



新疆天業節水灌溉股份有限公司  
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\*  
(a joint stock limited company incorporated in the People's Republic of China)  
(Stock Code: 8280)

## FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2006

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*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 (the “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

## SUMMARY

- For the three months ended 31st March, 2006, the Group recorded an unaudited net profit of approximately RMB8.961 million, representing an increase of approximately RMB0.906 million or 11.25% as compared to the unaudited net profit of RMB8.055 million for the corresponding period in 2005.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2006.
- Earnings per share for profit attributable to equity shareholders of the Company for the three months ended 31st March 2006 was RMB0.023.

The board of Directors (the “Board”) is pleased to announce the unaudited operating results of the Company and its subsidiaries (the “Group”) for the three months ended 31st March, 2006 together with the unaudited comparatives figures for the corresponding period last year.

### Unaudited Consolidated Profit and Loss Accounts

		(Unaudited)	
		For the three months ended 31st March	
		2006	2005
	Note	RMB'000	RMB'000
Turnover	3	107,027	91,255
Cost of sales		<u>(84,779)</u>	<u>(73,621)</u>
Gross profit		22,248	17,634
Other operating income		254	354
Distribution costs		(7,452)	(5,172)
Administrative expenses		(3,104)	(2,966)
Other operating expenses		<u>(11)</u>	<u>(20)</u>
Profit from operations		11,935	9,830
Finance costs	4	<u>(1,176)</u>	<u>(1,203)</u>
Profit before taxation		10,759	8,627
Taxation	5	<u>(1,798)</u>	<u>(572)</u>
Profit for the period		<u>8,961</u>	<u>8,055</u>
Attributable to			
Equity holders of the Company		8,760	7,368
Minority interests		<u>201</u>	<u>687</u>
Profit for the period		<u>8,961</u>	<u>8,055</u>
Dividends	6	<u>—</u>	<u>—</u>
Basic earnings per share	7	<u>RMB0.023</u>	<u>RMB0.023</u>

## **Notes to the Unaudited Consolidated Financial Results**

*For the three months ended 31st March, 2006*

### **1. BASIS OF PREPARATION**

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 18th December, 2003 and upon the placing of its H shares, was listed on the GEM on 28th February, 2006. It's ultimate holding company is Xinjiang Tianye (Group) Limited, incorporated in Xinjiang, the PRC.

These consolidated financial statements incorporate the financial statements of the Company and entities under the control of 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.

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

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

Minority interests in the net assets of consolidated subsidiaries are consisted of 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 interests 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.

### **2. ACCOUNTING POLICIES**

The accounting policies adopted in preparing the unaudited consolidated financial results were in consistent with those applied for the financial statements of the Group for the year ended 31st December, 2005.

### **3. TURNOVER**

Turnover is measured at the fair value of the consideration received and receivable for goods sold, net of returns, provisions and value-added tax and revenue arising on long-term contracts during the 3 months periods ended 31st March, 2006.

### **4. FINANCE COST**

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

### **5. TAXATION**

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

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 Shihezi Development Zone Tianye Water Saving Engineering Installation Company Limited 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:

The Company was granted a reduced EIT tax rate of 15% for the seven years ending 31st December, 2010.

Gansu Zhangye Tianye Water Saving Equipment Company Limited, a subsidiary of the Group, was granted a reduced EIT tax rate of 15% for the period from 1st January, 2002 to 31st December, 2010.

Hami Tianye Hongxing Water Saving Irrigation Company Limited, a subsidiary of the Group, was granted a reduced EIT tax rate of 15% for the period from 1st January, 2004 to 31st December, 2007.

## 6. DIVIDENDS

On 10th March 2006, the Board has approved to pay a final dividend of RMB34,860,000, representing RMB6.71 cents per share (tax included) for the year ended 31st December, 2005 (2005: RMB11 cents per share (tax included)).

The Board does not recommend the payment of any dividend for the three months ended 31st March, 2006 (2005: nil).

## 7. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the period ended 31st March, 2006 is based on the profit for the period attributable to equity holders of the Company and on the weighted average number of 382,046,004 shares (2005: 317,121,560 shares) in issue during the period. Basic earnings per share is RMB0.023 (2005: RMB0.023).

## 8. RESERVES

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 before 31st December, 2005 for a statutory welfare 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 to a statutory reserve fund. According to the new requirements of the relevant laws and regulations in the PRC, each of the entities comprising the Group did not require to make any statutory reserve fund since 1st January, 2006.

	Capital reserve <i>RMB'000</i> <i>(unaudited)</i>	Statutory reserve fund <i>RMB'000</i> <i>(unaudited)</i>	Statutory welfare fund <i>RMB'000</i> <i>(unaudited)</i>	Accumulated profits <i>RMB'000</i> <i>(unaudited)</i>	Total <i>RMB'000</i> <i>(unaudited)</i>
At 1st January, 2005	—	1,080	540	42,491	44,111
Profit for the period	—	—	—	7,368	7,368
2004 final dividends declared	—	—	—	(34,883)	(34,883)
Transfer	—	4,423	2,212	(6,635)	—
	<u>—</u>	<u>4,423</u>	<u>2,212</u>	<u>(6,635)</u>	<u>—</u>
At 31st March, 2005	<u>—</u>	<u>5,503</u>	<u>2,752</u>	<u>8,341</u>	<u>16,596</u>
At 1st January, 2006	—	5,503	2,752	53,631	61,886
Placing of H Shares	10,000	—	—	—	10,000
Profit for the period	—	—	—	8,760	8,760
2005 final dividends declared	—	—	—	(34,860)	(34,860)
Transfer	—	5,178	2,589	(7,767)	—
	<u>—</u>	<u>5,178</u>	<u>2,589</u>	<u>(7,767)</u>	<u>—</u>
At 31st March, 2006	<u>10,000</u>	<u>10,681</u>	<u>5,341</u>	<u>19,764</u>	<u>45,786</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

For the three months ended 31st March, 2006, the Group recorded an unaudited turnover of approximately RMB10.703 million, representing a growth of about 17.28% from the unaudited turnover of RMB91.26 million for the corresponding period last year. The increase of turnover was mainly due to the increase of sales in the Group's agricultural water-saving pipes.

For the three months ended 31st March, 2006, the unaudited gross profits was approximately RMB22.25 million with a gross profits margin of about 20.79%, while the unaudited gross profits and gross profits margin were approximately RMB17.63 million and 19.32% respectively. It was mainly due to the increase of sales profits resulting from the enhancement of production capacity and the decline of costs of sales in the first quarter.

### **Operating Costs and Expenses**

The unaudited distribution costs was recorded an increase of approximately RMB2.28 million or about 44.1% from RMB5.17 million for the three months ended 31st March, 2005 to approximately RMB7.45 million for the three months ended 31st March, 2006. It was mainly because the costs of recovery increased in line with the increase in the recovery of drip films.

The unaudited administration and management expenses were recorded an increase of approximately RMB0.13 million or about 4.38% from RMB3.10 million for the three months ended 31st March, 2005 to approximately RMB2.97 million for the three months ended 31st March, 2006. It was mainly resulted from the slight increase of wages and benefits expenses.

The unaudited finance costs slightly decreased by approximately RMB0.02 million or about 1.7% from RMB1.18 million for the three months ended 31st March, 2005 to approximately RMB1.20 million for the three months ended 31st March, 2006.

For the three months ended 31st March, 2006, the Group recorded an unaudited net profit of approximately RMB8.96 million with compared to RMB8.05 million for the corresponding period in 2005, representing a growth of approximately RMB0.91 million or about 11.25%.

The unaudited taxation for the three months ended 31st March, 2006 and the period ended 31st March 2005 increased by 214% from RMB1.798 million and RMB0.572 million. Such increase was mainly due to the expiry of the tax relief on profit tax on 31st December, 2005 entitled by Shihezi Tianye Recycling Company Limited, a subsidiary of the Group, which shall subject to PRC enterprise income tax of 33% since 1st January, 2006.

### **Prospects**

China is one of the countries who face a severe shortage of water resources. Together with the rapid economic growth in the PRC, the supply of water resources is being intensified. Focusing on the large consumption of water in irrigation but less effectiveness in the agricultural industry

of the PRC, a change in agricultural irrigation could release the demand of water supply and the waste of water in the PRC, which, in turn, enhances the utilization of water for achieving a quality and effective agricultural industry for today and the future.

For the year ended 31st March, 2006, the unaudited sales of agricultural water saving irrigation products of the Group maintained a sustainable growth as compared to the corresponding period last year. The Group will strengthen its competitive edge by the application of new technologies and materials with an aim to expand its market share.

### **Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company**

As at 31st March, 2006, the interests and short positions of the Directors, supervisors (the "Supervisors") (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") has applied to the Supervisors) or chief executives of the Company, including their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Division 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:

<b>Name of Director/ Supervisor</b>	<b>Company/name of associated corporation</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number and class of securities (Note 1)</b>	<b>Approximate percentage of equity interests</b>
Guo Qing Ren (Director)	Xinjiang Tianye Company Limited ("Tianye Company")	Personal	Beneficial owner	18,000 domestic shares (L)	0.0079%
Shi Xiang Shen (Director)	Tianye Company	Personal	Beneficial owner	14,400 domestic shares (L)	0.0063%
Huang Jun Lin (Supervisor)	Tianye Company	Personal	Beneficial owner	20,800 domestic shares (L)	0.0092%

*Note:*

1. "L" represents the Directors' and Supervisors' 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 or debentures of the Company or 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 March, 2006.

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

So far as is known to the Directors, the Supervisors and chief executives of the Company, as at 31st March, 2006, none of the Directors, Supervisors or chief executives of the Company or any of their associates (including 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.

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

### (A) Substantial shareholders (the "Shareholders") of the Company

As at 31st March, 2006, 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:

#### *Domestic Shares*

<b>Name of substantial Shareholders</b>	<b>Type of interest</b>	<b>Capacity</b>	<b>Number of the issued Shares (Note 1)</b>	<b>Approximate percentage of shareholding (Note 2)</b>
Tianye Company	Corporate	Beneficial owner	202,164,995 domestic Shares (L)	38.91% (Note 5)
Xinjiang Tianye (Group) Limited ("Tianye Holdings") (Note 3)	Corporate	Interest in controlled corporation	202,164,995 domestic Shares (L)	38.91% (Note 5)
Shenzhen City Li Tai Lai Investment Development Company Limited ("Li Tai Lai")	Corporate	Beneficial owner	93,994,831 domestic Shares (L)	18.09% (Note 6)
Yang Ming Gui (Note 4)	Personal	Interest in controlled corporation	93,994,831 domestic Shares (L)	18.09% (Note 6)

## H Shares

Name of the Substantial Shareholder (Note 6)	Type of interest	Capacity	Number of the issued Shares (Note 1)	Approximate percentage of shareholding (Note 2)
Li Chung Ying	Personal	Beneficial owner	27,052,000(L)	5.21% (Note 7)
Fidelity International Limited	Corporate	Investment manager	17,244,000(L)	3.32% (Note 8)
Atlantis Investment Management Ltd	Corporate	Investment manager	10,828,000(L)	2.08% (Note 9)

### Notes:

1. The letter "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Share of 519,521,560 Shares (including domestic Shares and H Shares).
3. The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 57.14% of the registered capital of Tianye Company, is deemed to be interested in the same 202,164,995 domestic Shares held by Tianye Company.
4. The domestic Shares were held by Li Tai Lai. By virtue of the SFO, Yang Ming Gui, who is interested in approximately 58% of the registered capital of Li Tai Li, is deemed to be interested in the same 93,994,831 domestic Shares held by Li Tai Lai.
5. The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issued.
6. The domestic Shares held by Li Tai Lai were equivalent to approximately 29.64% of the total domestic Shares in issued.
7. The H Shares held by Li Chung Ying were equivalent to approximately 13.37% of the total H Shares in issued.
8. The H Shares held by Fidelity International Limited were equivalent to approximately 8.52% of the total H Shares in issued.
9. The H Shares held by Atlantis Investment Management Limited were equivalent to approximately 5.35% of the total H Shares in issued.

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

As at 31st March, 2006, 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 March, 2006, 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 March, 2006 in the register required to be kept by the Company under section 336 of the SFO.

## **COMPETING INTEREST**

None of the Directors, the Supervisors and the management Shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) are interested in any business which competes or may compete (directly or indirectly) with any business of the Group or has or may have any conflicts of interests with the Group.

## **INTERESTS OF THE COMPLIANCE ADVISER**

Based on the latest information and notices from Sun Hung Kai International Limited, the Company's compliance adviser, pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules, as at 31st March, 2006, neither Sun Hung Kai International Limited nor its directors, 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 International Limited and the Company (the "Agreement"), Sun Hung Kai International Limited received and will receive fees for acting as the Company's compliance adviser for a term expiring on the date on which the Company distributes the annual report for the second full financial year after listing of the Company on 28th February, 2006, or for the period until the termination of the terms and conditions under the Agreement.

## **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 primary duties of the Audit Committee include reviewing and supervising the financial reporting procedures and the internal control system of the Group. As at 31st March, 2006, the Audit Committee comprised three independent non-executive Directors, namely Messrs. He Lin Wang, Xia Jun Min and Gu Lie Feng.

The unaudited consolidated results of the Group for the three months ended 31st March, 2006 has been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results has been complied with the applicable accounting standards and requirements and has contained adequate disclosures.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

During the three months ended 31st March, 2006, the Company has adopted the code of conduct for securities transactions by the Directors (the "Code"), which is no less than the required terms for dealings of Shares by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. In addition, the Company has made specific inquiry of all Directors, and has not been notified of any non-compliance with the Code.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the period ended 31st March, 2006 the Company and/or its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities.

By order of the Board  
**Guo Qing Ren**  
*Chairman*

Xinjiang, the PRC, 28th April, 2006