



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

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 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 September 2006, the Group recorded an unaudited net profit of approximately RMB2.74 million, representing an increase of approximately 32.37% as compared to the corresponding period in 2005. For the nine months ended 30th September 2006, the Group recorded an unaudited net profit of approximately RMB29.13 million, representing an increase of approximately 6.82% as compared to the net profit for the corresponding period in 2005.
- The Board does not recommend the payment of interim dividend for the nine months ended 30th September 2006.
- For the nine months ended 30th September 2006, the basic earnings per share of the profit attributable to the equity holders of the Company was approximately RMB0.062.

The board (the “Board”) of Directors hereby announced the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30th September 2006, together with the comparative figures of the unaudited results for the corresponding period in 2005 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	(Unaudited)		(Unaudited)	
		For the three months ended 30th September		For the nine months ended 30th September	
		2006	2005	2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	66,071	49,128	323,787	273,369
Cost of sales		(53,709)	(38,302)	(261,973)	(217,880)
Gross profit		12,362	10,826	61,814	55,489
Other operating income		444	99	1,050	516
Distribution costs		(5,698)	(5,114)	(17,047)	(14,822)
Administrative expenses		(2,513)	(2,746)	(7,960)	(8,163)
Other operating expenses		(615)	(18)	(644)	(397)
Profit from operations		3,980	3,047	37,213	32,623
Finance costs	4	(1,082)	(947)	(3,133)	(2,696)
Profit before taxation		2,898	2,100	34,080	29,927
Income tax expenses	5	(157)	(35)	(4,946)	(2,659)
Profit for the period		2,741	2,065	29,134	27,268
Profit attributable to					
Equity holders of the Company		3,057	2,209	29,185	25,663
Minority interests		(316)	(144)	(51)	1,605
Profit for the period		2,741	2,065	29,134	27,268
Dividends	6	—	—	—	—
Basic earnings per share (RMB)	7	0.006	0.007	0.062	0.081

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

For the nine months ended 30th September 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. Its ultimate holding company is Xinjiang Tianye (Group) Limited, incorporated in Xinjiang, the PRC.

The Group is mainly engaged in the development, manufacturing, installation and sales of irrigation systems and equipment.

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 consolidation. Losses applicable to the minority in excess of the minority's interests in subsidiaries are set off against the interests of the Group, only to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All books and records of the Group are denominated in Renminbi ("RMB"), the currency in which the majority of the Group's transactions are denominated.

2. ACCOUNTING POLICIES

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

3. TURNOVER

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

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

	For the three months ended 30th September		For the nine months ended 30th September	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Drip films and drip assemblies	15,679	25,425	196,427	192,724
PVC/PE pipelines	49,674	23,677	126,603	80,312
Provision of installation services	718	26	757	333
	<u>66,071</u>	<u>49,128</u>	<u>323,787</u>	<u>273,369</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. FINANCE COST

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

5. INCOME TAX EXPENSES

The amounts represent provision for the PRC Enterprise Income Tax ("EIT") on the estimated assessable profit of the Group for the nine months ended 30th September 2006.

According to the PRC law, the Company and its subsidiaries are subject to the 33% 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 and such business contributes to over 70% of its operating income 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 member companies of the Group are subject to the 33% EIT.

6. DIVIDENDS

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

7. BASIC EARNING PER SHARE

For the three months ended 30th September 2006, the basic earnings per share is calculated by dividing the unaudited net profit for that quarter attributable to the equity holders of the Company of approximately RMB3.057 million (2005: approximately RMB2.209 million) by 519,521,560 shares (2005: 317,121,560 shares) in issue.

For the nine months ended 30th September 2006, the basic earnings per share is calculated by dividing the unaudited net profit attributable to the equity holders of the Company for the relevant period of approximately RMB29.185 million (2005: approximately RMB25.663 million) by the weighted average number of 474,199,948 shares (2005: 317,121,560 shares) in issue.

8. RESERVES

	Share premium RMB' 000 (Unaudited)	Statutory reserve fund RMB' 000 (Unaudited)	Statutory welfare fund RMB' 000 (Unaudited)	Accumulated profits RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
At 1st January 2005	—	1,080	540	42,491	44,111
Net profit for the period	—	—	—	25,663	25,663
2004 final dividends declared	—	—	—	(34,883)	(34,883)
Transfer	—	4,423	2,212	(6,635)	—
At 30th September 2005	—	5,503	2,752	26,636	34,891
At 1st January 2006	—	5,503	2,752	53,631	61,886
Placing of H Shares	10,000	—	—	—	10,000
Net profit for the period	—	—	—	29,185	29,185
2005 final dividends declared	—	—	—	(34,860)	(34,860)
Transfer	—	5,178	2,589	(7,767)	—
At 30th September 2006	10,000	10,681	5,341	40,189	66,211

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months and nine months ended 30th September 2006, the Group recorded an unaudited turnover of approximately RMB66.07 million and RMB323.79 million respectively, representing an increase of about 34.48% and 18.44% from the unaudited turnover of approximately RMB49.13 million and RMB273.37 million for the corresponding periods last year. The increase of turnover was mainly due to the increase of water saving irrigation projects in the northwestern region and the increase of the market sales of the Company's products.

Gross Profit

For the nine months ended 30th September 2006, the unaudited gross profits reached approximately RMB61.81 million with a gross profits margin of about 19.09%, while the unaudited gross profits and gross profits margin were approximately RMB55.49 million and 20.30% respectively for the corresponding period last year. The corresponding decrease of gross profit margin was 1.21%, which was mainly due to the changes in crude oil prices. The purchase cost of raw materials and the electricity cost increased in 2006 as compared to 2005 for the Group, resulting in an increase of production cost and a decrease in gross profits margin.

Operating Costs and Expenses

The distribution costs increased by approximately RMB2.23 million or about 15.05% from RMB14.82 million for the corresponding period in 2005 to approximately RMB17.05 million for the nine months ended 30th September 2006. The distribution costs accounted for 8.62% of the turnover for the nine months ended 30th September 2006, a decrease of 1.79% from 10.41% of the corresponding period in 2005.

The administration expenses decreased by approximately RMB0.2 million or about 2.45% from RMB8.16 million for the corresponding period in 2005 to approximately RMB7.96 million for the nine months ended 30th September 2006. It was mainly resulted from the decrease of labour insurance expenses resulting from the streamlining of the production department.

The finance costs increased by approximately RMB0.43 million or about 15.93% from RMB2.70 million for the corresponding period in 2005 to approximately RMB3.13 million for the nine months ended 30th September 2006. It was mainly due to the increase of interest rate of loans and average loan balances compared to last year.

Income tax expenses increased by approximately RMB2.29 million or 86.09% from RMB2.66 million for the corresponding period in 2005 to RMB4.95 million for the nine months ended 30th September 2006. It was mainly caused by the increase in the integrated tax obligation of the Group for the year of 2006 as compared with that for the year of 2005.

The unaudited net profit increased by approximately RMB1.86 million or about 6.82% from approximately RMB27.27 million for the corresponding period in 2005 to approximately RMB29.13 million for the nine months ended 30th September 2006.

Prospects

The Directors expects, with the increasing discrepancy between the supply and demand of the water resources in the PRC, the market demand for various kinds of water saving irrigation products will continue to grow. Meanwhile, there will be more competitors. The Group will put more efforts in the research of inventing new water saving irrigation products, the perfection of agricultural water saving drip system, the research and development and promotion of automatic

irrigation and the improvement of sales model. It will also continue to recruit sales staff, expand various sales channels for water saving equipment and control costs so as to ensure a steady growth of the Group's returns.

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 September 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 or debentures of the Company or any of 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 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	46,080 domestic shares (L)	0.0105%
Shi Xiang Shen (Director)	Tianye Company	Personal	Beneficial owner	34,864 domestic shares (L)	0.0079%
Huang Jun Lin (Supervisor)	Tianye Company	Personal	Beneficial owner	53,248 domestic shares (L)	0.0121%

Note:

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

Save 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 corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules as at 30th September 2006.

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

So far as is known to the Directors, the Supervisors and chief executives of the Company, as at 30th September 2006, none of the Directors, the Supervisors or chief executives of the Company or any of their respective 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) or to acquire H Shares of the Company.

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 September 2006, the following persons 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	Types of interests	Capacity	Number and class of the issued Shares <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Tianye Company	Corporate	Beneficial owner	202,164,995 domestic Shares (L)	38.91% <i>(Note 3)</i>
Xinjiang Tianye (Group) Limited ("Tianye Holdings") <i>(Note 4)</i>	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")	Corporate	Beneficial owner	93,994,831 domestic Shares (L)	18.09% <i>(Note 5)</i>
Yang Ming Gui <i>(Note 6)</i>	Personal	Interest in controlled corporation	93,994,831 domestic Shares (L)	18.09%

Notes:

1. "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Share of 519,521,560 Shares of the Company (the "Share", including domestic Shares and H Shares).
3. The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issue.
4. The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.
5. The domestic Shares held by Li Tai Lai were equivalent to approximately 29.64% of the total domestic Shares in issue.
6. The domestic Shares were held by Li Tai Lai. By virtue of the SFO, Yang Ming Gui, who is interested in 58% of the registered capital of Li Tai Li, is deemed to be interested in the 93,994,831 domestic Shares held by Li Tai Lai.

(B) Other persons' interests discloseable pursuant to Divisions 2 and 3 of Part XV of the SFO

As at 30th September 2006, save of the persons or entities disclosed in sub-section (A) above, the following persons or entities (other than the Directors, Supervisors 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:

Name of substantial shareholders	Types of interests	Capacity	Number and class of the issued Shares <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Fidelity International Limited	Corporate	Investment manager	19,966,000 H Shares (L)	3.84% <i>(Note 3)</i>
Dreyfus Premier Greater China Fund	Corporate	Beneficial owner	15,510,000 H Shares (L)	2.99% <i>(Note 4)</i>
Li Chung Ying	Personal	Beneficial owner	10,148,000 H Shares (L)	1.95% <i>(Note 5)</i>

Notes:

1. "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued 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 issue.
4. The H Shares held by Dreyfus Premier Greater China Fund were equivalent to approximately 7.66% of the total H Shares in issue.
5. The H Shares held by Li Chung Ying were equivalent to approximately 5.01% of the total H Shares in issue.

Save as disclosed above, as at 30th September 2006, the Directors were not aware of any persons (other than the Directors, the Supervisors and chief executive of the Company) who had an interest and 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 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 30th September 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 its listing on 28th February 2006, or for the period until the termination under the terms and conditions of 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 primary duties of the Audit Committee include reviewing and monitoring the financial reporting procedures and internal control system of the Group. As at 30th September 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 nine months ended 30th September 2006 have 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.

The unaudited consolidated results of the Group for the nine months ended 30th September 2006 have not been reviewed by the external auditors of the Company.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30th September 2006, the Company has adopted the code of conduct for securities transactions by the Directors (the "Code"), which terms are 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 inquiries of all the Directors, and has not been notified of any non-compliance with the Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 30th September 2006, the Company and/or any of 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, 20th October 2006