an increase of approximately 19.1% from approximately RMB55,569,000 for the corresponding period in the previous year. The Group's operating margin (profit from operations expressed as a percentage of Group's turnover) was approximately 14.3% and 17.6%, respectively for the year ended 31st December, 2004 and 2005.

Finance costs

Finance costs for the year ended 31st December, 2005 amounted to approximately RMB3,566,000 representing an increase of 1.2% for the corresponding period in the previous year.

Profit for the year

As a result of the factors discussed above, the Group's net profit increased by approximately 24.1%, from approximately RMB42,432,000 for the year ended 31st December, 2004 to approximately RMB52,658,000 for the year ended 31st December, 2005. The Group's net profit margin for the year ended 31st December, 2004 and 2005 was approximately 10.9% and 14%, respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio for the twelve months ended 31st December, 2005 were approximately 2.6 and 1.3 respectively, representing an increase of 0.5 and 0.2 respectively when compared to the year ended 31st December, 2004. This is due to approximately 48.5% decrease of trade and other payables for the year ended 31st December, 2005 and 57.2% increase of bank balances and cash and 7.1% increase of inventories during the year under review.

Financial resources

The Group currently finances its operations mainly by internal generated funds, net proceeds raised from initial public offering 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 or bank loans, when necessary.

Capital expenditure

For the year ended 31st December, 2005, capital expenditure of the Group in respect of acquisition of property, plant and equipment amounted to approximately RMB5,565,000, which were in-line with the expansion plans of the Group in the respective periods. Furthermore, the Directors intend to finance the Group's future business development and capital expenditure principally through the net proceeds raised from the initial public offering and internal resources of the Group, and particularly, approximately RMB220 million is intended to be spent on increasing of the Group's manufacturing capacity and capability.

Capital structure

For the year ended 31st December, 2005, the Group had gearing ratio (which is defined as total debts net of payables under ordinary course of business over total assets) of approximately 22.7%, while the net debt to total equity ratio during the period were approximately 17.6%. Net debt is defined to include total debts net of payables under ordinary course of business and cash and cash equivalents.

The Directors have confirmed that the Group has financed its operations principally from cash generated from its business operations and banking facilities and has not experienced any liquidity problem for the year ended 31st December, 2005.

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.

INDEBTEDNESS

Borrowings

The Group's borrowings of RMB80,000,000 are repayable within one year.

As at 31st December, 2005, the Group had dividend payable of approximately RMB5,526,000 and outstanding bank loans of RMB80,000,000, which will fall due within 1 year at fixed interest rates ranging from 6.14% to 7.25% per annum. Prior to the date of the meeting of the Board on 10th March, 2006, all outstanding dividend payable of the Group was settled.

Out of the outstanding bank loans of RMB80,000,000 as at 31st December, 2005, Xinjiang Tianye Company Limited ("Tianye Company") (新疆天業股份有限公司) had provided guarantees in favour of a bank for securing a loan of RMB2,000,000 which bears interest at 6.70% per annum. The loan was fully repaid by the Group on 4th January, 2006 and the guarantee by Tianye Company was released.

Furthermore, the bank borrowings of the Group as at 31st December, 2005 in the sum of RMB25,000,000, which bears interest at 6.14% per annum were secured by the Group's plant and machinery with an aggregate net book value of approximately RMB79,055,000 and the Company had provided a guarantee in favour of a bank for securing a loan made to Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited (新疆阿拉爾天農節水灌溉有限責任公司), a subsidiary of the Company, in the principal sum of RMB4,000,000. Such loan bears interest at 7.25% per annum.

Pursuant to the loan agreement dated 9th September, 2005, 133 Regiment of No. 8 Division of Agricultural Construction of Xinjiang Production and Construction Regiment ("133 Regiment of No. 8 Division"), an Independent Third Party, has provided a guarantee in favour of a bank for securing a loan of RMB9,000,000 granted to the Company. The said borrowing will fall due on 6th September, 2006 and bears interest at 6.70% per annum. The Group has not provided any counter-guarantee to 133 Regiment of No. 8 Division in respect of the above loan. 133 Regiment of No. 8 Division is a regiment under the administrative supervision of No. 8 Division of Agricultural Construction of Xinjiang Production and Construction Regiment.

Pursuant to the loan agreement dated 16th November, 2005, Xinjiang Kangdi Agriculture Technology Development Co., Ltd., (新疆康地農業科技發展有限責任公司), an Independent Third Party, has provided a guarantee in favour of a bank for securing a loan of RMB20,000,000 granted to the Group. The said borrowing will fall due on 18th November, 2006 and bears interest at 6.7% per annum. The Group has not provided any counter-guarantee to Xinjiang Kangdi Agriculture Technology Development Co., Ltd. (新疆康地農業科技發展有限責任公司) in respect of the above loan.

Pursuant to the loan agreement dated 12th December, 2005, Shihezi Xigucheng Farm (石河子西古城農場), an Independent Third Party, has provided a guarantee in favour of a bank for securing a loan of RMB20,000,000 granted to the Company. The said borrowing will fall due on 11th December, 2006 and bears interest at 6.14% per annum. As confirmed by the Directors, the Company has not provided any counter-guarantee to Shihezi Xigucheng Farm (石河子西古城農場) in respect of the above loan.

All the bank borrowings guaranteed by Independent Third Parties are for general working capital of the Group. Each of the Independent Third Parties in relation to the guarantees in favour of the relevant banks for securing the Group's loans in the sum of RMB9,000,000, RMB20,000,000 and RMB20,000,000, respectively, has signed an irrevocable and unconditional undertaking to undertake that it will not withdraw its guarantee during the term of the relevant guarantee. Furthermore, on 3rd January, 2006, Tianye Company has undertaken in writing to provide guarantees to the banks if any of 133 Regiment of No. 8 Division, Xinjiang Kangdi Agriculture Technology Development Co., Ltd. (新疆康地農業科技發展有限責任公司) or Shihezi Xigucheng Farm (石河子西古城農場) withdraw their guarantees provided for the bank borrowings of the Company.

Commitments

As at 31st December, 2005, the Group had contracted but not provided for capital commitment of RMB865,000.

Contingent liability

As at 31st December, 2005, the Group had no contingent liability.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are 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's salary policy bases on the performance and working experience of individual employee, and the current salary level of the market. As at 31st December, 2005, the Group has a total of 756 employees and the total remuneration paid to the employees during the year is RMB26,031,000. Besides, the emolument payable to the Directors or supervisors of the Company, is determined with reference to the duties and responsibilities of the relevant Directors and supervisors of the Company, and the market rate for such positions.

Retirement benefit scheme and other benefits

The Company 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 Company is required to make monthly contributions to these schemes and the amount of monthly contributions are calculated on the basis of 30.6%. The Company has no obligation for the payment of retirement and other post-retirement benefits for the employees save for the monthly contributions described above. Expenses incurred by the Company in connection with the social insurance scheme were approximately RMB2,262,000 as of 31st December, 2005. The accrued benefits are vested to the employee.

The Company 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). Each of the employee and the Company 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 vested to the employee. The expenses incurred by the Company in connection with the provident fund scheme were approximately HK$6,000 as at 31st December 2005.

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 shall make contribution as housing pension for the establishment as housing pension scheme. Both the housing pensions contributed by each staff and by their respective units are vested to the staff. The percentage of the housing pension contributed by the staff and their unit shall not be less than 5% of the average monthly wages of such staff in the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory. The PRC legal advisers of the Company are of the opinion that the proportion of the housing pension contributed by the Group and its staff is in compliance with the legal and regulatory requirements mentioned above. The expense incurred by the Company in connection with the housing pension were approximately RMB25,462,300 as at 31st December 2005.

Material acquisitions or disposals of subsidiaries and associated companies

For the year ended 31st December, 2005, the Group had no material acquisitions nor disposals of subsidiaries nor associated companies.

Material investment

For the year ended 31st December, 2005, the Group had no material investment.

Prospect

The Group devoted to be the leading provider of one-stop solution for water saving irrigation system in the PRC and the international market. As the shortage of irrigation water and farmland becomes more serious in the PRC, it is necessary to improve current farming method in the PRC. In view of the huge potential demand in water-saving irrigation system which could increase productivity and at the same time reduce the volume of irrigation water required, the Company will develop the business by applying the net proceeds as stated in the prospectus dated 21st February, 2006. Save for the application of the net proceeds raised from initial public offering, the Company has no future plans for material investments or capital assets in the coming year.

The Central Government of the PRC and the State Council issued "Certain Opinions Related to the Promotion of Socialistic New Agricultural Construction by the Central Government of the PRC and the State Council" (中共中央國務院關於推進社會主義新農村建設的若干意見) on 31st December, 2005. The document put further emphasis on 'speeding up the development of water-saving irrigation, continuing to focus on large-scale auxiliary drip zone and water-saving restructuring as the principal agricultural fixed assets investment, promoting water-saving technology, implementing the responsibility sharing system between central and local entities, and further enlarging the scale of subsidies on small-sized farmland irrigation works.' Therefore, the Group forecasts that the market of agricultural irrigation equipments will continue to grow in 2006. As such, the Group will fully make use of all its competitive edges, especially on the aspect of technology innovation, in order to grasp the golden change of the market, expand our market, increase the profitability of the Group and generate good returns for our shareholders.

Corporate Governance

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "Code") set out in Appendix 15 of the GEM Listing Rules, which came into effect on 1st January, 2005 and the accounting period that commenced on or afterwards.

However, the Directors are of the view that the Company was not required to compile with the Code for the year ended 31st December, 2005, as the H Shares of the Company has not been listed on the GEM during the year under review. The Company will compile with the Code in the financial year 2006.

AUDIT COMMITTEE

The Company has established an Audit Committee ("Audit Committee") with written terms of reference pursuant to the GEM Listing Rules on 7th February, 2006. The duties of the Audit Committee include: reviewing the Company's annual reports and accounts, interim reports and quarterly reports, and making recommendations and giving opinions to the Board. Therefore, member of the Audit Committee will liaise with the Board, senior management and their qualified accountant and auditors of the Company. The Audit Committee will also consider any significant or unusual items that are, or may need to be reflected in such reports or accounts, and consider any issues raised by the Company's qualified accountants, compliance officers or auditors of the Company. The Audit Committee is also responsible for reviewing the Company's financial reporting system and internal control procedures of the Company.

The Audit Committee comprises three independent non-executive Directors, namely He Lin Wang, Xia Jun Min and Gu Lie Feng. He Lin Wang is the chairman of the Audit Committee. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31st December, 2005.

COMPLIANCE COMMITTEE

To ensure the Group compile with all the relevant laws and regulations and the GEM Listing Rules (the "Relevant Rules") after listing, the Company has established a compliance committee ("Compliance Committee") comprising (i) the Company's Compliance Officer, Shi Xiang Shen; (ii) independent non-executive Directors He Lin Wang, Gu Lie Feng and Xia Jun Min; and (iii) the Company's company secretary Pak Wai Keung, Martin. The duties of the Compliance Committee include: (i) supervising the Company's effective implementation of various management measures of the Company; and (ii) reviewing the Company's disclosure policies to ensure its compliance with the GEM Listing Rules and the requirements of other regulatory authorities and making recommendations and giving opinions to the Board in this regard. In addition, the Company and Sun Hung Kei International Limited ("Sun Hung Kei") (i.e. compliance adviser appointed in accordance with Rule 6A.19 of the GEM Listing Rules) will hold regular meetings during the effective period of the compliance adviser agreement entered into between the Company and Sun Hung Kei on 20th February, 2006.

REMUNERATION COMMITTEE

The Group has also established a remuneration committee (the "Remuneration Committee") with written terms of reference pursuant to Appendix 15 of the GEM Listing Rules on 7th February, 2006. Its members include an executive Director Shi Xiang Shen and three independent non-executive Directors He Lin Wang, Xia Jun Min and Gu Lie Feng. Shi Xiang Shen is the chairman of the Remuneration Committee. The main duties of the Remuneration Committee is to determine the remuneration policies for all Directors and senior management of the Group and make recommendations to the Board.

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31st December, 2005.

LISTING ON GEM OF THE STOCK EXCHANGE

The H shares (the "**H Shares**") of the Company were listed on GEM with effect from 28th February, 2006 (the "Listing Date").

PRINCIPAL ACTIVITIES

The Company is an investment holding company and is engaged in the design, manufacturing, and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system, and the Group is also engaged in the provision of installation services of water saving irrigation system for its customers. Details of the principal activities of its subsidiaries are set out in note 22 of the Notes to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 34 of this report and the accompanying Notes to the financial statements.

The Directors recommend a final dividend of RMB0.0707 per share (the "**Share**") of the Company (RMB0.0671 per Share if the Over-allotment Option is exercised in full) to the shareholders (the "**Shareholders**") of the Company who are recorded on the register of members of the Company on 28th April, 2006.

PROPERTY, PLANT AND EQUIPMENT

During the year of 2005, the Group spent approximately RMB4,822,000 on acquiring new property, plant and equipment. Details of the movements in the property, plant and equipment of the Group during the year of 2005 are set out in note 12 of the Notes to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 23 of the Notes to the financial statements.

DISTRIBUTABLE RESERVE

Subsequent to the listing of the Company's H Shares, 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 People's Republic of China ("PRC") and the financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRS"). As at 31st December, 2005 the Company's distributable reserve represents its accumulated profits prepared in accordance with HKFRS of approximately RMB43,607,000 (31st December, 2004: accumulated profits prepared in accordance with PRC regulations of approximately RMB37,776,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2005, sales to the five largest customers of the Group accounted for less than 30% of the Group's total turnover. For the year ended 31st December, 2005, purchases from the Group's largest supplier and five largest suppliers accounted for approximately 24.8% and 66.5% respectively of the Group's total purchases.

None of the Directors, the supervisors (the "Supervisors") of the Company and their associates or any Shareholders (which to the knowledge of the Directors owned more than 5% of the Company's Share) had an interest in any of the Group's five largest customers or suppliers.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year and up to the date of this report included:

Executive directors:

Mr. Guo Qing Ren *(Chairman)*
Mr. Shi Xiang Shen
Mr. Huang Yao Xin
Mr. Li Shuang Quan

Independent non-executive directors:

Mr. He Lin Wang	(appointed on 15th April, 2005)
Mr. Xia Jun Min	(appointed on 15th April, 2005)
Mr. Gu Lie Feng	(appointed on 15th April, 2005)

Supervisors:

Mr. Xia Yue Xing	(appointed on 5th December, 2003)
Mr. Hung Jun Lin	(appointed on 15th April, 2005)
Mr. He Jie	(appointed on 15th April, 2005)

Messrs. Huang Yao Xin, Li Shuang Quan and Xia Jun Min, shall retire at the forthcoming annual general meeting in accordance with Article 10.02 of the articles of association of the Company and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Guo Qing Ren, aged 63, 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 issue 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* (新疆天業(集團)有限公司) ("**Tianye Holdings**")(, which is deemed to be interested in more than 5% of the Shares under the Securities and Futures Ordinance (the "**SFO**") (Chapter 571 of the Laws of Hong Kong, and is required to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the SFO) since 1996 and has been the chairman and a director of Tianye Company, (who is interested in more than 5% of the Shares, and is required to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the SFO) 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, aged 61, 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 been employed as the chief accountant of Tianye Holdings. He has become a Director since he joined the Company in 2000 and has been responsible for the Group's financial management and capital operation.

* *For identification purpose only*

Mr. Huang Yao Xin, aged 44, is an executive Director and general manager of the Company. Mr. Huang graduated from the Graduate School of the Faculty of the Humanities of Dalian Polytechnics University with a major in Management Sciences and Engineering in 1999. 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 1998. He has been appointed a Director and general manager of the Company since he joined the Group in 2000 and is responsible for the Group's daily operation management.

Mr. Li Shuang Quan, aged 41, is an executive Director and deputy general manager 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. Currently, he is a director of Tianye Company 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.

Independent Non-Executive Directors

Mr. He Lin Wang, aged 64, is an independent non-executive Director. 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 chief engineer of Shihezi Water Conservation Bureau (石河子市水利局) and a director of the Xinjiang Agricultural Engineering Society. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Xia Jun Min, aged 35, is an independent non-executive Director. 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. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Gu Lie Feng, aged 66, is an independent non-executive Director. 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. Since he joined the Group in April 2005, he has been an independent non-executive Director.

Report of the Directors

Supervisors

Mr. Xia Yue Xing, aged 46, is a Supervisor. Mr. Xia graduated from Xinjiang Technology College in 1988 with a major in Mechanical Machinery Quantitative Sciences. Mr. Xia obtained a senior engineer qualification as approved by Examination Committee of Higher Professional Technical Positions of Industrial, Communication and Engineering Series of the Regiment (兵團工交程系列高級專業技術職務評審委員會) in 2003. He joined the Group in January 2002 and has been a Supervisor since December 2003.

Mr. He Jie, aged 60, is a Supervisor. Mr. He graduated from Tianjin Light Industry College in 1968 with a major in Plastic Modelling and Processing. Mr. 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, aged 66, is a Supervisor. Mr. Huang graduated from Xinjiang University in 1990 having attained education in politics. He is a senior administrator 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. Pak Wai Keung, Martin, aged 42, 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. Pak is a member of Hong Kong Institute of Certified Public Accountants. Mr. Pak had also worked for several international accounting firms in Hong Kong and a bank. He has about 16 years of experience in the fields of professional accounting services, finance, and management. He joined the Group in July 2005.

Compliance Officer

Mr. Shi Xiang Shen, 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 GEM Listing Rules and other relevant laws and regulations applicable to the Group.

Senior Management

Mr. Zhu Jia Ji, aged 42, graduated from Agricultural and Machinery School of Shihezi, Xinjiang. Mr. Zhu 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.

Mr. Wang Xin Zhong, aged 38, graduated from Urumqi Vocational and Technical University with a major in Economic Management in 2005. He joined the Group in 2001 and has been a deputy general manager of the Company since 2003.

Ms. Ni Mei Lan, aged 46, graduated from Urumqi Vocational and Technical 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.

Ms. Zheng Xiao Ming, aged 47, graduated from the Capital Economic and Commerce University in 2001. She obtained a senior accountant qualification certificate issued by Ministry of Agriculture of the PRC. She has been the financial controller of the Company since she joined the Group in 2001 and has been the head of the finance department of the Company since January 2006.

Mr. Xiong Xin Yi, aged 34, 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. He joined the Group in January 2003 and has been the secretary to the Board since 2005.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Messrs. Huang Yao Xin, Li Shuang Quan and Xia Jun Min has entered into a service contract with the Company for an initial term of 36 months commencing on 7th February, 2006. These contracts are only determinable by the Company upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting 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.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that they are independent under Rule 5.09 of the GEM Listing Rules.

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

As at 31st December, 2005, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the SFO had applied to the Supervisors) or chief executives of the Company, including their respective associates, in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or when required, recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors/ Supervisors	Company/name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Guo Qing Ren *(Director)*	Tianye Company	Beneficial owner	18,000 domestic shares (L)	0.0079%
Shi Xiang Shen *(Director)*	Tianye Company	Beneficial owner	14,400 domestic shares (L)	0.0063%
Huang Jun Lin *(Supervisor)*	Tianye Company	Beneficial owner	6,300 domestic shares (L)	0.0028%

Note:

1. The letter "L" denotes the Director's and Supervisor's long positions in such securities.

Other than as disclosed above, none of the Directors, the Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporation (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 Rule 5.46 of the GEM Listing Rules as at 31st December, 2005.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

So far as is known to the Directors, Supervisors and chief executives of the Company, as at 31st December, 2005, none of the Directors, Supervisors or chief executives of the Company or any of their spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or to acquire H Shares.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY DISCLOSURE" stated in the note 29 of the Notes to the financial statements, no contract of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director or a Supervisor 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, 2005, the following person or entities (other than a Director, Supervisor or chief executive of the Company) had an interest or short position 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:

Name	Type of interest	Capacity	Number of the issued shares of the Company (Note 1)	Approximate percentage of the total issued share capital of the Company
Tianye Company	Corporate	Beneficial owner	202,164,995 domestic shares of the Company (L)	63.75%
Tianye Holdings (Note 2)	Corporate	Interest in controlled corporation	202,164,995 domestic shares of the Company (L)	63.75%
Shenzhen City Li Tai Lai Investment Development Company Limited ("**Li Tai Lai**")	Corporate	Beneficial owner	93,994,831 domestic shares of the Company (L)	29.64%
Yang Ming Gui (Note 3)	Personal	Interest in controlled corporation	93,994,831 domestic shares of the Company (L)	29.64%

Notes:

1. The letter "L" denotes the person's/entity's long positions in the shares of the Company.

2. Tianye Holdings is interested in approximately 57.14% of the registered capital of Tianye Company. Tianye Holdings is deemed to be interested in the same 202,164,995 domestic shares of the Company held by Tianye Company under the SFO.

3. Yang Ming Gui is interested in 58% of the registered capital of Li Tai Lai. He is deemed to be interested in the same 93,994,831 domestic shares of the Company held by Li Tai Lai under the SFO.

(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, 2005, save of the person or entities disclosed in sub-section (A) above, no person or entities (other than a Director, Supervisor or chief executive of the Company) had an interest or short position 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 the SFO.

Save as disclosed above, as at 31st December, 2005, the Directors were not aware of any person (other than the Directors, Supervisors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded on 31st December, 2005 in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Pursuant to Rule 20.38 of the GEM Listing Rules, the board of directors 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 of directors. 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 favourable 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 29 to the financial statements.

Save as the above, the Group also entered into following connected transactions agreements on 7th February, 2006:

- purchase agreement with Tianye Holdings (the 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 (the 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 stabilizers, 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 (the 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 (the 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 (the substantial shareholder of the Company), for a term from 1st July, 2005 to 31st 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 (the substantial shareholder of the Company), for a term from 1st July, 2005 to 31st June, 2008 at the rent of RMB3,500 per annum (including property management fee);

- 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小區94–2辦公樓) with Tianye Company (the substantial shareholder of the Company), for a term from 1st July, 2005 to 31st 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. These transactions have commenced in 2006 and the details of which were disclosed in the prospectus dated 21st February, 2006.

In respect of each of the related party transactions as listed in note 29 to the 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 20 of the GEM of 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.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with the requirements of board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules since its listing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rules 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). All Directors have complied with the required standard as set out in the Code.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2005, 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 GEM Listing Rules) that compete or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

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.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Sun Hung Kai, the Company's compliance adviser, pursuant to Rule 6.36 and 18.45 of the GEM Listing Rules, as at 31st December, 2005, neither Sun Hung Kai nor its directors or employees or associates had any interests in the share capital of the Company.

Pursuant to an agreement dated 20th February, 2006 entered into between Sun Hung Kai and the Company, Sun Hung Kai received and will receive fees for acting as the Company's compliance adviser.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 33 of the Notes to the financial statements.

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 ended 31st December, 2005 and for the period ended from 28th February, 2006 to the date of this report since its listing.

AUDITORS

The financial statements have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Guo Qing Ren
Chairman

Hong Kong, 10th March, 2006

Report of the Supervisory Committee

To: All Shareholders

Xinjiang Tianye Water Saving Irrigation System Company Limited* (新疆天業節水灌溉股份有限公司) (the "Company") has compiled with the Company Law of the PRC during the year ended 31st December, 2005, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

The Company has not applied the net proceeds raised from Initial Public Offering since its listing on the Stock Exchange of Hong Kong Limited on 28th February 2006.

After investigation, we consider that the financial statement of the Company, audited by Deloitte Touche Tohmatsu, truely and sufficiently reflects the operating results and asset positions of the Company. We also reviewed the report of the directors of the Company (the "Directors") and the profit distribution proposal. We consider that the above report and proposal meets the requirements of the relevant regulations and the articles of association of the Company. We have attended the meeting of the board of Directors (the "Board"). We consider that the members of the Board, the general manager and other officers of the Company have strictly compiled with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, general manager and the officers of the Company have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's articles of association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects of future development of the Company.

On behalf of the Supervisory Committee
Xia Yue Xing
Chairman of the Supervisory Committee

Xinjiang, the PRC

10 March, 2006

* *For identification purpose only*

Deloitte.
德勤

TO THE SHAREHOLDERS OF
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED
新疆天業節水灌溉股份有限公司
(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 the "Group") on pages 34 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
10th March, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	4	**376,251**	389,183
Cost of sales		**(280,373)**	(308,947)
Gross profit		**95,878**	80,236
Other operating income		**336**	1,769
Distribution costs		**(18,512)**	(14,170)
Administrative expenses		**(11,197)**	(12,173)
Other operating expenses		**(305)**	(93)
Profit from operations	6	**66,200**	55,569
Finance costs	7	**(3,566)**	(3,523)
Profit before taxation		**62,634**	52,046
Taxation	9	**(7,595)**	(7,951)
Profit for the year		**55,039**	44,095
Profit (loss) attributable to:			
Equity holders of the Company		**52,658**	42,432
Minority interests		**2,381**	1,663
		55,039	44,095
Dividends	10	**34,883**	8,879
Earnings per share			
— basic	11	**RMB0.17**	RMB0.13

Consolidated Balance Sheet

At 31st December, 2005

		The Group	
		At 31st December	
		2005	2004
	Notes	**RMB'000**	RMB'000
Non-current assets			
Property, plant and equipment	12	**159,331**	176,888
Prepaid lease payments	13	**755**	34
Goodwill	14	**98**	98
		160,184	177,020
Current assets			
Inventories	15	**189,619**	177,106
Trade and other receivables	16	**122,007**	162,802
Bills receivable	16	**16,000**	150
Amounts due from Tianye Holdings Group	18	**—**	5,683
Bank balances and cash	16	**53,933**	34,313
		381,559	380,054
Current liabilities			
Trade and other payables	19	**59,346**	115,330
Amounts due to Tianye Holdings Group	18	**—**	3,922
Dividend payable		**5,526**	—
Tax payables		**4,946**	3,376
Short-term bank borrowings	20	**80,000**	60,000
		149,818	182,628
Net current assets		**231,741**	197,426
Total assets less current liabilities		**391,925**	374,446
Non-current liability			
Government grants	31	**900**	900
Net assets		**391,025**	373,546

Consolidated Balance Sheet

At 31st December, 2005

		The Group	
		At 31st December	
	Notes	**2005** **RMB'000**	2004 RMB'000
Capital and reserves			
Capital	23	**317,122**	317,122
Reserves	24	**61,886**	44,111
Equity attributable to equity holders of the Company		**379,008**	361,233
Minority interests		**12,017**	12,313
Total equity		**391,025**	373,546

The financial statements on pages 34 to 66 were approved and authorised for issue by the Board of Directors on 10th March, 2006 and are signed on its behalf by:

Mr. Shi Xiang Shen
DIRECTOR

Mr. Guo Qing Ren
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Capital RMB'000 (note 23)	Statutory reserve fund RMB'000 (note 24)	Statutory welfare fund RMB'000 (note 24)	Accumulated profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2004	317,122	—	—	10,558	327,680	1,563	329,243
Profit for the year and total recognised income for the year	—	—	—	42,432	42,432	1,663	44,095
Dividends paid	—	—	—	(8,879)	(8,879)	—	(8,879)
On acquisition of subsidiaries	—	—	—	—	—	9,087	9,087
Transfer	—	1,080	540	(1,620)	—	—	—
At 31st December, 2004	317,122	1,080	540	42,491	361,233	12,313	373,546
Profit for the year and total recognised income for the year	—	—	—	52,658	52,658	2,381	55,039
Dividends declared to equity holders of the Company	—	—	—	(34,883)	(34,883)	—	(34,883)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	(2,677)	(2,677)
Transfer	—	4,423	2,212	(6,635)	—	—	—
At 31st December, 2005	317,122	5,503	2,752	53,631	379,008	12,017	391,025

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**62,634**	52,046
Adjustments for:		
Interest expenses	**3,566**	3,523
Interest income	**(313)**	(1,325)
Depreciation of property, plant and equipment	**22,401**	27,090
Allowance for inventory	**94**	1
Allowance for trade receivables	**1,343**	2,506
Operating cash flows before movements in working capital	**89,725**	83,841
Increase in inventories	**(12,607)**	(39,441)
Decrease (increase) in trade and other receivables	**39,452**	(45,587)
(Increase) decrease in bills receivable	**(15,850)**	850
(Decrease) increase in trade and other payables	**(55,984)**	15,765
Cash generated from operations	**44,736**	15,428
Tax paid	**(6,025)**	(4,094)
Interest paid	**(3,566)**	(3,523)
NET CASH FROM OPERATING ACTIVITIES	**35,145**	7,811
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(5,565)**	(44,659)
Advance to Tianye Holdings Group	**5,683**	(3,831)
Acquisition of subsidiaries	**—**	(3,977)
Interest received	**313**	1,325
Proceeds from disposal of property, plant and equipment	**—**	4,723
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**431**	(46,419)
FINANCING ACTIVITIES		
Repayments of bank loans	**(60,000)**	(93,000)
Dividends paid to equity holders of the Company	**(29,357)**	(8,879)
Dividends paid to a minority shareholder of a subsidiary	**(2,677)**	—
Repayment to Tianye Holdings Group	**(3,922)**	(14,954)
Bank loans raised	**80,000**	80,000
NET CASH USED IN FINANCING ACTIVITIES	**(15,956)**	(36,833)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,620**	(75,441)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**34,313**	109,754
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	**53,933**	34,313

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 新疆石河子市綠洲節水灌溉有限公司 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 liabilities company (the "Conversion"). On 28th February, 2006, the Company's H Shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's immediate holding company is 新疆天業股份有限公司 Xinjiang Tianye Company Limited ("Tianye Company", a company established in the PRC with its shares listed on the Shanghai Securities Exchange). 新疆天業(集團)有限公司 Xinjiang Tianye (Group) Limited ("Tianye Holdings"), a private limited company established in the PRC is the Company's ultimate holding 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 22.

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

2. 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 financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing Securities on the GEM of the Stock Exchange and the Companies Ordinance in Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The HKICPA has also issued the following standards and interpretations that are not yet effective. In the opinion of the directors of the Company, except for the financial impact on adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts", the Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented. The Group is not yet in a position to reasonably estimate the impact on adoption of HKAS 39 & HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration andenvironmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

The principal accounting policies adopted are set out as below:

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.

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.

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are identified 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 meeting 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 arising on the acquisition of a subsidiary represents the excess of the cost of acquisition 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. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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 a subsequent period.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

When the outcome of a long-term contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Long-term contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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 income statement on a straight-line basis over the terms of the relevant lease.

2. 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 period 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.

Borrowing costs

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

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.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to 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.

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 net profit as reported in the 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information 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 which 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less any 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. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

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 income statement in the year in which the item is derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade receivables, bills receivable and other current receivables

Trade receivables, bills receivable and amounts due from Tianye Holdings Group are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance 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.

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.

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.

Bank borrowings

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

Trade payables and other current payables

Trade and other payables and amounts due to Tianye Holdings Group are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial statements is disclosed below.

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance on trade receivables

The Group performs ongoing credit evaluations of its customers and adjust 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. As a result, an additional allowance for trade receivable amounted to HK$1,343,000 has been recognized in the current year.

4. TURNOVER

Turnover is measured at the fair value of the consideration received and receivable for goods sold, net of returns and value-added tax and revenue arising on long-term contracts during the year, and is analysed as follows:

	2005 RMB'000	2004 RMB'000
Sales of goods to:		
— outsiders	**354,380**	334,555
— Tianye Holdings Group	**17,872**	22,622
Revenue from long-term contracts	**3,999**	32,006
	376,251	389,183

5. 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.

6. PROFIT FROM OPERATIONS

	2005 RMB'000	2004 RMB'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' and supervisors' emoluments		
— salaries and allowances	**23,769**	21,030
— retirement benefit scheme contributions	**2,262**	2,228
Total staff costs	**26,031**	23,258
Auditors' remuneration	**700**	650
Depreciation	**22,401**	27,090
Write-down for inventories	**94**	1
Allowances for trade receivables	**1,343**	2,506
and after crediting:		
Bank interest income	**313**	1,325

7. FINANCE COSTS

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

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Emoluments of directors and supervisors

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

	2005 RMB'000	2004 RMB'000
Directors and supervisors		
— fee	—	—
— salaries and other benefit	229	55
— retirement benefit scheme contributions	57	15
Total emoluments	286	70

The above amounts are analysed as follows:

	2005 RMB'000	2004 RMB'000
Name of executive director:		
Mr. Guo Qing Ren	—	—
Mr. Shi Xiang Shen	—	—
Mr. Huang Yao Xin (inclusive of retirement benefit scheme contributions of RMB19,000)	119	—
Mr. Li Shuang Quan (inclusive of retirement benefit scheme contributions of RMB19,000)	96	—
Total emoluments	215	—
Name of former non-executive director:		
Mr. Zhang Xin Li	—	—
Mr. Shen Min	—	—
Mr. Yu Tian Chi	—	—
Mr. Dai Xiao Jun	—	—
Total emoluments	—	—

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

(a) Emoluments of directors and supervisors *(Continued)*

	2005 RMB'000	2004 RMB'000
Name of independent non-executive director:		
Mr. He Lin Wang	—	—
Mr. Xia Jun Min	—	—
Mr. Gu Lie Feng	—	—
Total emoluments	—	—
Name of supervisors and former supervisors:		
Mr. Xia Yue Xing (Note)	71	70
Mr. He Jie	—	—
Mr. Huang Jun Lin	—	—
Mr. Yang Jin Qi (former)	—	—
Mr. Qi Yongbo (former)	—	—
Total emoluments	71	70
Total	286	70

Note: The amount includes retirement benefit scheme contribution for the year ended 31st December, 2005 of RMB19,000 (2004: RMB15,000).

During the year, no emoluments were paid by the Group to any directors or supervisors of the Company except as disclosed above (2004: Nil). The Group has commenced to pay emoluments to Mr. Huang Yao Xin and Mr. Li Shuang Quan since February 2005. The other directors and other supervisors of the Company are employees of Tianye Holdings Group and received emoluments from Tianye Holdings Group during the year. For the year ended 31st December, 2005, the emoluments that had been paid to the directors and supervisors of the Company by Tianye Holdings Group for their services to the Group and Tianye Holdings Group were RMB287,000 (2004: RMB886,000). It is not practicable to allocate the emoluments of these directors and supervisors of the Company between their services to the Group and Tianye Holdings Group.

None of the directors or supervisors waived any emoluments during the year (2004: Nil).

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

For each of the year ended 31st December, 2005 and 31st December, 2004, the five highest paid individuals include two directors, one supervisor and two employees.

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

	2005 **RMB'000**	2004 RMB'000
Salaries and other benefits	**230**	292
Retirement benefit scheme contributions	**94**	53
	324	345

During the year, no emoluments were paid by the Group to the five highest paid individuals, directors and supervisor as an inducement to join or upon joining the Group or as compensation for loss of office (2004: Nil) and no bonus was paid by the Group to the five highest paid individual director and supervisor.

During the year, the emoluments of each of the five highest paid individuals were below HK$1,000,000 (equivalent to approximately RMB1,040,000).

9. TAXATION

During each of the two years ended 31st December, 2004 and 31st December, 2005, 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 財稅字[2001]202號《關於西部大開發稅收優惠政策問題的通知》"Notice of Problem on Certain Incentives Policy on the Development of Western China" Cai Shui Zi [2001] No. 202, for an entity operated in the western part of the PRC which is mainly engaged in the business prescribed in 《當前國家重點鼓勵發展的產業、產品的技術目錄(2000年修定)》 (Industries currently encouraged to be developed by the State, Technical Catalog of Products) (2000 Revision) and that such business contributes to over 70% of its operating income (the "Prescribed Business"), such entity is entitled to specific tax relief. Other than Tianye Installation which business is not regarded as Prescribed Business, the 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	**2005 EIT rate**	2004 EIT rate
The Company	(i)	**15%**	15%
石河子天業物資回收有限責任公司 ("Tianye Recycling")	(ii)	**Exempted**	Exempted
甘肅省張掖市天業節水器材有限公司 ("Gansu Tianye")	(iii)	**15%**	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")	(iv)	**Exempted**	Exempted
哈密天業紅星節水灌溉有限責任公司 ("Hami Tianye")	(v)	**15%**	15%

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 (國家稅務總局), "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. 77 (新國稅辦[2001]77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[2004]118號), the Company was granted a reduced EIT tax rate of 15% for the seven years ending 31st December, 2010;

(ii) pursuant to "Approval of EIT Exemption for the Administration of Taxation of the Eight Enterprises of Shihezi Suburb from the State Administration of Taxation of Shihezi", Shi Guo Shui Ban [2004] No. 59 (石國稅辦[2004]59號《石河子國家稅務局關於對石河子城區國家稅務局八戶企業減免企業所得稅的批覆》), Tianye Recycling is exempted from EIT for the two years ended 31st December, 2005;

(iii) pursuant to Notice No. 202 and Approval Application Document [2002] No. 44 issued by the State Administration of Taxation of Gansu Province (甘肅國家稅務局[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;

9. TAXATION *(Continued)*

Notes: *(Continued)*

(iv) according to "Approval of EIT Exemption to Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited", Ah Shi Guo Shui Han [2003] No. 400 (《關於對新疆阿拉爾天農節水灌溉有限責任公司免徵企業所得税的批覆》阿克蘇市國税[2003]400號), issued by State Administration of Taxation of Akesu (阿克蘇市國家税務局), Alaer Tiannong was exempted from EIT for the three years ended 31st December, 2005; and

(v) 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 (哈國税辦[2005]32號《哈密地區國家税務局關於對哈密天業紅星節水權溉有限責任公司減徵企業所得税的批覆》 issued by State Administration of Taxation of Hami Region (哈密地區國家税務局) 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.

The EIT for the year ended 31st December, 2005 is calculated at the EIT rate applicable to each of the entities comprising the Group as shown above.

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**62,634**	52,046
Tax at the statutory EIT rate of 33%	**20,670**	17,175
Tax effect on expenses not deductible for tax purposes	**3,122**	3,009
Tax effect on deferred tax assets not recognised	**348**	827
Effect of tax exemption and reduction granted to the Group	**(16,545)**	(13,060)
Tax expenses	**7,595**	7,951

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

10. DIVIDENDS

A final dividend for the year ended 31st December, 2003 of RMB0.028 per share, amounting to RMB8,879,000 in aggregate, was approved on 30th April, 2004 and paid to the shareholders of the Company during the year ended 31st December, 2004.

A final dividend for the year ended 31st December, 2004 of RMB0.110 per share, amounting to RMB34,883,372 in aggregate, was declared on 15th April, 2005, RMB29,357,000 of which was paid to the shareholders of the Company during the year ended 31st December, 2005 and the remaining amount is paid to the shareholders of the Company subsequent to 31st December, 2005.

A final dividend of RMB0.0707 per share (RMB0.0671 per share if the Over-allotment Option as defined in the Company's Prospectus dated 21st February, 2006 is exercised in full) has been proposed by the directors in respect of the year ended 31st December, 2005 and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE — BASIC

The calculation of the basic earnings per share for the year ended 31st December, 2005 is based on the profit for the year attributable to equity holders of the Company of RMB52,658,000 (2004: RMB42,432,000) and 317,121,560 shares in issue during the year (2004: 317,121,560 shares).

12. 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, 2004	3,395	9,908	147,068	1,673	151	162,195
Additions	3,776	334	39,854	600	55	44,619
On acquisition of subsidiaries	78	7,601	17,046	193	881	25,799
Transfer	(1,937)	—	1,937	—	—	—
Disposal	—	—	(4,797)	—	—	(4,797)
At 31st December, 2004	5,312	17,843	201,108	2,466	1,087	227,816
Additions	3,435	3	1,144	143	97	4,822
Transfer	(5,099)	248	4,851	—	—	—
Disposal	—	—	—	—	—	—
At 31st December, 2005	**3,648**	**18,094**	**207,103**	**2,609**	**1,184**	**232,638**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1st January, 2004	—	691	22,591	578	58	23,918
Provided for the year	—	696	25,906	385	97	27,084
Disposals	—	—	(74)	—	—	(74)
At 31st December, 2004	—	1,387	48,423	963	155	50,928
Provided for the year	—	775	21,113	417	74	22,379
At 31st December, 2005	**—**	**2,162**	**69,536**	**1,380**	**229**	**73,307**
NET BOOK VALUE						
At 31st December, 2005	**3,648**	**15,932**	**137,567**	**1,229**	**955**	**159,331**
At 31st December, 2004	5,312	16,456	152,685	1,503	932	176,888

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The following rates are used for the depreciation of property, plant and equipment 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, 2005, plant and machinery of the Group with an aggregate net book value of RMB79,055,000 (31st December, 2004: RMB83,580,000) were pledged to secure bank borrowings granted to the Group.

13. PREPAID LEASE PAYMENTS

The amount represented medium-term land use right in the PRC, the cost of which is amortised over the term of the land use right on a straight-line basis.

14. GOODWILL

	RMB'000
COST	
Balance at 31st December, 2004 and 2005	98

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

15. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**113,350**	49,442
Work-in-progress	**—**	—
Finished goods	**76,269**	127,664
	189,619	177,106

At 31st December, 2005 and 31st December, 2004, the Group's finished goods of RMB5,399,000 and RMB4,182,000, respectively, were carried at net realisable value.

16. OTHER FINANCIAL ASSETS

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 allowances) with the following aging analysis:

	2005 RMB'000	2004 RMB'000
Aged:		
Within 1 year	**75,301**	48,927
1–1.5 years	**4,031**	4,809
1.5–2 years	**784**	7,925
Trade receivables (note i)	**80,116**	61,661
Other receivables and prepayments	**23,996**	15,232
Amount due from a customer for contract work (note 17)	**—**	432
Prepayments to suppliers (note ii)	**17,895**	85,477
	122,007	162,802

Notes:

(i) As at 31st December, 2005 and 31st December, 2004, trade receivables of the Group include trade receivables from Tianye Holdings Group of RMB4,846,000 and RMB479,000, respectively. All of these balances aged within one year from the respective balance sheet date.

(ii) As at 31st December, 2005 and 31st December, 2004, prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of RMB2,000 and RMB50,000,000, respectively, for sourcing and supply of raw materials.

The directors consider that the carrying amounts of trade and other receivables approximates their fair value.

Bills receivable

Bills receivable aged within one year from the respective balance sheet date. The directors consider that the carrying amounts of bills receivable approximate their fair value.

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. The directors consider that carrying amounts of these assets approximate their fair value.

17. AMOUNT DUE FROM A CUSTOMER FOR CONTRACT WORK

	2005 RMB'000	2004 RMB'000
Contracts in progress at the balance sheet date:		
Contract costs incurred	—	415
Recognised profits	—	17
	—	432
Less: Progress billings	—	—
Amount due from a customer for contract work (note 16)	—	432

18. AMOUNTS DUE FROM (TO) TIANYE HOLDINGS GROUP

	Notes	2005 RMB'000	2004 RMB'000
Amount due from Tianye Holdings Group			
— Interest bearing non-trade receivables	(i)	—	4,114
— Non-interest bearing non-trade receivables	(ii)	—	1,569
		—	5,683
Amount due to Tianye Holdings Group			
— Interest bearing non-trade payables	(i)	—	3,922

Notes:

(i) The amounts were unsecured and had no fixed terms of repayment. The balance due from Tianye Holdings Group carried interest at the standard annual rate offered by The People's Bank of China. The balance due to Tianye Holdings Group carried interest at 120% of the standard annual rate offered by The People's Bank of China.

(ii) The amounts were unsecured, interest-free and had no fixed terms of repayment.

(iii) All of the above amounts aged within one year as at 31st December, 2004 and were fully settled during the year.

The directors' consider that the carrying amounts of the balances due from (to) Tianye Holdings Group approximated their fair values.

19. TRADE AND OTHER PAYABLES

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

	2005 RMB'000	2004 RMB'000
Aged:		
0–180 days	**22,475**	34,593
181–365 days	**2,471**	2,528
1–2 years	**2,011**	426
Over 2 years	**923**	702
	27,880	38,249
Other payables and accruals	**13,233**	13,401
Deposits and prepayments received from customers	**18,233**	63,680
	59,346	115,330

The directors consider that the carrying amounts of trade and other payables approximate their fair value.

As at 31st December, 2005 and 31st December, 2004, trade payables of the Group include trade payables from Tianye Holdings Group of RMB1,302,000 and RMB9,933,000, respectively. All of these balances aged within one year from the respective balance sheet date.

As at 31st December, 2004, other payables and accruals of the Group include amount due to No. 13 Division of Agricultural Construction of Xinjiang Production and Construction Regiment, a minority shareholder of a subsidiary, of RMB4,100,000. The amount was unsecured, non-interest bearing and had no fixed terms of repayment. Such advance was fully repaid during the year.

20. SHORT-TERM BANK BORROWINGS

	2005 RMB'000	2004 RMB'000
Short-term bank borrowings are analysed as follows:		
Secured	**25,000**	30,000
Unsecured	**55,000**	30,000
	80,000	60,000

At the respective balance sheet dates, certain bank borrowings of the Group were guaranteed by Tianye Holdings Group, details of which are set out in note 29(c).

20. SHORT-TERM BANK BORROWINGS *(Continued)*

The above loans are all denominated in Renminbi. These loans are at fixed interest rates ranging from 6.138% to 7.254% per annum during the year and expose the Group to fair value interest rate risk. The directors consider that the carrying amounts of bank borrowings approximate their fair value.

21. BALANCE SHEET INFORMATION OF THE COMPANY

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

	2005 **RMB'000**	2004 RMB'000
Non-current assets		
Property, plant and equipment	**126,267**	141,945
Investments in subsidiaries	**32,865**	30,845
	159,132	172,790
Current assets		
Inventories	**160,715**	154,329
Trade and other receivables	**90,866**	124,402
Other current assets	**45,318**	24,478
Bank balances and cash	**33,080**	19,848
	329,979	323,057
Current liabilities		
Other current liabilities	**45,248**	92,844
Short-term bank borrowings	**74,000**	50,000
	119,248	142,844
Non-current liability	**900**	900
Net assets	**368,963**	352,103
Capital and reserves		
Capital	**317,122**	317,122
Reserves	**51,841**	34,981
Total equity	**368,963**	352,103

22. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005 **RMB'000**	2004 RMB'000
Unlisted investments, at cost	**32,865**	30,845

At 31st December, 2005, the Company has the following subsidiaries:

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Equity interest directly held by the Company	Principal activities
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	22nd 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	RMB10,000,000	60%	Manufacture and sale of irrigation system and equipment

23. CAPITAL

	Number of shares	RMB'000
Authorised and Issued Ordinary Shares at RMB1.00 each		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	317,121,560	317,122

24. 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) and 5% to 10% of its net profit for a statutory welfare fund.

The statutory reserve fund can be used to:

- make up 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.

The statutory welfare fund is to be used for the provision of welfare facilities of a capital nature to the employees 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.

Net 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.

25. CAPITAL COMMITMENTS

	2005 **RMB'000**	2004 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	**865**	108

26. RETIREMENT BENEFIT SCHEMES

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 20% 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.

27. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2004, aggregate consideration for purchases of subsidiaries from Tianye Holdings Group of RMB5,191,000 was settled by a set-off of non-interest bearing advances due from Tianye Holdings Group.

28. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	2005 **RMB'000**	2004 RMB'000
Plant and machinery	**280**	280
Premises	**1,965**	1,688
	2,245	1,968

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:

	2005 **RMB'000**	2004 RMB'000
Within one year	**1,859**	1,817
In second to fifth year inclusive	**2,773**	6,307
Over five years	**—**	5,613
	4,632	13,737

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 ten years and rentals are fixed for an average of ten years.

29. RELATED PARTY DISCLOSURES

(a) During the year, the Group had the following significant transactions with Tianye Holdings Group:

Nature of transactions/ business	Notes	**2005 RMB'000**	2004 RMB'000
Sales of finished goods		**17,872**	22,622
Purchase of raw materials		**59,034**	10,144
Purchases of property, plant and equipment		**2,145**	29,241
Sales of property, plant and equipment		**—**	4,355
Rentals of plant and machinery		**280**	280
Rentals of premises	(i)	**1,464**	1,432
Interest income		**2**	2
Interest expense		**186**	738
Acquisition of subsidiaries	(ii)	**—**	11,340

Notes:

(i) 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 of RMB83,000 to Tianye Company for the use of a piece of land on which certain of the Company's buildings are erected. The rentals for each of the two years ended 31st December, 2005 have been included in the rental of premises above.

(ii) On 6th January, 2004 the Company entered into an agreement with Tianye Company for the acquisition by the Company of 51% equity interest in Alaer Tiannong for a consideration of RMB5,191,000.

On 15th October, 2004 the Company entered into an agreement with Tianye Holdings for the acquisition by the Company of 60% equity interest in Hami Tianye for a consideration of RMB6,149,000.

(b) During the year ended 31st December, 2004, included in the Group's turnover was an aggregate RMB478,000 which sales contracts were originally entered into by Tianye Company and assigned to the Group by Tianye Holdings at nil consideration.

(c) Corporate guarantees

The Group's banking facilities were secured by the corporate guarantees given by:

	2005 RMB'000	2004 RMB'000
Tianye Holdings Group	**2,000**	10,000

(d) Details of the balances with related parties are set out on the balance sheets and notes 16 and 18.

30. 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 29 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.

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

(a) Material transactions

	2005	2004
	RMB'000	RMB'000
Nature of transactions		
Sales of goods	**240,760**	243,608
Purchase of raw material	**70,475**	44,753
Interest expense	**3,912**	2,785

(b) Material balances

	2005	2004
	RMB'000	RMB'000
Bank balances	**53,933**	34,313
Trade and other receivables	**82,102**	44,833
Trade and other payables	**13,173**	59,655
Bank borrowings	**80,000**	60,000

(c) At the respective balance sheet dates, a state-controlled enterprise has provided corporate guarantee to a bank in respect of a bank loan granted to the Group as follows:

	2005	2004
	RMB'000	RMB'000
Guarantee provided	**49,000**	20,000

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.

31. 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 and the year ended 31st December 2004, these projects were in progress and the related costs incurred by the Group in relation to these projects were capitalised as property, plant and equipment.

As the relevant assets have not been put in use, the government grants were not recognised as income during the year and they were accounted for as liabilities at the respective balance sheet dates.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank borrowings and cash and short-term deposits. The Group has various other financial instruments such as trade receivables, bills receivable, trade payables and amounts due from/to Tianye Holdings Group, which arise directly from its operations.

It is, and has been throughout the year, the Group's policy not to enter into trading of financial instruments including derivative transactions.

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

Commodity price risk

The Group is subject to risk from increases in the price of commodities Polyethylene and Polyvinyl Chloride, by-products of petroleum which are used in the production of inventory. To minimise this risk, the Group 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 counterparties failure to perform their obligations as at 31st December, 2005 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.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents and amounts due from Tianye Holdings Group, 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.

The Group has no significant concentrations of credit risk, with exposure spread over a large number of counter parties and customers.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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.

33. SUBSEQUENT EVENTS

Subsequent to 31st December, 2005, the following significant events took place:

(a) Pursuant to the prospectus of the Company dated 21st February, 2006 (the "Prospectus"), the Company issued and placed 176,000,000 H Shares of RMB1.00 each at HK$1.18 per H Share (the "Placing") and raised net proceeds of approximately HK$177.5 million. In addition, Sun Hung Kai International Limited ("Sun Hung Kai", for itself and on behalf of the Underwriters as set out in the Prospectus) has over-allocated an aggregate of 26,400,000 H Shares under the Placing. Sun Hung Kai has entered into stock borrowing arrangements with a placee under the Placing. The Company has granted to Sun Hung Kai (for itself and on behalf of the Underwriters) the Over-allotment Option as set out in the Prospectus exercisable at any time within 30 days after the date of the Prospectus, to require the Company to allot and issue, at the Placing Price, up to an additional 26,400,000 H Shares, representing approximately 15% of the number of the Placing Shares initially available under the Placing. If the Over-allotment Option is exercised in full, the aggregate number of H Shares to be issued pursuant thereto will represent approximately 38. 96% of the enlarged registered capital of the Company following the completion of the Placing and full exercise of the Over-allotment Option.

(b) During the year, the Group raised short-term loans of RMB49 million which are guaranteed by third parties, namely 133 Regiment of No. 8 Division as to RMB9 million; Xinjiang Kangi Agriculture Technology Development Co., Ltd as to RMB20 million and Shihezi Xiqucheng Farm as to another RMB20 million, respectively. On 3rd January, 2006. Tianye Company has undertaken in writing to provide guarantees to the relevant banks should the above parties withdraw their guarantees.

Five Years Financial Summary

The table below summarizes the audited results, assets and liabilities of the Group for the year ended 31st December, 2005, 2004, 2003, 2002 and 2001. Such information are compiled based on a consolidated basis. The information from the year 2005, 2004 and 2003 are compiled based on the Hong Kong Accounting Standards while those from the year 2002 and 2001 are compiled based on China Accounting Standards.

RESULTS

	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**376,251**	389,183	241,878	137,593	102,448
Profit Attributable to Shareholders of the Company	**52,658**	42,432	23,537	31,755	27,910

ASSETS AND LIABILITIES

	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**541,743**	557,074	464,226	370,456	164,083
Total Liabilities	**150,718**	183,528	134,983	173,426	81,955
Minority Interest	**(12,017)**	(12,313)	(1,563)	(0)	(0)
Equity Attributable to Equity Holders of the Company	**379,008**	361,233	327,680	197,030	82,128

Property

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 sq.m.
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 sq.m.