



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)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

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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 requirements 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 30th June, 2006, the Group recorded an unaudited net profit of approximately RMB17.43 million, representing an increase of approximately 1.66% as compared to the corresponding period in 2005. For the six months ended 30th June, 2006, the Group recorded an unaudited net profit of RMB26.39 million, representing an increase of approximately 4.72% as compared to the net profit for the corresponding period in 2005.
- The Board does not recommend the payment of interim dividend for the period ended 30th June, 2006.
- For the six months ended 30th June 2006, the basic earnings per share of the profit attributable to the equity holders of the Company was RMB0.058 (corresponding period in 2005: RMB0.074)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The board (the “Board”) of Directors is pleased to announce the unaudited operating results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June, 2006, together with the unaudited comparative figures for the corresponding period in the year 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

| | <i>Note</i> | <i>(Unaudited)</i> | | <i>(Unaudited)</i> | |
|--------------------------------------|-------------|----------------------|----------------|--------------------|----------------|
| | | For the three months | | For the six months | |
| | | ended 30th June | | ended 30th June | |
| | | 2006 | 2005 | 2006 | 2005 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 3 | 150,689 | 132,986 | 257,716 | 224,241 |
| Cost of sales | | (123,485) | (105,957) | (208,264) | (179,578) |
| Gross profit | | 27,204 | 27,029 | 49,452 | 44,663 |
| Other operating income | | 352 | 63 | 606 | 417 |
| Distribution costs | | (3,897) | (4,536) | (11,349) | (9,708) |
| Administrative expenses | | (2,343) | (2,451) | (5,447) | (5,417) |
| Other operating expenses | | (18) | (359) | (29) | (379) |
| Profit from operations | 4 | 21,298 | 19,746 | 33,233 | 29,576 |
| Finance costs | | (875) | (546) | (2,051) | (1,749) |
| Profit before taxation | | 20,423 | 19,200 | 31,182 | 27,827 |
| Income tax expenses | 5 | (2,991) | (2,052) | (4,789) | (2,624) |
| Profit for the period | | 17,432 | 17,148 | 26,393 | 25,203 |
| Attributable to | | | | | |
| Equity holders of the Company | | 17,368 | 16,086 | 26,128 | 23,454 |
| Minority interests | | 64 | 1,062 | 265 | 1,749 |
| Profit for the period | | 17,432 | 17,148 | 26,393 | 25,203 |
| Dividends | 6 | — | — | — | — |
| Basic earnings per share (in RMB) | 7 | 0.033 | 0.051 | 0.058 | 0.074 |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
|---|-------------|--------------------|------------------|
| | | As at | As at |
| | | 30th June, | 31st December, |
| | | 2006 | 2005 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 154,563 | 159,331 |
| Prepaid lease payments | | — | 755 |
| Goodwill | | 98 | 98 |
| | | 154,661 | 160,184 |
| Current assets | | | |
| Inventories | | 131,974 | 189,619 |
| Trade and other receivables | 9 | 177,915 | 122,007 |
| Bills receivable | | 27,669 | 16,000 |
| Bank balances and cash | | 279,011 | 53,933 |
| | | 616,569 | 381,559 |
| Current liabilities | | | |
| Trade and other payables | 10 | 78,197 | 59,346 |
| Dividend payable | | 34,860 | 5,526 |
| Tax payables | | 13,995 | 4,946 |
| Short-term bank borrowings | | 51,000 | 80,000 |
| | | 178,052 | 149,818 |
| Net current assets | | 438,517 | 231,741 |
| Total assets less current liabilities | | 593,178 | 391,925 |
| Government grants | | — | 900 |
| Net assets | | 593,178 | 391,025 |
| Capital and reserves | | | |
| Capital | | 519,522 | 317,122 |
| Reserves | | 63,154 | 61,886 |
| Equity attributable to equity holders of the Company | | | |
| | | 582,676 | 379,008 |
| Minority interests | | 10,502 | 12,017 |
| Total equity | | 593,178 | 391,025 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

| | Capital | Share | Statutory | Statutory | Accumulated | Total |
|----------------------------------|--------------------|--------------------|---------------------|---------------------|--------------------|--------------------|
| | <i>RMB' 000</i> | <i>premium</i> | <i>reserve fund</i> | <i>welfare fund</i> | <i>profits</i> | <i>RMB' 000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| At 1st January, 2005 | 317,122 | — | 1,080 | 540 | 42,491 | 361,233 |
| Final dividend declared for 2004 | — | — | — | — | (34,883) | (34,883) |
| Net profit for the period | — | — | — | — | 23,454 | 23,454 |
| Transfer | — | — | 4,423 | 2,212 | (6,635) | — |
| | <u>317,122</u> | <u>—</u> | <u>5,503</u> | <u>2,752</u> | <u>24,427</u> | <u>349,804</u> |
| At 30th June, 2005 | | | | | | |
| At 1st January, 2006 | 317,122 | — | 5,503 | 2,752 | 53,631 | 379,008 |
| Placing of H share | 202,400 | 10,000 | — | — | — | 212,400 |
| Net profit for the period | — | — | — | — | 26,128 | 26,128 |
| Final dividend declared for 2005 | — | — | — | — | (34,860) | (34,860) |
| Transfer | — | — | 5,178 | 2,589 | (7,767) | — |
| | <u>519,522</u> | <u>10,000</u> | <u>10,681</u> | <u>5,341</u> | <u>37,132</u> | <u>582,676</u> |
| At 30th June, 2006 | | | | | | |

CONDENSED CASH FLOW STATEMENT

For the six months ended 30th June

| | 2006 RMB'000 (Unaudited) | 2005 <i>RMB'000</i> <i>(Unaudited)</i> |
|---|---|--|
| Net cash used in operating activities | <u>42,686</u> | <u>45,739</u> |
| Net cash used in investing activities: | | |
| Purchase of property, plant and equipment | (5,343) | (1,267) |
| Other investment cash flow | <u>(1)</u> | <u>372</u> |
| | <u>(5,344)</u> | <u>(895)</u> |
| Net cash (used in) from financing activities | | |
| Proceeds from issue of new shares | 231,975 | — |
| New borrowings | 2,000 | 1,000 |
| Repayment of borrowings | (31,800) | (2,000) |
| Other financing cash flow | <u>(14,439)</u> | <u>(26,406)</u> |
| | <u>187,736</u> | <u>(27,406)</u> |
| Net increase in cash and cash equivalents | 225,078 | 17,438 |
| Cash and cash equivalents at 1st January | <u>53,933</u> | <u>34,313</u> |
| Cash and cash equivalents at 30th June, represented by bank balances and cash | <u><u>279,011</u></u> | <u><u>51,751</u></u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL REPORT

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The Group is principally engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system, and the Group is also engaged in the provision of installation services of water saving irrigation system for its customers. These unaudited condensed consolidated financial report have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). All of the books and records of the Group are denominated in Renminbi (“RMB”) and most of the transactions of the Group are denominated in RMB.

2. ACCOUNTING POLICIES

The accounting policies adopted in preparing the condensed consolidated financial report were in consistent with those applied for the annual financial report for the year ended 31st December, 2005.

3. TURNOVER

Turnover represents the consideration received and receivable for goods sold, net of value-added tax, returns and discounts, and the consideration received and receivable for the services provided.

The following table highlights the breakdown of turnover by nature of revenue.

| | For the three months ended 30th June | | For the six months ended 30th June | |
|------------------------------------|---|-----------------|---------------------------------------|-----------------|
| | 2006 RMB'000 | 2005 RMB'000 | 2006 RMB'000 | 2005 RMB'000 |
| Drip films and drip assemblies | 101,394 | 100,784 | 180,748 | 167,299 |
| PVC/PE pipelines | 49,256 | 31,895 | 76,929 | 56,635 |
| Provision of installation services | 39 | 307 | 39 | 307 |
| | <u>150,689</u> | <u>132,986</u> | <u>257,716</u> | <u>224,241</u> |

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

4. PROFIT FROM OPERATIONS

| | For the three months ended 30th June | | For the six months ended 30th June | |
|--|---|---------|---------------------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit from operations has been arrived at after charging: | | | | |
| Directors' and supervisors' emoluments | 167 | 131 | 335 | 262 |
| Other staff costs | 3,174 | 3,175 | 8,698 | 8,642 |
| Contribution to retirement benefit schemes | 844 | 925 | 1,585 | 1,595 |
| Total staff costs | 4,185 | 4,231 | 10,618 | 10,499 |
| Auditors' remuneration | — | — | — | 150 |
| Depreciation | 5,767 | 4,917 | 11,397 | 10,436 |
| After crediting: | | | | |
| Bank interest income | 352 | 63 | 606 | 417 |

5. INCOME TAX EXPENSES

| | For the three months ended 30th June | | For the six months ended 30th June | |
|------------|---|---------|---------------------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Income tax | 2,991 | 2,052 | 4,789 | 2,624 |

According to the PRC law, the Company and its subsidiaries are subject to the 33% PRC income tax ("EIT"). Pursuant to "Notice of Problem on Certain Incentives Policy on the Development of Western China" Cai Shui Zi [2001] No. 202 (《關於西部大開發稅收優惠政策問題的通知》(財稅字[2001]202號)), issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of the Customs (海關總署), operating entities primarily engaged in the businesses prescribed in "Catalogue of Industries, Products and Techniques Heavily Encouraged by the State (amended in 2000)" ("Prescribed Businesses") in western PRC are entitled to enjoy specific preferential tax treatment. Assuming that the entities comprising the Group continue to comply with such requirements in the relevant period, such entities shall be entitled to certain preferential tax treatment.

During the seven years ended 31st December, 2010, the Company was granted the preferential EIT tax treatment at a reduced tax rate of 15%.

During the period from 1st January, 2002 to 31st December, 2010, our subsidiary 甘肅省張掖市天業節水器材有限公司 was granted the preferential EIT tax treatment at a reduced tax rate of 15%.

During the period from 1st January, 2004 to 31st December, 2007, our subsidiary 哈密天業紅星節水灌溉有限責任公司 was granted the preferential EIT tax treatment at a reduced tax rate of 15%.

Other companies of the Group are subject to the 33% EIT.

6. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2006 (corresponding period in 2005: nil).

7. BASIC EARNING PER SHARE

For the three months ended 30th June, 2006, the basic earnings per share is calculated by dividing the unaudited net profit for the relevant period attributed to the equity holders of the Company of approximately RMB17.368 million (2005: approximately RMB16.086 million) by 519,521,560 shares (2005: 317,121,560 shares) in issue.

For the six months ended 30th June, 2006, the basic earnings per share of RMB0.058 (2005: RMB0.074) is calculated by dividing the unaudited net profit for the relevant period attributed to the equity holders of the Company of approximately RMB26.128 million (2005: approximately RMB23.454 million) by the weighted average number of 451,163,549 shares (2005: 317,121,560 shares) in issue.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB5.343 million (2005: RMB1.267 million) on the purchase of the property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

Sales to customers are mainly on cash basis. Except the well-established customers, the credit term for invoice payable is normally one year from the issue date. The following is the aging analysis of the trade receivables (less allowances) for the reporting period:

| | As at 30th June 2006 <i>RMB'000</i> | As at 30th December 2005 <i>RMB'000</i> |
|-----------------------------------|--|--|
| Aged: | | |
| Within 1 year | 107,890 | 75,301 |
| 1–1.5 years | 2,896 | 4,031 |
| 1.5–2 years | <u>844</u> | <u>784</u> |
| Trade receivables | 111,630 | 80,116 |
| Other receivables and prepayments | <u>16,293</u> | <u>23,996</u> |
| | 127,923 | 104,112 |
| Prepayments to suppliers | <u>49,992</u> | <u>17,895</u> |
| | <u><u>177,915</u></u> | <u><u>122,007</u></u> |

The Directors consider that the carrying amounts of the trade and other receivables are almost the same with their fair value.

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

| | As at 30th June 2006 <i>RMB'000</i> | As at 31st December 2005 <i>RMB'000</i> |
|--|--|--|
| Aged: | | |
| 0–180 days | 32,382 | 22,475 |
| 181–365 days | 3,730 | 2,471 |
| 1–2 years | 2,463 | 2,011 |
| Over 2 years | 1,131 | 923 |
| | 39,706 | 27,880 |
| Other payables and accruals | 9,275 | 13,233 |
| Deposits and prepayments received from customers | 29,216 | 18,233 |
| | 78,197 | 59,346 |

The Directors consider that the carrying amounts of trade and other payables are almost the same with their fair value.

11. CAPITAL COMMITMENT

| | As at 30th June 2006 <i>RMB'000</i> | As at 31st December 2005 <i>RMB'000</i> |
|--|--|--|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the financial report | 706 | 865 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months and six months ended 30th June, 2006, the Group recorded an unaudited turnover of approximately RMB150.69 million and RMB257.72 million respectively, representing an increase of about 13.31% and 14.93% from the unaudited turnover of RMB132.99 million and RMB224.24 million for the corresponding periods last year. The increase of turnover was mainly due to the increase of diversion water projects in the northwestern region and the increase of the market sales of the Company's products.

Gross Profit

For the six months ended 30 June, 2006, the unaudited gross profits reached approximately RMB49.45 million with a gross profits margin of about 19.19%, while the unaudited gross profits and gross profits margin were approximately RMB44.66 million and 19.92% respectively for the corresponding period last year. The gross profit margin was decreased

for 0.73%, and such decrease was mainly due to the changes in crude oil prices. The purchase cost of raw materials increased in 2006 as compared to 2005 for the Group, resulting in the increase of production cost and a slight decrease in gross profits margin.

Operating Costs and Expenses

The distribution costs was increased by approximately RMB1.64 million or about 16.9% from RMB9.71 million for the six months ended 30th June, 2005 to approximately RMB11.35 million for the six months ended 30th June, 2006. It was mainly because of the increase in the costs of recovery, which is in line with the increase in the amount of recovery of subsidiaries.

The administration expenses was increased by approximately RMB0.03 million or about 0.55% from RMB5.42 million for the six months ended 30th June, 2005 to approximately RMB5.45 million for the six months ended 30th June, 2006. It was mainly resulted from the slight increase of wages and benefits expenses.

The finance costs was increased by approximately RMB0.3 million or about 17.14% from RMB1.75 million for the six months ended 30th June, 2005 to approximately RMB2.05 million for the six months ended 30th June, 2006. It was mainly due to the increase of interest rate of loan compared to last year.

Taxation was increased by RMB2.17 million or 82.82% from RMB2.62 million for the six months ended 30th June, 2005 to RMB4.79 million for the six months ended 30th June, 2006. It was mainly caused by the increase in the integrated tax obligation of the Group as compared between 2005 and 2006.

The unaudited net profit was increased by approximately RMB1.19 million or about 4.72% from approximately RMB25.20 million for the six months ended 30th June, 2005 to approximately RMB26.39 million for the six months ended 30th June, 2006.

Business and Geographical Segment Information

As at 30th June, 2006, the sole principal activity of the Group was engaged in the development, manufacture, installation and sales of irrigation system and equipment and related businesses, and the operation of which is in the PRC. Thus no analysis of business and geographical segment is presented.

Post Balance Sheet Events

From 30th June, 2006 to the date of this report, no event which has a significant impact on the Company and its subsidiaries has taken place.

Prospects

Under the intensifying market competition, the Group maintained a sustainable growth in sales for the six months ended 30th June, 2006. The Directors expect that with the increase in demand and the decrease in supply of water resources, together with the strong market demand for

various types of agricultural water saving irrigation products in the PRC, the Group will be able to generate more income under such circumstances. The Group is optimistic about the future development of the agricultural water saving irrigation industry.

The Group will put more effort in the research of inventing new water saving irrigation products, the perfection of agricultural water saving drip system and the innovation of automatic equipment and sales model. It will also continue to recruit sales staff and expand various sales channels for water saving equipment and control costs so as to ensure a steady growth of the Group's return.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

| | |
|---|---|
| Business objectives disclosed in the prospectus (the "Prospectus") published by the Company on 21st February, 2006 | Actual business progress made by the Company from 1st January, 2006 to 30th June, 2006 |
|---|---|

Expanding the markets in the PRC and developing the international markets

| | |
|--|---|
| To establish a sales centre and carry out marketing in Ningxia | Finished the establishment of the sales centre, and such sales centre has commenced operations. |
| To establish a demonstration centre with an aggregate planned area of approximately 387 hectares | Completed |
| To establish a drip demonstration zone in Liaoning, Ningxia | Completed |
| To accomplish the service implemented for demonstration base in 2005 | Completed |
| To establish a demonstration zone in Jing Tai County, Gansu Province | Completed |
| To undertake site inspection and data collection for the demonstration bases to be set up in the second half of 2006 | Data collection is now in progress |
| To establish a demonstration zone for irrigation system in Regiment 135, No. 8 Division | Completed |
| To seek for sales talents for the expansion of the Middle Asia and Middle East markets | Completed |

Business objectives disclosed in the prospectus (the “Prospectus”) published by the Company on 21st February, 2006

Actual business progress made by the Company from 1st January, 2006 to 30th June, 2006

Strengthening of the R&D of new innovative products

R&D of agricultural PVC pipes — to test the equipments and to commence trial running of production

Completed

R&D of co-extruded drip films — to test the equipments and to commence trial running of production

Completed

R&D of irrigation system in open fields — to test the equipments and to commence trial running of production

Completed

Upgrading, reforming and expanding existing production facilities

Automation and reforming of production lines of drip films — reforming production lines of drip films

Reforming of production lines of drip films is now in progress

New production facilities in Alaer — to set up new production lines in Alaer

Negotiation for the preferential investment policies regarding the new production facilities in Alaer is still in progress and no capital has been used

New production facilities in Shihezi — to set up new production lines in Shihezi

Construction of new production facilities is now in progress

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

| Business objectives | Proposed applications up to 30th June, 2006 as set out in the Prospectus RMB million | Actual amount of proceeds used up to 30th June, 2006 RMB million |
|---|---|---|
| To expand production capacity for drip films (Note 1) | 10.37 | 2.48 |
| To acquire new production facilities in Alaer (Note 2) | 15.98 | — |
| To acquire new production facilities in Shihezi (Note 3) | 19.77 | 11.02 |
| Repay bank loans (Note 4) | 30.78 | 29.00 |
| Total | 76.90 | 42.50 |

As at 30th June, 2006, unused proceeds were deposited with banks in the PRC.

Notes:

1. The difference between the actual amount of proceeds used, and the amount of proposed application as set out in the Prospectus was due to the fact that the purchase of some of the equipment is still at the negotiation stage. As a result, some of the proceed in this regard has not been used.
2. The difference between the actual amount of proceeds used, and the amount of proposed application as set out in the Prospectus was due to the fact that the negotiation for the preferential investment policies regarding the new production facilities in Alaer is still in progress, and thus no construction work has been commenced. As a result, no proceed in this regard has been used.
3. The difference between the actual amount of proceeds used, and the amount of proposed application as set out in the Prospectus was due to the fact that the purchase of some of the equipment is still at the negotiation stage. As a result, some of the proceed in this regard has not been used.
4. The remaining amount of the net proceeds of approximately RMB1,780,000 raised from the issue of the over-allotment shares would be used to repay part of the principal of bank loans of RMB20,000,000, which will be due on 11th December, 2006, as stated in the prospectus.
5. Unused proceeds were deposited with banks in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

During the reporting period, the Group generates its liquidity mainly from proceeds generated from its business operations and bank facilities. The short term borrowings of the Group dropped from RMB80 million to approximately RMB51 million. As at 30th June, 2006, the total amount of bank borrowings was approximately RMB51 million. Such borrowings were used in the daily business operations of the Group. As at 30th June, 2006, all the bank borrowings of the Group were at fixed interest rates ranging from 6.14% to 7.25% per annum. As all the borrowings were denominated in Renminbi, the foreign currency exposure was minimal. The Group's bank borrowings are repayable as follows:

| | |
|-----------------|--------------------|
| | <i>RMB million</i> |
| Within one year | <u>51</u> |
| | <u>51</u> |

During the reporting period, the gearing ratio of the Group dropped to 23.1% (31st December, 2005: 27.7%). The gearing ratio was calculated by dividing total debts of approximately RMB178.05 million over total assets of approximately RMB771.23 million. Cash and cash equivalents increased from approximately RMB53.93 million to approximately RMB279.01 million, which is mainly due to the proceeds raised from the listing of H Shares of the Company in February 2006. Most of the Group's bank deposits were denominated in Renminbi and deposited with banks as short-term deposits.

Capital structure

As at 30th June, 2006, the gearing ratio of the Group was 23.1%. The Group has principally financed its operation from cash generated through its business operations, bank facilities and the net proceeds raised from the initial public offering. The Directors confirm that the Group has not experienced any liquidity problems during the six months ended 30th June, 2006.

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 of working capital utilisation, ensure the repayment of the Group's liabilities upon their maturity and ensure liquidity of the working capital, so as to optimise the Group's net cash flow position.

Pledge of assets

As at 30th June, 2006, the bank loans of RMB25 million of the Group was secured by the plant and machinery of a book value of approximately RMB72.33 million.

Contingent liability

As at 30th June, 2006, the Company did not have any material contingent liability.

Foreign exchange exposure

For the period ended 30th June 2006, most of the Group's transactions were denominated in Renminbi. In this respect, the Group was not exposed to any significant foreign exchange risk, and as a result of which, the Group has not adopted any hedging measures.

Employee and salary policies

The Directors considered the quality of employees is the most critical factor in maintaining the Group's business growth and enhancing 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 30th June, 2006, the Group has a total of 761 employees. For the six months ended 30th June, 2006, the salary paid to employees amounted to approximately RMB10,618,000 (for the corresponding period of 2005, the salary paid to employees amounted to RMB10,499,000). The Group offers training to the employees with reference to the business development of the Company and the employee duties plan.

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 RMB1,585,000 for the six months ended 30th June, 2006. The accrued benefits are vested to the employee.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). Each of the employee and the Company is responsible for contributing 5% of the salary of the employees (up to a maximum contribution of HK\$1,000 in respect of each employee) on a monthly basis to the fund. The accrued benefits are vested to the employee. Expenses incurred by the Company in connection with the provident fund scheme were approximately HK\$6,000 for the six months ended 30th June, 2006.

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 of a 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.

Material investment

As at 30th June, 2006, the Group had no material investment save for the business objectives set out in the Prospectus.

Material acquisitions and disposals

For the six months ended 30th June, 2006, the Group had no material acquisitions nor disposals of subsidiaries and associated companies.

Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its associated corporations

As at 30th June, 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:

| Name of Director/Supervisor | Company/name of associated corporation | Type of interests | Capacity | Number and class of securities (Note 1) | Approximate percentage of equity interests |
|-----------------------------|--|-------------------|------------------|--|--|
| Guo Qing Ren (Director) | Xinjiang Tianye Company Limited (“Tianye Company”) | Personal | Beneficial owner | 23,040 domestic shares (L) | 0.0105% |
| Shi Xiang Shen (Director) | Tianye Company | Personal | Beneficial owner | 18,432 domestic shares (L) | 0.0084% |
| Huang Jun Lin (Supervisor) | Tianye Company | Personal | Beneficial owner | 26,624 domestic shares (L) | 0.0121% |

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 30th June, 2006.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE H SHARES

So far as is known to the Directors, the Supervisors and chief executives of the Company, as at 30th June, 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 H 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 30th June, 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:

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

Notes:

- The letter "L" denotes the person's/entity's long positions in the Shares.
- 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).
- The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issued.
- The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

5. The domestic Shares held by Li Tai Lai were equivalent to approximately 29.64% of the total domestic Shares in issued.
6. 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 93,994,831 domestic Shares held by Li Tai Lai.

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

As at 30th June, 2006, save of the person or entities disclosed in sub-section (A) above, 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 of substantial Shareholders | Type of interest | Capacity | Number and class of the issued Shares (Note 1) | Approximate percentage of shareholding (Note 2) |
|------------------------------------|------------------|--------------------|---|--|
| Fidelity International Limited | Corporate | Investment manager | 19,966,000(L) | 3.84% (Note 3) |
| Dreyfus Premier Greater China Fund | Corporate | Beneficial owner | 15,510,000(L) | 2.99% (Note 4) |

Notes:

1. The Letter "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
3. The H Shares held by Fidelity International Limited were equivalent to approximately 9.86% of the total H Shares in issued.
4. The H Shares held by Dreyfus Premier Greater China Fund were equivalent to approximately 7.66% of the total H Shares in issued.

Save as disclosed above, as at 30th June, 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 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 (as defined under the GEM Listing Rules) nor their respective associates 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 18.63 of the GEM Listing Rules, as at 30th June, 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 despatches 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 (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules on 7th February, 2006. The duties of the Audit Committee include: review and monitor the financial reporting procedures and internal control system of the Group. As at 30th June, 2006, the Audit Committee comprises 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 six months ended 30th June, 2006 has been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results complied with the applicable accounting standards and requirements and has contained adequate disclosures.

The unaudited consolidated results of the Group for the six months ended 30th June, 2006 has not been reviewed by the external auditors of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30th June 2006, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June, 2006, the Company has adopted a code of conduct for securities transactions by Directors (the "Code"), which is no less exacting than the required terms for dealings of Shares by Directors as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. In addition, the Company has made specific inquiry with all the Directors, and has not been notified of any non-compliance with the standard for dealings of securities by Directors and the Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2006, the Company or its subsidiaries has not purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
Guo Qing Ren
Chairman

Xinjiang, the PRC, 20 July, 2006