



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)

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET  
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**This announcement, 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,**

*\* For identification purpose only*

confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this announcement, the Board comprises four executive Directors namely Guo Qing Ren, Shi Xiang Shen, Huang Yao Xin and Li Shuang Quan, and three independent non-executive Directors namely He Lin Wang, Xia Jun Min and Gu Lie Feng.

This announcement will remain on the GEM website at “[www.hkgem.com](http://www.hkgem.com)” on the “Latest Company Announcements” page for at least 7 days from the day of its posting.

## **CHAIRMAN'S STATEMENT**

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”), I am pleased to announce the audited consolidated financial results of the Group for the year ended 31st December, 2006 together with the comparative figures for the previous year.

### **Appreciation**

On behalf of the Board, I would like to thank the shareholders of the Company, suppliers and customers for their continuous support, and I also sincerely thank the employees for their efforts and contributions to the Group.

### **Business Review**

The year of 2006 proved to be a challenging year to the Group. Rising oil prices increased the purchasing prices of the raw materials of the Group. However, the Group still managed to maintain a stable growth.

- Turnover for the year ended 31st December, 2006 was approximately RMB461,809,000, an increase of approximately 22.74% from 2005;
- Gross profit for the year ended 31st December, 2006 was approximately RMB95,208,000, a decrease of approximately 0.70% from 2005;
- Gross profit margin for the year ended 31st December, 2006 was approximately 20.62%, a decrease of approximately 4.86% from 2005;
- Profit for the year ended 31st December, 2006 was approximately RMB60,054,000, an increase of approximately 9.11% from 2005. Profit attributable to equity holders of the Company was approximately RMB62,497,000, an increase of approximately 18.68% from 2005;
- Basic Earnings per share for the year was approximately RMB0.13 (2005: approximately RMB0.17).

### **Outlook**

On 29th January, 2007, the Central Government of the Peoples' Republic of China (“PRC”) and the State Council issued “Certain Opinions Related to the Development of Modern Agriculture and Promotion of Socialistic New Agricultural Construction” (關於積極發展現代農業扎實推進社會主義新農村建設的若干意見), which emphasised “An Active Development and Application of Various Economic Agricultural Technologies; Improvement in the Utilisation of Agricultural Resources and Inputs; Reinforced Popularisation of Water Saving Irrigation Technology and the Start-up of Construction Model of Water Saving Agriculture.” Therefore, the Directors of the Group expect the agricultural water saving irrigation equipment market will maintain the growth momentum. Looking forward, in order to maintain its competitiveness and

stable growth, the Group will continue to strictly control its costs, allocate more resources in new product development, and, when appropriate, expand into overseas markets, enlarge customer bases, and bring good returns to the shareholders.

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

16th February, 2007

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overview**

As a pioneer in providing one-stop solutions for water saving irrigation system in the PRC, 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. 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 every drop of water can be applied to the soil surface near the root of plant. The burden of deciding the timing of irrigation and the required amount of water can be relieved from the properly designed automatic drip irrigation system. The potential and importance of water saving irrigation system have been recognised by both the PRC Government and 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 customer base by expanding its sales and distribution network.

### **Results of Operations**

#### **Turnover**

For the year ended 31st December, 2006, the turnover of the Group was approximately RMB461,809,000, an increase of approximately 22.74% from approximately RMB376,251,000 for the year ended 31st December, 2005.

The following table summaries the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2006 by products or services:

Category	For the year ended 31st December, 2006		For the year ended 31st December, 2005		Year-on- year Percentage change
	Turnover RMB'000	% to total turnover %	Turnover RMB'000	% to total turnover %	
Drip films and drip assemblies	<b>301,148</b>	<b>65.21</b>	248,007	65.91	<b>21.43</b>
PVC/PE pipelines	<b>157,602</b>	<b>34.13</b>	123,785	32.90	<b>27.32</b>
Provision of installation services	<u><b>3,059</b></u>	<u><b>0.66</b></u>	<u>4,459</u>	<u>1.19</u>	<b>-31.40</b>
Total	<u><b>461,809</b></u>	<u><b>100.00</b></u>	<u>376,251</u>	<u>100.00</u>	

The change in turnover for the year ended 31st December, 2006 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2006, sales of drip films and drip assemblies increased by approximately 21.43% to approximately RMB301,148,000, while sales of PVC/PE pipelines increased by approximately 27.32% to approximately RMB157,602,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 18,284 tonnes for the year ended 31st December, 2005 to approximately 25,913 tonnes for the year ended 31st December, 2006, while the sales volume of PVC pipelines increased from approximately 16,322 tonnes for the year ended 31st December, 2005 to approximately 24,389 tonnes for the year ended 31st December, 2006. The increase in the sales volume of the Group's products was mainly 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 RMB4,459,000 to approximately RMB3,059,000 was mainly due to the fact that some of the Company's customers installed water saving irrigation system by themselves; hence, the Group's income generated by the provision of installation services had decreased. As a result, the turnover in provision of installation services decreased by approximately 31.40% for the period under review.

### Cost of sales

For the year ended 31st December, 2006, cost of sales of the Group was approximately RMB366,601,000, with an increase of approximately 30.75% from approximately RMB280,373,000 for the year ended 31st December, 2005. Costs of sales for the year ended 31st December, 2006 comprised direct materials of approximately RMB309,274,000, direct labors of approximately RMB10,187,000 and production overhead of approximately RMB47,140,000, which accounted for approximately 84.36%, 2.78% and 12.86%, respectively, of total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2005 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 79.19%, 3.55% and 17.26%, respectively, of total costs of sales for 2005.

### **Gross profit**

The Group realised a gross profit of approximately RMB95,208,000 for the year ended 31st December, 2006, which stood at the same level as in the year ended 31st December, 2005. The Group's gross profit margin decreased from approximately 25.48% for the year ended 31st December, 2005 to approximately 20.62% for the year ended 31st December, 2006. The decrease in gross profit margin was mainly due to the increase in costs of raw materials and recycle materials for drip films and hence the costs to mix formulas were increased during the year. The decline of the unit selling price of PVC pipelines by 10.8% as compared with the previous year also played certain roles. In short, the lower gross profit margin for sales of raw materials dragged down the overall gross profit margin for 2006.

### **Other operating income**

Other operating income consists primarily of bank interest income and gain arising from sales of equity investments. Such income had increased from approximately RMB336,000 for the year ended 31st December, 2005 to approximately RMB6,983,000 for the year ended 31st December, 2006. The increase was mainly attributable to the increase of gain arising from sales of equity investments and bank interest income for the year.

### **Distribution costs**

Distribution costs was approximately RMB22,965,000 for the year ended 31st December, 2006, representing an increase of approximately 24.05%. The amount accounted for approximately 4.97% of the total turnover for the year ended 31st December, 2006, more than its share of total turnover of approximately 4.92% for the corresponding period in the previous year. Distribution costs mainly comprised transportation costs, sales service expenses, salaries, commissions for sales staff, depreciation charges, traveling expenses and business entertainment fees, etc. For the year ended 31st December, 2006, sales and transportation costs, salaries, traveling expenses and business entertainment fees increased by approximately 28.02%, 4.92%, 29.17% and 38.13% to approximately RMB7,462,000, RMB6,614,000, RMB961,000 and RMB739,000, respectively, while sales services expenses decreased by approximately 37.68% to approximately RMB387,000.

### **Administrative expenses**

Administrative expenses increased by approximately 38.65% to approximately RMB15,525,000 for the year ended 31st December, 2006. The amount accounted for approximately 3.36% of total turnover for the year ended 31st December, 2006, more than its share of total turnover of approximately 2.98% for the corresponding period in the previous year. For the year ended 31st December, 2006, salary costs increased by 3.73% to approximately RMB3,478,000 and traveling expenses increased by approximately 443.88% to approximately RMB2,355,000, while business

entertainment fees decreased by approximately 10.43% to approximately RMB352,000 and allowance for trade receivables decreased by approximately 96.13% to approximately RMB52,000.

### **Profit from operations**

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2006 was approximately RMB63,070,000, representing a decrease of approximately 4.73% from approximately RMB66,200,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of profit from operations over the Group's turnover) were approximately 17.59% and 13.66% respectively for the years ended 31st December, 2005 and 2006.

### **Finance costs**

Finance costs for the year ended 31st December, 2006 amounted to approximately RMB3,840,000, representing an increase of 7.68% as compared to the corresponding period in the previous year. Higher finance costs were mainly resulted from the slight increase of lending rate.

### **Profit attributable to equity holders of the Company**

As a result of the factors discussed above, the profit attributable to equity holders of the Company increased by approximately 18.68%, from approximately RMB52,658,000 for the year ended 31st December, 2005 to approximately RMB62,497,000 for the year ended 31st December, 2006. For the two years ended 31st December, 2005 and 2006, the Group's net profit margin was approximately 14.00% and 13.53%, respectively.

## **INDEBTEDNESS**

### **Borrowings**

As at 31st December, 2006, the Group had outstanding bank loans of approximately RMB55,500,000, which will be due within a year at fixed interest rates ranging from 6.12% to 7.956% per annum.

For the outstanding bank loans of RMB55,500,000 as at 31st December, 2006, Xinjiang Tianye Company Limited (新疆天業股份有限公司) had granted guarantees to a bank for securing a loan of RMB50,000,000 at an interest rate of 6.12% per annum.

Furthermore, as at 31st December, 2006, the Company had granted guarantees to a bank for securing loans in the principal sum of RMB5,500,000 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. Such loans bore interest rates of 7.254% and 7.956% per annum.

### **Commitments**

As at 31st December, 2006, the Group had contracted but not provided for capital commitment of RMB2,657,000.



## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Liquidity ratios**

The current ratio and quick ratio of the Group as at 31st December, 2006 were approximately 4.29 and 2.43, representing an increase of 1.74 and 1.15 respectively when compared to 31st December, 2005. This is primarily due to approximately 41.19% increase in inventories, approximately 48.55% increase in trade and other payables as at 31st December, 2006 and approximately 185.42% increase in bank balances and cash and approximately 71.73% increase in bills receivable during the year under review.

### **Financial resources**

The Group currently finances its operations mainly by internal generated funds, net proceeds 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, 2006, capital expenditure of the Group in respect of acquisition of property, plant and equipment and prepaid leasing premium amounted to approximately RMB26,526,000 (2005: approximately RMB5,565,000), which were in line with the expansion plans of the Group.

### **Capital structure**

For the year ended 31st December, 2006, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 8.74% (2005: approximately 20.46%). The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 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 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.

### **Contingent liability**

As at 31st December, 2006, 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 basically denominated in Renminbi ("RMB"). In this respect, there is no significant currency mismatch in its operational cashflows and the Group is not exposed to any significant foreign currency exchange risk in its operation.

## **Employee and salary policies**

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2006, the Group has a total of 778 employees.

## **Retirement benefit scheme and other benefits**

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staff, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of pension and other post-retirement benefits for the employees save for the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plans were approximately RMB2,426,000 for the year ended 31st December, 2006.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK\$1,000 in respect of each employee) on a monthly basis to the fund.

## **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 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.

## **Material acquisitions or disposals of subsidiaries and associated companies**

For the year ended 31st December, 2006, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

## **Material investment**

For the year ended 31st December, 2006, the Group had no material investment.

## **PRINCIPAL ACTIVITIES**

The Company and its subsidiaries are 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.

## **DIVIDENDS**

The Directors recommend a final dividend of RMB0.036 per Share of the Company to the Shareholders of the Company who are recorded on the register of members of the Company on 19th April, 2007.

Register of members of the Company will be closed from 20th April, 2007 to 10th May, 2007 (both days inclusive) during which no transfer of shares will be effected. Shareholders of the Company who are eligible to receive final dividends are required to lodge their respective instruments of transfer and the relevant share certificates to Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

As at the date of this announcement, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

The Company 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.

The Audit Committee comprises three independent non-executive Directors, namely Mr. He Lin Wang, Mr. Xia Jun Min and Mr. Gu Lie Feng. Mr. He Lin Wang is the chairman of the Audit Committee. The Audit Committee has reviewed, and made recommendations and comments on, the results for the year.

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS**

For the year ended 31st December, 2006, 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 competes 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 People's Republic of China, which will oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

## **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, 2006 and the period from 1st January, 2007 up to the date of this announcement.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2006**

	<i>Notes</i>	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Turnover	4	<b>461,809</b>	376,251
Cost of sales		<u><b>(366,601)</b></u>	<u>(280,373)</u>
Gross profit		<b>95,208</b>	95,878
Other operating income		<b>6,983</b>	336
Distribution costs		<b>(22,965)</b>	(18,512)
Administrative expenses		<b>(15,525)</b>	(11,197)
Other operating expenses		<u><b>(631)</b></u>	<u>(305)</u>
Profit from operations	6	<b>63,070</b>	66,200
Finance costs	7	<u><b>(3,840)</b></u>	<u>(3,566)</u>
Profit before taxation		<b>59,230</b>	62,634
Taxation	9	<u><b>824</b></u>	<u>(7,595)</u>
Profit for the year		<u><b>60,054</b></u>	<u>55,039</u>
Profit attributable to:			
Equity holders of the Company		<b>62,497</b>	52,658
Minority interests		<u><b>(2,443)</b></u>	<u>2,381</u>
		<u><b>60,054</b></u>	<u>55,039</u>
Dividends	10	<u><b>34,860</b></u>	<u>34,883</u>
Earnings per share — basic	11	<u><b>RMB0.13</b></u>	<u>RMB0.17</u>

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31ST DECEMBER, 2006**

	<i>Notes</i>	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>154,508</b>	159,331
Prepaid lease payments		<b>8,386</b>	755
Goodwill		<b>98</b>	98
		<u><b>162,992</b></u>	<u>160,184</u>
<b>Current assets</b>			
Inventories		<b>267,723</b>	189,619
Trade and other receivables	12	<b>163,341</b>	122,007
Bills receivable	12	<b>27,477</b>	16,000
Tax refundable		<b>4,315</b>	—
Bank balances and cash		<b>153,938</b>	53,933
		<u><b>616,794</b></u>	<u>381,559</u>
<b>Current liabilities</b>			
Trade and other payables	13	<b>88,158</b>	59,346
Dividend payable		—	5,526
Tax payables		—	4,946
Short-term bank borrowings		<b>55,500</b>	80,000
		<u><b>143,658</b></u>	<u>149,818</u>
Net current assets		<u><b>473,136</b></u>	<u>231,741</u>
Total assets less current liabilities		<b>636,128</b>	391,925
<b>Non-current liability</b>			
Government grants		<b>900</b>	900
Net assets		<u><b>635,228</b></u>	<u>391,025</u>
<b>Capital and reserves</b>			
Share capital		<b>519,522</b>	317,122
Reserves		<b>99,819</b>	61,886
Equity attributable to equity holders of the Company		<b>619,341</b>	379,008
Minority interests		<b>15,887</b>	12,017
Total equity		<u><b>635,228</b></u>	<u>391,025</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2006**

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Statutory welfare fund <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Attributable to equity holders of the Company <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2005	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 and 1st January, 2006	317,122	—	5,503	2,752	53,631	379,008	12,017	391,025
Profit for the year and total recognised income for the year	—	—	—	—	62,497	62,497	(2,443)	60,054
Issue of H Shares through placing	202,400	44,791	—	—	—	247,191	—	247,191
Share issue expenses	—	(34,495)	—	—	—	(34,495)	—	(34,495)
Dividends declared to equity holders of the Company	—	—	—	—	(34,860)	(34,860)	—	(34,860)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(287)	(287)
Capital contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	6,600	6,600
Transfer	—	—	9,192	(2,752)	(6,440)	—	—	—
At 31st December, 2006	<u>519,522</u>	<u>10,296</u>	<u>14,695</u>	<u>—</u>	<u>74,828</u>	<u>619,341</u>	<u>15,887</u>	<u>635,228</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER, 2006

### 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 liability 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.

Hereinafter, the Company and its subsidiaries are collectively referred to as the “Group”. Tianye Holdings and its subsidiaries other than the Group is hereinafter collectively referred as the Tianye Holdings Group.

The consolidated financial statements are presented in Renminbi (“RMB”) which is the functional currency of the Group.

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The HKICPA has also issued the following standards, amendment and interpretations that are not yet effective. In the opinion of the directors of the Company, the Group has considered the following standards, amendment 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.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.



- <sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.  
<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.  
<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.  
<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006.  
<sup>6</sup> Effective for annual periods beginning on or after 1st March, 2007.

### 3. 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 HKFRSs issued by the 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.

#### 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.

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.

### 4. TURNOVER

Turnover is measured at the fair value of the consideration received and receivable for goods sold to external customers, net of value-added tax, returns and discounts, and the consideration received and receivable for the services provided during the year, and is analysed as follows:

	<b>2006</b>	2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Drip films and drip assemblies	<b>301,148</b>	248,007
PVC/PE pipelines	<b>157,602</b>	123,785
Provision of installation service	<b><u>3,059</u></b>	<u>4,459</u>
	<b><u><u>461,809</u></u></b>	<u><u>376,251</u></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.

## 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

	<b>2006</b>	2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Staff costs, including directors' and supervisors' emoluments		
— salaries and allowances	<b>25,662</b>	23,769
— retirement benefit scheme contributions	<b><u>2,426</u></b>	<u>2,262</u>
Total staff costs	<b><u>28,088</u></b>	<u>26,031</u>
Auditors' remuneration	<b>580</b>	700
Amortisation of prepaid lease payments	<b>38</b>	22
Depreciation of property, plant and equipment	<b>22,910</b>	22,379
Write-down for inventories	<b>—</b>	94
Allowances for trade receivables	<b>52</b>	1,343
Loss on disposal of property, plant and equipment	<b>770</b>	—
and after crediting:		
Bank interest income	<b>2,209</b>	313
Gain arising from sales of equity investments	<b><u>2,500</u></b>	<u>—</u>

## 7. FINANCE COSTS

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

## 8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

### (a) Emoluments of directors and supervisors

	<b>2006</b>	2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Directors and supervisors		
— fee	<b>—</b>	—
— salaries and other benefits	<b>493</b>	229
— retirement benefit scheme contributions	<b><u>57</u></b>	<u>57</u>
Total emoluments	<b><u>550</u></b>	<u>286</u>

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

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Name of executive director:		
Mr. Guo Qing Ren	—	—
Mr. Shi Xiang Shen	<b>100</b>	—
Mr. Huang Yao Xin ( <i>Note</i> )	<b>119</b>	119
Mr. Li Shuang Quan ( <i>Note</i> )	<b>119</b>	96
	<u>          </u>	<u>          </u>
Total emoluments	<b><u>338</u></b>	<b><u>215</u></b>
Name of independent non-executive director:		
Mr. He Lin Wang	<b>27</b>	—
Mr. Xia Jun Min	<b>27</b>	—
Mr. Gu Lie Feng	<b>27</b>	—
	<u>          </u>	<u>          </u>
Total emoluments	<b><u>81</u></b>	<b><u>—</u></b>
Name of supervisor:		
Mr. Xia Yue Xing ( <i>Note</i> )	<b>77</b>	71
Mr. He Jie	<b>27</b>	—
Mr. Huang Jun Lin	<b>27</b>	—
	<u>          </u>	<u>          </u>
Total emoluments	<b><u>131</u></b>	<b><u>71</u></b>
Total	<b><u>550</u></b>	<b><u>286</u></b>

*Note:* The amount includes retirement benefit scheme contribution for the year ended 31st December, 2006 of RMB19,000 (2005: RMB19,000).

No emoluments were paid by the Group to any directors or supervisors of the Company except as disclosed above. The other director of the Company is employee of Tianye Holdings Group and received emolument from Tianye Holdings Group during the year. For the year ended 31st December, 2006, the emolument that had been paid to the director of the Company by Tianye Holdings Group for his service to the Group and Tianye Holdings Group were RMB187,000 (2005: RMB287,000). It is not practicable to allocate the emolument of the director of the Company between his service to the Group and Tianye Holdings Group.

None of the directors or supervisors waived any emoluments during the year (2005: Nil).

#### (b) Employee's emoluments

For the year ended 31st December, 2006, the five highest paid individuals include three directors and two employees (2005: two directors, one supervisor and two employees).

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

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Salaries and other benefits	<b>900</b>	230
Retirement benefit scheme contributions	<b>57</b>	94
	<b>957</b>	324

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 (2005: nil) and no bonus was paid by the Group to the five highest paid individual director and supervisor (2005: nil).

During both years, the emoluments of each of the five highest paid individuals were below HK\$1,000,000 (equivalent to approximately RMB1,020,000; 2005: equivalent to approximately RMB1,040,000).

## 9. TAXATION

During each of the two years ended 31st December, 2005 and 31st December, 2006, 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 (“Notice 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年修訂)》(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 石河水開發區天業節水工程安裝有限責任公司 (“Tianye Installation”) whose 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	<b>2006</b>	2005
		<b>EIT rate</b>	EIT rate
The Company	(i)	<b>15%</b>	15%
石河子天業物資回收有限責任公司 (“Tianye Recycling”)	(ii)	<b>33%</b>	Exempted
甘肅省張掖市天業節水器材有限公司 (“Gansu Tianye”)	(iii)	<b>15%</b>	15%
Tianye Installation		<b>33%</b>	33%
新疆阿拉爾天農節水灌溉有限責任公司 (“Alaer Tiannong”)	(iv)	<b>33%</b>	Exempted
哈密天業紅星節水灌溉有限責任公司 (“Hami Tianye”)	(v)	<b>15%</b>	15%
肇慶天業塑膠製品有限公司 (“Zhaoqing Tianye”)		<b>33%</b>	N/A
奎屯天屯節水有限責任公司 (“Kuitun Tiantun”)		<b>33%</b>	N/A

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. 177 (新國稅辦[2001]177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), 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 was exempted from EIT for the two years ended 31st December, 2005. Accordingly Tianye Recycling is subject to a EIT tax rate of 33% commencing from 1st January, 2006;
- (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;
- (iv) According to “Approval of EIT Exemption to Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited”, A Ke Su Shi Guo Shui [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稅的批覆》阿克蘇市國稅[2003]400號), issued by State Administration of Taxation of Akesu (阿克蘇市國家稅務局), Alaer Tiannong was exempted from EIT for the three years ended 31st December, 2005. Accordingly, Alaer Tiannong is subject to a EIT tax rate of 33% commencing from 1st January, 2006; 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 (哈國稅辦[2005]32號《哈密地區國家稅務局關於對哈密天業紅星節水灌溉有限責任公司減徵企業所得稅的批覆》) issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局) 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, 2006 is calculated at the EIT rate applicable to each of the entities comprising the Group as shown above.

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Tax (credit)/expense comprises:		
Charge for the year	<b>591</b>	7,595
Over-provision of tax in previous years	<b>(1,415)</b>	—
	<b><u>(824)</u></b>	<u>7,595</u>

The Group is not subject to Hong Kong Profits Tax as the Group's income neither arises in, nor is derived from, Hong Kong.

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, 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 of RMB5,526,372 was paid to the shareholders of the Company during the year ended to 31st December, 2006.

A final dividend for the year ended 31st December, 2005 of RMB0.0671 per share, amounting to RMB34,859,897 in aggregate, has been declared and paid to the shareholders of the Company during the year ended 31st December, 2006.

A final dividend of RMB0.036 per share has been proposed by the directors in respect of the year ended 31st December, 2006 and is subject to approval by the shareholders in general meeting.

## 11. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately RMB62,497,000 (2005: RMB52,658,000) and the weighted average number of 485,623,477 (2005: 317,121,560) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the two years ended 31st December, 2006 and 2005 as there was no potential dilutive shares for both years.

## 12. 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:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Aged:		
Within 1 year	105,725	75,301
1–1.5 years	5,612	4,031
1.5–2 years	<u>—</u>	<u>784</u>
Trade receivables ( <i>note i</i> )	111,337	80,116
Other receivables and prepayments	26,944	23,996
Prepayments to suppliers ( <i>note ii</i> )	<u>25,060</u>	<u>17,895</u>
	<u><b>163,341</b></u>	<u><b>122,007</b></u>

*Note:*

- (i) As at 31st December, 2005, trade receivables of the Group include trade receivables from Tianye Holdings Group of RMB4,846,000 (2006: Nil). The balance aged within one year from the balance sheet date.
- (ii) As at 31st December, 2006 and 31st December, 2005, prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of RMB1,273,000 and RMB2,000, respectively, for sourcing and supply of raw materials.

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

### **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 values.

## **13. TRADE AND OTHER PAYABLES**

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

	<b>2006</b>	2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Aged:		
0–180 days	<b>11,147</b>	22,475
181–365 days	<b>31,693</b>	2,471
1–2 years	<b>2,324</b>	2,011
Over 2 years	<b>1,419</b>	923
	<b>46,583</b>	27,880
Other payables and accruals	<b>11,360</b>	13,233
Deposits and prepayments received from customers	<b>30,215</b>	18,233
	<b>88,158</b>	59,346

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

As at 31st December, 2006 and 31st December, 2005, trade payables of the Group include trade payables to Tianye Holdings Group of RMB517,000 and RMB1,302,000, respectively. All of these balances aged within one year from the respective balance sheet dates.