新疆天業節水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

Stock Code : 8280

Annual Report 2006

* for identification purposes only

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

* *For identification purpose only*

Contents

2	Corporate Information
4	Chairman's Statement
6	Management Discussion and Analysis
13	Comparison between business objectives and actual business progress
16	Corporate Governance Report
24	Report of the Directors
35	Report of the Supervisory Committee
36	Independent Auditors' Report
38	Consolidated Income Statement
39	Consolidated Balance Sheet
40	Consolidated Statement of Changes in Equity
41	Consolidated Cash Flow Statement
42	Notes to the Consolidated Financial Statements
71	Five Years Financial Summary
72	Property

Corporate Information

DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

SUPERVISORS

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

QUALIFIED ACCOUNTANT

Wong Hon Kei, Anthony

COMPANY SECRETARY

Wong Hon Kei, Anthony

COMPLIANCE OFFICER

Shi Xiang Shen

AUDIT COMMITTEE

He Lin Wang
Xia Jun Min
Gu Lie Feng

COMPLIANCE COMMITTEE

Shi Xiang Shen
He Lin Wang
Gu Lie Feng
Xia Jun Min
Wong Hon Kei, Anthony

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE ADVISER

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

AUDITORS

SHINEWING (HK) CPA Limited
20/F, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

21/F, New World Tower 1
18 Queen's Road Central
Hong Kong

Corporate Information

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
No. 62-5-6 Dong Liu Road
Shihezi
Xinjiang
PRC

Bank of China
No. 253-1415 Bei Si Road
Shihezi
Xinjiang
PRC

Agricultural Bank of China
No. 6 Dong Jiu Road
Shihezi
Xinjiang
PRC

Industrial and Commercial Bank of China
No. 8 Dong Jiu Road
Bei Si Road
Shihezi
Xinjiang
PRC

STOCK CODE

8280

WEBSITE

http://www.tianyejieshui.com.cn

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 Committee of the Communist Party of China (中共中央) and the State Council (國務院) 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

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

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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, respectively, 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 mainly 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 employee, 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 requirements 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.

Management Discussion and Analysis

Material acquisitions or disposals of subsidiaries and associated companies

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

Material investment

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

Comparison between business objectives and actual business progress

The following is a summary of the Group's actual business progress to date compared with the business objectives set out in the Company's prospectus dated 21st February, 2006 (the "**Prospectus**") for the period from the date of commencement of dealings in the Shares on GEM to 31st December, 2006.

Business objectives disclosed in the Prospectus	**Actual business progress made by the Company**
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	Completed
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
To establish drip demonstration zone in Middle Asia and Middle East	Completed
To set up four demonstration centres with an aggregate planned area of approximately 653 hectares	Completed
To set up drip demonstration zone in Ningxia	Completed
To set up demonstration base in Hebei	Completed
To set up tomato drip demonstration base for irrigation system in Regiment 135, No. 8 Division	Completed

Comparison between business objectives and actual business progress

Business objectives disclosed in the Prospectus	Actual business progress made by the Company
Strengthening of the R&D of new innovative products	
R&D of agricultural PVC pipes	Finished the testing of facilities, trial production and the verification of new products, and solved related problems
R&D of co-extruded drip films	Finished the testing of facilities, trial production and the verification of new products, and solved related problems
R&D of irrigation system in open fields	Finished the testing of facilities, trial production and the verification of new products, and solved related problems
Upgrading, reforming and expanding existing production facilities	
Automation and reforming of production lines of drip films	Completed
New production facilities in Alaer	As the development of water-saving irrigation market in Alaer region is slower than expected, the Company reallocated the proceeds from the original plan for setting up new production facilities in Alaer region to the establishment of new capacity in Xinjiang Kuitun region, which is anticipated to be completed by 2007
New production facilities in Shihezi	Construction of new production lines is now in progress

Comparison between business objectives and actual business 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 31st December, 2006 as set out in the Prospectus RMB million	Actual amount of proceeds used up to 31st December, 2006 RMB million
To expand production capacity for drip films	22.66	22.66
To acquire new production facilities in Alaer (Note 1)	37.11	9.60
To acquire new production facilities in Shihezi (Note 2)	43.17	45.12
Repay bank loans (Note 3)	30.78	30.78
Total	133.72	108.16

As at 31st December, 2006, unused proceeds were deposited with banks in the PRC and Hong Kong.

Notes:

1. As the development of water-saving irrigation market in Alaer region is slower than expected, the Company reallocated the proceeds from the original plan of setting up new production facilities in Alaer region to the establishment of new production lines in Xinjiang Kuitun region. As there is a change in the location of the plan, most of the proceeds have 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 progress of the project has been accelerated and the facilities used are more than projected.

3. The remaining amount of the net proceeds of approximately RMB1,780,000 raised from the issue of the over-allotment shares was used to repay part of the principal of bank loans of RMB20,000,000, which was due on 11th December, 2006, as stated in the prospectus.

Corporate Governance Report

The Board of Directors (the "**Board**") is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2006.

CORPORATE GOVERNANCE PRACTICES

The Group believes that the application of rigorous corporate governance practices can lead to the improvement in its accountability and transparency and, thus, further instill confidence of shareholders and the public in the Group. Throughout the financial year ended 31st December, 2006, the Group has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "**Code**").

THE BOARD

Composition

The Board comprises 7 Directors, including 4 Executive Directors and 3 Independent Non-Executive Directors, as at 31st December, 2006. The Board members have no financials, business, family or other material/relevant relationships with each other. Members of the Board comprise of experts with various expertise in different industries, who have worked for the government agencies in the PRC, public listed companies or other entities. All Directors give sufficient time and attention to the affairs of the Group.

The presence of three Independent Non-Executive Directors is considered by the Board to be a reasonable balance between Executive and Independent Non-Executive Directors, and the Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of the Group and its shareholders. The Group has appointed three Independent Non-Executive Directors, all of whom possess appropriate professional qualifications and one of whom possess appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each Independent Non-Executive Director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline in respect of independence set out in rule 5.09 of the GEM Listing Rules. None of the Independent Non-Executive Directors has served the Group for more than nine years.

All Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors.

Board Meetings

The Board is principally responsible for formulating and reviewing the overall strategies and the fundamental systems of the Group, and approving major transactions and other material operational and financial matters, as well as annual budget and quarterly and annual results. The Board shall meet, at least, every quarter and an extraordinary meeting may be held as required. The full Board met in person and met nine times for the financial year ended 31st December, 2006. At least 14 days' notice of all Board Meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion at the meeting. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that the Board procedures and all applicable rules and regulations are observed. The finalised agenda and accompanying board papers are then sent to all directors at least three days prior to the proposed Board Meeting.

The following is the attendance records of the meetings by each Director:

Attendants	Number of Meetings Attended/Total	Attendance Percentage
Executive Directors		
Guo Qing Ren	9/9	100%
Shi Xiang Shen	9/9	100%
Huang Yao Xin	9/9	100%
Li Shuang Quan	9/9	100%
Independent Non-executive Directors		
He Lin Wang	9/9	100%
Gu Lie Feng	5/9	56%
Xia Jun Min	9/9	100%

During the meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual, interim and quarterly results, set next year's budgets, as well as discuss and decide on other significant matters. Execution of daily operational matters of the Group is delegated to the management.

The Company Secretary records the proceedings of each Board Meeting in detail by keeping detailed minutes. Draft and finalised minutes of board meetings are circulated to all Directors for their comments and records respectively at any reasonable time as soon as practicable after each meeting. All minutes are open for inspection at any reasonable time on request by any Director.

All Directors have access to relevant and timely information at all times as the Chairman will ensure that the management will supply the Board and its Committees with all relevant information in a timely manner. They may make further enquiries if in their opinions it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible to the Board of Directors for providing Directors with board papers and related materials to ensure all applicable laws and rules are fully complied with. If considered to be necessary and appropriate by the Directors, they may retain independent professional advisors at the Group's expense.

In case that a conflict of interest may arise on a matter to be considered by the Board which involves a substantial shareholder or a Director, such matter will be discussed through an actual Board Meeting and will not be dealt with by written resolutions. Independent Non-Executive Directors who do not have any conflict of interest on the matter will be present at such meetings and to deal with such conflicting issues.

The Board Committees, including the Compliance Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, have all adopted the applicable principles, procedures and arrangements used in Board Meetings.

Chairman and Chief Executive Officer of the Group

The Chairman of the Group is Mr. Guo Qing Ren and the Chief Executive Officer of the Group is Mr. Huang Yao Xin. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the day-to-day management of the Group.

The Chairman is responsible for leading the Board and ensuring the Board works effectively, through which the Chairman will ensure that good corporate governance practices and procedures are established and followed, and that all Directors receive all relevant information in a timely manner. Each Director should be properly notified the matters in question prior to each Board meeting.

The Chairman will also encourage all Directors, including the Independent Non-Executive Directors, to actively participate in all board and its committee meetings.

Training and Support for Directors

All Directors, including the Independent Non-Executive Directors, should keep abreast of their responsibilities as Directors of the Company and of the operation methods, business activities and development of the Group. As such, the Group provides various briefings and other training to develop and refresh the Directors' knowledge and skills. The Group will also continuously update all Directors on latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure the compliance with these rules and regulations by the Directors.

Compliance with the required standards for dealings in securities transactions by Directors

The Group has adopted the required standards for dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon specific enquiries made, each Director has confirmed that during the year ended 31st December, 2006, each Directors has fully complied with the required standards for dealings and there is no event of non-compliance.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2006. The Chairman of the Committee is Mr. Shi Xiang Shen, an Executive Director of the Company and other members are Mr. He Lin Wang, Mr. Xia Jun Min and Mr. Gu Lie Feng, all being the Independent Non-Executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of Executive Directors and members of senior management of the Group, and reviewing the Company's bonus structure, provident fund and other compensation-related issues. The Remuneration Committee will consult with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also have access to professional advice if considered necessary by the Remuneration Committee. The Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

For the financial year ended 31st December, 2006, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
Shi Xiang Shen	1/1	100%
Gu Lie Feng	1/1	100%
He Lin Wang	1/1	100%
Xia Jun Min	1/1	100%

For the year ended 31st December, 2006, the Remuneration Committee reviewed matters relating to remuneration for the Directors and members of senior management, and discussed the remuneration policy of the Group.

NOMINATION COMMITTEE AND APPOINTMENT OF DIRECTORS

Nomination Committee

The Nomination Committee was established in 2006. The Chairman of the Committee is Mr. He Lin Wang, an Independent Non-Executive Director of the Company, and other members include Mr. Guo Qing Ren, Mr. Shi Xiang Shen, both being the Executive Directors of the Company, Mr. Gu Lie Feng and Mr. Xia Jun Min, both being the Independent Non-Executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of Directors and Board succession. The Committee develops selection procedures of candidates for nomination, reviews the structure, size and composition of the Board and assesses the independence of the Independent Non-Executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee, and review and approval of such nominations by the Board. The Nomination Committee will evaluate potential candidates considering factors such as professional expertise, relevant experience, personal ethics and integrity.

For the financial year ended 31st December, 2006, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
He Lin Wang	1/1	100%
Guo Qing Ren	1/1	100%
Shi Xiang Shen	1/1	100%
Gu Lie Feng	1/1	100%
Xia Jun Min	1/1	100%

For the year ended 31st December, 2006, the Nomination Committee discussed and reviewed the Board composition as well as other related matters.

Terms of Appointment and Re-election

All Independent Non-Executive Directors are appointed for a specific term of three years. All Directors, including the Executive and Independent Non-Executive Directors, would retire from office by rotation and are subject to re-election at the following annual general meeting once every three years.

According to the Articles of Association of the Company, all Directors appointed to fill casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by shareholders.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and other financial disclosures. The management provides all relevant information to the Board enabling the Board to make an informed view of financial and other data.

In compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2006, is currently chaired by Mr. He Lin Wang, and the other members are Mr. Xia Jun Min and Mr. Gu Lie Feng, all members being the Independent Non-Executive Directors of the Company.

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. The Audit Committee's primary duties include ensuring the Group's financial statements, annual, interim and quarterly reports and the auditors' report present a true and fair assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Company Secretary keeps the minutes of all Audit Committee meetings. In line with practices consistent with the Board meetings and other committee meetings, draft and finalised minutes of Audit Committee meetings are circulated to all members of the Audit Committee as soon as practicable after each meeting. For the financial year ended 31st December, 2006, the Audit Committee held four meetings. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
He Lin Wang	4/4	100%
Xia Jun Min	4/4	100%
Gu Lie Feng	4/4	100%

During the year ended 31st December, 2006, the Audit Committee reviewed the final, first quarterly, interim and third quarterly results of the Group, and discussed and approved financial and other reports for the year. The Committee also reviewed and discussed the Group's internal audit plans and arrangements for the upcoming year.

The level of fees in respect of audit and non-audit services provided by external auditors to the Company for the year ended 31st December, 2006 are as follows:

	2006 **RMB'000**	2005 RMB'000
Audit Service		
— SHINEWING (HK) CPA Limited	**580**	—
— Deloitte Touche Tohmatsu	**—**	700
Non-audit services		
— Deloitte Touche Tohmatsu	**443**	576
	1,023	1,276

COMPLIANCE COMMITTEE

The Compliance Committee was established in 2006. The Chairman of the Committee is Mr. Shi Xiang Shen, an Executive Director of the Company, and other members include Mr. He Lin Wang, Mr. Gu Lie Feng, Mr. Xia Jun Min, all being the Independent Non-Executive Directors of the Company and Mr. Wong Hon Kei, Anthony, the Company Secretary of the Company.

The duties of the Compliance Committee include supervising the Company's effective implementation of various management measures of the Company and reviewing the Company's disclosure policies to ensure its compliance with the GEM Listing Rules and the requirements of other regulatory authorities and making recommendations and giving opinions to the Board in this regard.

For the financial year ended 31st December, 2006, the Compliance Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	**Number of Meetings Attended/Total**	**Percentage**
Shi Xiang Shen	1/1	100%
He Lin Wang	1/1	100%
Gu Lie Feng	1/1	100%
Xia Jun Min	1/1	100%
Wong Hon Kei, Anthony	0/1	0%

For the year ended 31st December, 2006, the Compliance Committee discussed and reviewed the Company's disclosure policies as well as other related matters.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31st December, 2006, the Board has, through the Audit Committee with the assistance of the Internal Audit Manager, conducted a review of the Group's internal control system, including without limitation to financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems are effective and there is no non-compliance, impropriety, fraud or other deficiencies that suggest material deficiency in the effectiveness of internal control system of the Group.

The Board assesses the effectiveness of internal controls by considering reviews conducted by the Audit Committee, senior management and both internal and external auditors. The Internal Audit Manager follows a risk-and-control-based approach. An audit plan would be formulated in a risk-weighted manner so that priorities and appropriate audit frequency could be given to areas with higher risks. The Internal Audit Manager performs regular financial and operational reviews on the Group. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee. The Internal Audit Manager monitors the follow-up actions agreed upon in response to its recommendations.

DELEGATION BY THE BOARD

The Board is responsible for decision in relation to the overall strategic development of the Group's business. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management. The Board has given clear directions as to the powers of management, and periodically reviews all delegations to management to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

All Committees, namely the Compliance Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, have specific terms of reference clearly defining the powers and responsibilities of the respective Committees. All Committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and, in certain specific situations, to seek the Board's approval before taking any actions.

RELATIONS WITH SHAREHOLDERS

The Group is committed to maintaining the highest level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. This commitment to fair disclosure and comprehensive and transparent reporting of the Group's activities can be reflected in many aspects.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The annual general meeting (''**AGM**'') of the Company provides an excellent opportunity for the Board to meet and communicate with the Shareholders. All Directors make a special effort to attend the AGM so that they may answer any questions from the Shareholders of the Company.

The Chairman is also actively involved in organising the AGM and personally chairs it, as to ensure that shareholders' views are delivered to the Board. Members of the Compliance Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee also attend the AGM to answer questions that shareholders may raise. A separate resolution is proposed by the Chairman in respect of each separate issue at the AGM.

The proceedings of the AGM are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. A circular in respect of the AGM, which is circulated to all shareholders at least 45 days prior to the AGM, sets out details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the Chairman again explains the procedures for demanding and conducting a poll. The Chairman indicates (except those where a poll is required) at the meeting the level of proxies lodged on each resolution, and the balance for and against such resolution.

The Company also communicates with its shareholders through its annual, interim and quarterly reports. All such reports can also be accessed via the Company's website. The Directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.

INVESTOR RELATIONSHIPS

To strengthen its relationship with investors, the Group meets with analysts, accommodates visiting funds and investors, and participates in conferences and presentations.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

LISTING ON GEM OF THE STOCK EXCHANGE

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

PRINCIPAL ACTIVITIES

The Group is engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in agricultural water saving irrigation system, and is also engaged in the provision of installation services of water saving irrigation system for its customers. Details of the principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 38.

The Directors recommend a final dividend of RMB0.036 per share (the ''**Share**'') to the shareholders of the Company (''**Shareholders**'') who are recorded on the register of members on 10th May, 2007.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB18,857,000 on acquiring new plants and machines. Details of the above and of other movements in the property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders is the lower of its accumulated profits as stated in the statutory financial statements in the People's Republic of China (''PRC'') and the financial statements prepared under Hong Kong Financial Reporting Standards (''**HKFRSs**''). As at 31st December, 2006, the Company's reserves available for distribution to shareholders represents its accumulated profits of approximately RMB59,064,000 prepared in accordance with HKFRSs (2005: accumulated profits of approximately RMB43,607,000 prepared in accordance with HKFRSs).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2006, sales to the largest customer and the five largest customers of the Group accounted for approximately 13.04% and 40.22% of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 29.42% and 61.50% respectively of the total purchases of the Group.

At no time during the year did a Director, a Supervisor, their associates or any Shareholders (which to the knowledge of the Directors owned more than 5% of the Company's Share) have an interest in any of the five largest customers or suppliers of the Group.

DIRECTORS AND SUPERVISORS

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

Executive directors:

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

Independent non-executive directors:

Mr. He Lin Wang
Mr. Xia Jun Min
Mr. Gu Lie Feng

Supervisors

Mr. Xia Yue Xing
Mr. Hung Jun Lin
Mr. He Jie

Messrs. Guo Qing Ren, Shi Xiang Shen, Huang Yao Xin, Li Shuang Quan, He Lin Wang, Xia Jun Min and Gu Lie Feng shall retire at the forthcoming annual general meeting in accordance with Article 10.02 of the articles of association of the Company and, except for Huang Yao Xin, the remaining directors being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Guo Qing Ren, aged 64, is the Chairman and a founder of the Group. Mr. Guo obtained a bachelor's degree from Xinjiang Technology College with a major in Geological Metal and Non-metal Mining and Exploration in 1964. He obtained a senior economist qualification certificate issue by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1993. He has been a director of Xinjiang Tianye (Group) Limited* (新疆天業(集團)有限公司) (''**Tianye Holdings**''), which is deemed to be interested in more than 5% of the Shares under the Securities and Futures Ordinance (the ''**SFO**'') (Chapter 571 of the Laws of Hong Kong) and is required to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the SFO, since 1996 and has been the chairman and a director of Xinjiang Tianye Company Limited (''**Tianye Company**''), who is interested in more than 5% of the Shares, and is required to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the SFO, since 1997. He has been a Director since he joined the Group in 1999. The research and development project of One-off Recycled Plastic Dripline Products undertaken by Mr. Guo was awarded the First Prize of Technology Improvement of the Eighth Agricultural Division and Shihezi City in 1999. In 2000, the water saving irrigation pipelines project primarily developed by Mr. Guo was awarded the Innovative Technology Prize of the Autonomous Region. Mr. Guo joined the Group in 1999 and is responsible for overseeing all strategic planning of the Group as well as responsible for the overall management of the Group's operations. He is also responsible for the design and development of new products of the Group.

Mr. Shi Xiang Shen, aged 62, is an executive Director. Mr. Shi graduated from Beijing Economic Correspondence University with a major in Economic Management in 1989. He obtained a senior accountant qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. He had been employed as the chief accountant of Tianye Holdings. He has become a Director since he joined the Company in 2000 and has been responsible for the Group's financial management and capital operation.

Mr. Huang Yao Xin, aged 45, is an executive Director and general manager of the Company. Mr. Huang graduated from the Graduate School of the Faculty of the Humanities of Dalian Polytechnics University with a major in Management Sciences and Engineering in 1999. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1998. He has been appointed a Director and general manager of the Company since he joined the Group in 2000 and is responsible for the Group's daily operation management.

Mr. Li Shuang Quan, aged 42, is an executive Director and deputy general manager of the Company. Mr. Li graduated from Nanjing Glass Fiber Research and Design Vocational University with a major in Silicate Technology in 1988. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2001. In 1998, he was recognized as the ''Sixth Session Outstanding Calibre of the Agricultural No. 8 Division'', Mr. Li was also recognized as the ''Tenth Session Outstanding Calibre of the Agricultural No. 8 Division'' in 2003. Currently, he is a director of Tianye Company and was granted the special subsidies by the State Council of the PRC in 2004. He joined the Group in 1999 and has been a Director since 2002 and a deputy general manager of the Company since 2003. Mr. Li is responsible for the management of technology and research and development of the Group.

Independent Non-Executive Directors

Mr. He Lin Wang, aged 65, is an independent non-executive Director. Mr. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部). He had held the position of chief engineer of Shihezi Water Conservation Bureau (石河子市水利局) and a director of the Xinjiang Agricultural Engineering Society. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Xia Jun Min, aged 36, is an independent non-executive Director. He graduated from Xinjiang Finance and Economic College majoring in Accounting in 1995 and obtained a bachelor's degree from the Central Communist Party Institution with a major in Politics and Law in 1998. He has obtained qualifications as a registered accountant and a registered assets valuer in the PRC. He is presently a deputy president of Xinjiang Fangxia Assets Valuation Company Limited, a president and a chief accountant of Xinjiang Fangxia Certified Public Accountants Company Limited. He has been an independent non-executive Director since he joined the Group in April 2005.

Mr. Gu Lie Feng, aged 67, is an independent non-executive Director. Mr. Gu attained university level and graduated from Water Conservancy Engineering Department of Tsinghua University in 1965. Mr. Gu obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. Since he joined the Group in April 2005, he has been an independent non-executive Director.

Supervisors

Mr. Xia Yue Xing, aged 47, is a Supervisor. Mr. Xia graduated from Xinjiang Technology College in 1988 with a major in Mechanical Machinery Quantitative Sciences. Mr. Xia obtained a senior engineer qualification as approved by Examination Committee of Higher Professional Technical Positions of Industrial, Communication and Engineering Series of the Regiment (兵團工交工程系列高級專業技術職務評審委員會) in 2003. He joined the Group in January 2002 and has been a Supervisor since December 2003.

Mr. He Jie, aged 61, is a Supervisor. Mr. He graduated from Tianjin Light Industry College in 1968 with a major in Plastic Modelling and Processing. Mr. He obtained a senior engineer qualification as approved by the Office of Professional Technical Staff of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區專業技術人員職稱辦公室) in 1992. He has been a Supervisor since he joined the Group in April 2005.

Mr. Huang Jun Lin, aged 67, is a Supervisor. Mr. Huang graduated from Xinjiang University in 1990 having attained education in politics. He is a senior administrator and an outstanding caliber in Shihezi. He has been a Supervisor since he joined the Group in April 2005.

Qualified Accountant and Company Secretary

Mr. Wong Hon Kei, Anthony, aged 33, is the financial controller, company secretary, qualified accountant and one of the authorised representatives of the Company. He is responsible for the financial reporting procedures and internal control of the Group and secretarial affairs of the Company. Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants. Mr. Wong worked for an international accounting firm in Hong Kong. He has about 10 years of experience in the fields of professional accounting services, finance, and management. He joined the Group in August 2006.

Compliance Officer

Mr. Shi Xiang Shen, an executive Director, assumes responsibility for acting as the Group's compliance officer, including advising on and assisting the Board in implementing procedures to ensure that the Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Group.

Senior Management

Mr. Zhu Jia Ji, aged 43, graduated from Agricultural and Machinery School of Shihezi, Xinjiang. Mr. Zhu obtained an engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2002. He has been a deputy sales manager of the Company since he joined the Group in December 1999.

Ms. Ni Mei Lan, aged 47, graduated from Urumqi Vocational and Technical University with a major in Economic Management in 1995. Ms. Ni obtained an assistant economist qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2000. She joined the Group in 2001 and has been a deputy general manager of the Company since 2003.

Mr. Xiong Xin Yi, aged 35, graduated from Xinjiang Finance and Economic College with a major in Economic Management and had passed the legal examinations of Xinjiang University. Mr. Xiong obtained an industrial economist qualification certificate issued by the Ministry of Personnel of the PRC. He joined the Group in January 2003 and has been the secretary to the Board since 2005.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for an initial term of 36 months commencing on 7th February, 2006. These contracts are only determinable by the Company upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than as disclosed above, no Directors or Supervisors proposed for re-election at the forthcoming annual general meeting has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation letter of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

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

As at 31st December, 2006, the interests of the Directors, Supervisors (as if the requirements applicable to the Directors under the SFO had applied to the Supervisors) or chief executives of the Company, including their respective associates, in the Shares, underlying Shares and debentures of the Company 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 were as follows:

Name of Directors/ Supervisors	Name of companies/ associated corporations	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Guo Qing Ren *(Director)*	Tianye Company	Beneficial owner	46,080 domestic shares (L)	0.0105%
Shi Xiang Shen *(Director)*	Tianye Company	Beneficial owner	34,864 domestic shares (L)	0.0079%
Huang Jun Lin *(Supervisor)*	Tianye Company	Beneficial owner	53,248 domestic shares (L)	0.0121%

Note:

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

Other than as disclosed above, none of the Directors, 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 as at 31st December, 2006.

ARRANGEMENTS TO ACQUIRE SHARES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executives of the Company, including their respective associates, to acquire benefits by means of acquisition of Shares in, or debenture of, the Company or any other corporation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed ''CONNECTED AND RELATED PARTY TRANSACTIONS'', no contract of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

(A) Substantial shareholders

As at 31st December, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following persons or entities (other than a Director, Supervisor or Chief Executive) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

Name	Type/nature of interest	Capacity	Number of the domestic shares of the Company held (Note 1)	Approximate percentage of the total issued share capital of the Company (Note 2)
Tianye Company	Corporate	Beneficial owner	202,164,995 (L)	38.91% (Note 3)
Tianye Holdings (Note 4)	Corporate	Interest in controlled corporation	202,164,995 (L)	38.91%
Shenzhen City Li Tai Lai Investment Development Company Limited (''Li Tai Lai'')	Corporate	Beneficial owner	93,994,831 (L)	18.09% (Note 5)
Yang Ming Gui (Note 6)	Personal	Interest in controlled corporation	93,994,831 (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 (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 who are required to disclose their interests pursuant to Division 2 and 3 of Part XV of the SFO

As at 31st December, 2006, save for the persons or entities disclosed in sub-section (A) above, the following persons or entities (other than a Director, Supervisor or Chief Executive of the Company) had notified the Company of relevant interests and short positions 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 shareholders	**Type of interest**	**Capacity**	**Number of H Shares of the Company held** (Note 1)	**Approximate percentage of the total issued share capital of the Company** (Note 2)
Fidelity International Limited	Corporate	Investment manager	19,966,000 (L)	3.84% (Note 3)
Dreyfus Premier Greater China Fund	Corporate	Investment manager	15,510,000 (L)	2.98% (Note 4)
Li Chung Ying	Personal	Beneficial owner	10,148,000 (L)	1.95% (Note 5)

Note:

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 31st December, 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.

CONNECTED AND RELATED PARTY TRANSACTIONS

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The Independent Non-Executive Directors have reviewed the continuing connected transactions and the report of the auditors, and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms or on terms no less favorable than terms available to or from independent third parties, and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Details of the continuing connected transactions during the year are included in note 30 to the consolidated financial statements.

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

- purchase agreement with Tianye Holdings (the substantial shareholder of the Company), pursuant to which the Group agreed to purchase spare parts and used materials, including but not limited to diamond-shaped wheels and used drip films, from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those spare parts and used materials will be agreed from time to time between the parties concerned by reference to the prevailing market prices at the relevant time;

- master purchase agreement with Tianye Company (the substantial shareholder of the Company), pursuant to which the Group agreed to purchase raw materials, including but not limited to PVC resins, contracting films, internal films and stabilisers, from Tianye Company and/or its subsidiaries and/or its controlled corporations from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those raw materials will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- sale agreement with Tianye Holdings (the substantial shareholder of the Company), pursuant to which Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- master sale agreement with Tianye Company (the substantial shareholder of the Company), pursuant to which Tianye Company and/or its subsidiaries and/or its controlled corporations agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- leases in respect of the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第三層) and the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94-22號) with Tianye Company (the substantial shareholder of the Company), for a term from 1st July, 2005 to 30th June, 2008 at the rent of RMB1,455,820 per annum (including property management fee);

- lease in respect of the office premises located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層) with Tianye Company (the substantial shareholder of the Company), for a term from 1st July, 2005 to 30th June, 2008 at the rent of RMB3,500 per annum (including property management fee);

- lease in respect of the office premises located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三小區94-2號辦公樓) with Tianye Company (the substantial shareholder of the Company), for a term from 1st July, 2005 to 30th June, 2008 at the rent of RMB4,320 per annum (including property management fee).

The above connected transactions agreements and their proposed annual caps were approved by an ordinary resolution of a general meeting of the Company held on 7th February, 2006. The details of these transactions were disclosed in the prospectus dated 21st February, 2006.

In respect of each of the related party transactions as listed in note 30 to the consolidated financial statements, which are also connected transactions, and the transaction contemplated under each of the above connected transactions agreements, the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

Note: The term "controlled corporations" of Tianye Company mentioned above under the paragraph headed "Connected and Related Party Transactions" of this report refers to those corporations owned by Tianye Company as to 30% or more but less than 50% of their equity interests.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors, Supervisors or the management Shareholders of the Company, including their respective associates, (as defined under the GEM Listing Rules) is interested in any business which competes or may compete (directly or indirectly) with business of the Group or has or may have any conflicts of interests with the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and Supervisors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Report of the Directors

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on page 16 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Group for the year ended 31st December, 2005, has been removed and Messrs. SHINEWING (HK) CPA Limited were appointed as auditors of the Group. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. SHINEWING (HK) CPA Limited as the auditors of the Group.

By Order of the Board

Mr. Guo Qing Ren
Chairman

Xinjiang, PRC
16th February, 2007

Report of the Supervisory Committee

To: All Shareholders

During the year ended 31 December 2006, the Supervisory Committee of the Company (the "**Supervisory Committee**" or the "**Supervisors**") thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws, the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") and the articles of association of the Company (the "**Articles of Association**"). Adhering to the principles of safeguarding interests of the Shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the Board's decision on major issues and effectively monitoring the Board and senior management of the Company in performing their duties, and providing reasonable recommendation and advice on the operations and development plans of the Company.

The Supervisory Committee is of the view that:

1. the Company's operation in the year 2006 complied with the relevant laws and regulations of the state and local governments of the PRC and the provisions of the Articles of Association;

2. the Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles of Association, and had not conducted any activities which were against the interests of the Company;

3. the connected transactions of the Company, which have fully complied with the relevant provisions of the GEM Listing Rules, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;

4. The Supervisory Committee's role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the financial statements and accounts of the Company. The Supervisory Committee believe that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly, and that no improper disclosures were identified; and

5. The Supervisory Committee has verified the financial information such as the financial statements and reports of results to be submitted to the forthcoming General Meeting of shareholders by the Board, and was satisfied with the Report of the Directors and the audited financial statements. The Supervisory Committee believes that the audited financial statements for the year ended 31 December 2006 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

The Supervisory Committee would like to extend its appreciation to all shareholders of the Company, the Directors and members of staff for their strong support to the Supervisory Committee's work.

By order of the Supervisory Committee

Xia Yue Xing
Chairman

Xinjiang, the PRC
16th February, 2007

Independent Auditors' Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED
新疆天業節水灌溉股份有限公司
(incorporated in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of Xinjiang Tianye Water Saving Irrigation System Company Limited (''the Company'') and its subsidiaries (the ''Group'') set out on pages 38 to 70, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practicing Certificate Number: P04798

Hong Kong
16th February, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6	**461,809**	376,251
Cost of sales		**(366,601)**	(280,373)
Gross profit		**95,208**	95,878
Other operating income		**6,983**	336
Distribution costs		**(22,965)**	(18,512)
Administrative expenses		**(15,525)**	(11,197)
Other operating expenses		**(631)**	(305)
Profit from operations	8	**63,070**	66,200
Finance costs	9	**(3,840)**	(3,566)
Profit before taxation		**59,230**	62,634
Taxation	11	**824**	(7,595)
Profit for the year		**60,054**	55,039
Profit attributable to:			
Equity holders of the Company		**62,497**	52,658
Minority interests		**(2,443)**	2,381
		60,054	55,039
Dividends	12	**34,860**	34,883
Earnings per share — basic	13	**RMB0.13**	RMB0.17

Consolidated Balance Sheet

As at 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	14	**154,508**	159,331
Prepaid lease payments	15	**8,386**	755
Goodwill	16	**98**	98
		162,992	160,184
Current assets			
Inventories	17	**267,723**	189,619
Trade and other receivables	18	**163,341**	122,007
Bills receivable	19	**27,477**	16,000
Tax refundable		**4,315**	—
Bank balances and cash	20	**153,938**	53,933
		616,794	381,559
Current liabilities			
Trade and other payables	21	**88,158**	59,346
Dividend payable		**—**	5,526
Tax payables		**—**	4,946
Short-term bank borrowings	22	**55,500**	80,000
		143,658	149,818
Net current assets		**473,136**	231,741
Total assets less current liabilities		**636,128**	391,925
Non-current liability			
Government grants	32	**900**	900
Net assets		**635,228**	391,025
Capital and reserves			
Share capital	25	**519,522**	317,122
Reserves		**99,819**	61,886
Equity attributable to equity holders of the Company		**619,341**	379,008
Minority interests		**15,887**	12,017
Total equity		**635,228**	391,025

The consolidated financial statements on pages 38 to 70 were approved and authorised for issue by the Board of Directors on 16th February, 2007 and are signed on its behalf by:

Mr. Guo Qing Ren
Director

Mr. Shi Xiang Shen
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Share capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
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	519,522	10,296	14,695	—	74,828	619,341	15,887	635,228

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**59,230**	62,634
Adjustments for:		
Interest expenses	**3,840**	3,566
Interest income	**(2,209)**	(313)
Amortisation of prepaid lease payments	**38**	22
Depreciation of property, plant and equipment	**22,910**	22,379
Loss on disposal of property, plant and equipment	**770**	—
Listing expenses written off	**1,821**	—
Write-down for inventories	**—**	94
Gain arising from sale of equity investments	**(2,500)**	—
Allowance for trade receivables	**52**	1,343
Operating cash flow before movements in working capital	**83,952**	89,725
Increase in inventories	**(78,104)**	(12,607)
(Increase) decrease in trade and other receivables	**(41,386)**	39,452
Increase in bills receivable	**(11,477)**	(15,850)
Increase (decrease) in trade and other payables	**28,812**	(55,984)
Cash (used in) generated from operations	**(18,203)**	44,736
Tax paid	**(8,437)**	(6,025)
Interest paid	**(3,840)**	(3,566)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(30,480)**	35,145
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(18,857)**	(4,822)
Purchases of prepaid lease payments	**(7,669)**	(743)
Purchase of equity investments	**(35,000)**	—
Proceeds from sale of equity investments	**37,500**	—
Interest received	**2,209**	313
Advance to Tianye Holdings Group	**—**	5,683
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(21,817)**	431
FINANCING ACTIVITIES		
Issue of shares	**247,191**	—
Bank loans raised	**55,500**	80,000
Capital contributions from minority shareholders of subsidiaries	**6,600**	—
Repayment of bank loans	**(80,000)**	(60,000)
Dividends paid to equity holders of the Company	**(40,386)**	(29,357)
Listing expenses paid	**(36,316)**	—
Dividends paid to a minority shareholder of a subsidiary	**(287)**	(2,677)
Repayment to Tianye Holdings Group	**—**	(3,922)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**152,302**	(15,956)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**100,005**	19,620
CASH AND CASH EQUIVALENTS AT 1ST JANUARY,	**53,933**	34,313
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	**153,938**	53,933

Notes to the Consolidated 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 liabilities company (the ''Conversion''). On 28th February, 2006, the Company's H Shares are listed on the Growth Enterprise Market (''GEM'') of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'').

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

The Company and its subsidiaries are engaged in the development, manufacture, installation and sale of irrigation system and equipment. Details of it subsidiaries are set out in note 24.

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 to as the ''Tianye Holdings Group''.

The address of the registered office and principal place of business of the Company are disclosed in the section headed ''Corporate information'' of the Company's annual report.

The consolidated financial statements are presented in Renminbi (''RMB''), which is also 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 standards, 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 1st December, 2005 or 1st 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/ CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has also issued the following standards, amendments and interpretations that are not yet effective. In the opinion of the directors of the Company, the Group has considered the following standards, amendments 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[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury share Transactions[6]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st March, 2006.
3 Effective for annual periods beginning on or after 1st May, 2006.
4 Effective for annual periods beginning on or after 1st June, 2006.
5 Effective for annual periods beginning on or after 1st November, 2006.
6 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 consolidated financial statements have been prepared in accordance with HKFRSs. 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 by the Hong Kong Companies Ordinance.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities meet the conditions for recognition under HKFRS 3 ''Business Combinations'' are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of that year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent consolidated periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivables and represents amounts receivable from goods sold in the normal course of business, net of discounts and sales related taxes.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Sales of equity investments are recognised on a trade date basis when the risks and rewards of ownership are transferred and title has passed.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental payables under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

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

The tax currently payable is based on the results for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The liability for current tax of the Group is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences are related to goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the consolidated income statement, except which it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost, less any identified impairment loss. Costs includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until construction is completed and the assets are ready for their intended use. Construction in progress is transferred to the appropriate categories of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Other investments in equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the group entities become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition, transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Trade receivables, bills receivable and other current receivables

Trade receivables, bills receivable and other current receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

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

Trade payables and other current payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowance for trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Taxation

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank borrowings and bank balances and cash. The Group has various other financial instruments such as trade receivables, bills receivable and trade payables, which arise directly from its operations.

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

Commodity price risk

The Group is subject to risk from increases in the price of commodities, Polyethylene and Polyvinyl Chloride, by-products of petroleum which are used in the production of inventories. To minimise this risk, the Group enters into contracts with suppliers in advance and make prepayments to suppliers to secure future supplies.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances/deposits from these entities.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing borrowings. The Group's exposure to interest rate risk is minimal as all the Group's bank borrowings are at fixed interest rate.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Groups' exposure to liquidity risk is minimal.

6. 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:

	2006 RMB'000	2005 RMB'000
Drip films and drip assemblies	**301,148**	248,007
PVC/PE pipelines	**157,602**	123,785
Provision of installation services	**3,059**	4,459
	461,809	376,251

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.

7. 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.

8. PROFIT FROM OPERATIONS

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

9. FINANCE COSTS

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

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Emoluments of directors and supervisors

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

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

(a) Emoluments of directors and supervisors (Continued)

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

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

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 an employee of Tianye Holdings Group and received emoluments from Tianye Holdings Group during the year. For the year ended 31st December, 2006, the emoluments 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).

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

(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:

	2006	2005
	RMB'000	RMB'000
Salaries and other benefits	**900**	230
Retirement benefit scheme contributions	**57**	94
	957	324

During the year, no emoluments were paid by the Group to the five highest paid individuals, directors and supervisors 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).

11. 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年修定)》 (Industries currently encouraged to be developed by the State, Technical Catalog of Products) (2000 Revision) and that such business contributes to over 70% of its operating income (the ''Prescribed Business''), such entity is entitled to specific tax relief. Other than 石河子開發區天業節水工程安裝有限責任公司 (''Tianye Installation'') which business is not regarded as Prescribed Business, the entities comprising the Group satisfied these requirements and, on the assumptions that they will continue to meet these requirements in the relevant periods, these entities were entitled to certain tax relief as follows:

Name of entity	Notes	2006	2005
The Company	(i)	15%	15%
新疆石河子天業物資回收有限責任公司 (''Tianye Recycling'')	(ii)	33%	Exempted
甘肅省張掖市天業節水器材有限公司 (''Gansu Tianye'')	(iii)	15%	15%
Tianye Installation		33%	33%
新疆阿拉爾天農節水灌溉有限責任公司 (''Alaer Tiannong'')	(iv)	33%	Exempted
哈密天業紅星節水灌溉有限責任公司 (''Hami Tianye'')	(v)	15%	15%
廣東肇慶天業塑料製品有限公司 (''Zhaoqing Tianye'')		33%	N/A
新疆奎屯天屯節水有限責任公司 (''Kuitun Tiantun'')		33%	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;

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

11. TAXATION (Continued)

Notes: (Continued)

(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 (石國税辦[2004]59號《石河子國家税務局關於對石河子城區國家税務局八戶企業減免企業所得税的批覆》), Tianye Recycling is exempted from EIT for the two years ended 31st December, 2005. Accordingly, Tianye Recycling is subjected 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 (甘肅省國家税務局[2004]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税的批覆》阿克蘇市國税[2003]400號), issued by State Administration of Taxation of Akesu (阿克蘇市國家税務局), Alaer Tiannong was exempted from EIT for the three years ended 31st December, 2005. Accordingly, Alaer Tiannong is subjected 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 (哈國税辦[2005]32號《哈密地區國家税務局關於對哈密天業紅星節水灌溉有限責任公司減徵企業所得税的批覆》) issued by State Administration of Taxation of Hami Region (哈密地區國家税務局) on 28th January, 2005, Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1st January, 2004 to 31st December, 2007.

The EIT for the year ended 31st December, 2006 is calculated at the EIT rate applicable to each of the entities comprising the Group as shown above.

The Group is not subject to Hong Kong profits tax as the Group’s income neither arises in, nor is derived from, Hong Kong.

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

11. TAXATION (Continued)

The (credit)/charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**59,230**	62,634
Tax at the statutory EIT rate of 33%	**19,546**	20,670
Tax effect on income not taxable for tax purposes	**(490)**	—
Tax effect on expenses not deductible for tax purposes	**446**	3,122
Tax effect on deferred tax assets not recognised	**—**	348
Reduction of income tax in respect of the tax benefit on locally purchased machinery (Note)	**(9,539)**	—
Effect of tax exemption and reduction granted to the Group	**(9,372)**	(16,545)
Over-provision of tax in previous years	**(1,415)**	—
Tax (credit)/charge	**(824)**	7,595

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

Note: Pursuant to relevant PRC tax regulations and subject to the approval of the local tax authority, the Company can claim an additional deduction when calculating the income tax provision if machinery was purchased locally. A reduction of income tax in relation to the machineries locally purchased in 2004 amounting to approximately RMB16,668,000 was approved by the local tax bureau in July 2006. The Company has utilised such deduction to offset against the income tax provision for the year amounting to approximately RMB9,539,000.

12. 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 of the Company in respect of the year ended 31st December, 2006 and is subjected to the approval of shareholders in general meeting.

13. 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 on 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 dilutive shares outstanding during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1st January, 2005	5,312	17,843	201,108	2,466	1,087	227,816
Additions	3,435	3	1,144	143	97	4,822
Transfer	(5,099)	248	4,851	—	—	—
At 31st December, 2005 and 1st January, 2006	3,648	18,094	207,103	2,609	1,184	232,638
Additions	13,205	265	4,944	98	345	18,857
Transfer	(3,759)	304	3,455	—	—	—
Disposals	—	—	(1,071)	—	—	(1,071)
At 31st December, 2006	**13,094**	**18,663**	**214,431**	**2,707**	**1,529**	**250,424**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1st January, 2005	—	1,387	48,423	963	155	50,928
Provided for the year	—	775	21,113	417	74	22,379
At 31st December, 2005 and 1st January, 2006	—	2,162	69,536	1,380	229	73,307
Provided for the year	—	634	21,870	343	63	22,910
Disposals	—	—	(301)	—	—	(301)
At 31st December, 2006	**—**	**2,796**	**91,105**	**1,723**	**292**	**95,916**
NET BOOK VALUE						
At 31st December, 2006	**13,094**	**15,867**	**123,326**	**984**	**1,237**	**154,508**
At 31st December, 2005	3,648	15,932	137,567	1,229	955	159,331

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following rates are used for the depreciation of property, plant and equipment after considering their respective useful lives:

Buildings	20 to 40 years
Plant and machinery	8 to 14 years
Motor vehicles	6 years
Furniture, fixtures and equipment	5 years

The buildings of the Group are situated in the PRC.

The construction in progress of the Group represents buildings, plant and machinery under construction which are situated in the PRC.

At 31st December, 2005, plant and machinery of the Group with an aggregate net book value of RMB79,055,000 were pledged to secure bank borrowings granted to the Group and the pledge has been released during the year.

15. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1st January, 2005	40
Additions	743
At 31st December, 2005 and 1st January, 2006	783
Additions	7,669
At 31st December, 2006	**8,452**
Accumulated amortisation	
At 1st January, 2005	6
Provided for the year	22
At 31st December, 2005 and 1st January, 2006	28
Provided for the year	38
At 31st December, 2006	**66**
Net carrying amount	
At 31st December, 2006	**8,386**
At 31st December, 2005	755

The amount represented medium-term land use rights in the PRC and are amortised over the respective lease terms of the land use rights on a straight-line basis.

16. GOODWILL

	RMB'000
COST	
Balance at 31st December, 2005 and 2006	98

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

17. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**160,849**	113,350
Work in progress	**—**	—
Finished goods	**106,874**	76,269
	267,723	189,619

At 31 December 2005, the Group's finished goods of RMB5,399,000 (2006: nil) were carried at net realisable value.

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

18. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(i) As at 31st December, 2005, trade receivables of the Group include trade receivables from Tianye Holdings Group of RMB4,846,000 (2006: nil) which have been fully settled during the year ended 31st December, 2006. 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.

19. 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.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry fixed interest at prevailing market rates. Included in bank balances and cash as at 31st December, 2006 is amount of RMB35,000,000 (2005: nil) deposited in a financial institution. The directors consider that carrying amounts of these assets approximate their fair values.

21. TRADE AND OTHER PAYABLES

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

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

21. TRADE AND OTHER PAYABLES (Continued)

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.

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

22. SHORT-TERM BANK BORROWINGS

	2006 **RMB'000**	2005 RMB'000
Short-term bank borrowings are analysed as follows:		
Secured	**—**	25,000
Unsecured	**55,500**	55,000
	55,500	80,000

At the respective balance sheet dates, certain bank borrowings of the Group were guaranteed by Tianye Holdings Group, details of which are set out in note 30(b).

Bank loans of RMB55,500,000 as at 31st December, 2006 are at fixed interest rates ranging from 6.12% to 7.956% per annum during the year and expose the Group to fair value interest rate risk.

Bank loans of RMB80,000,000 as at 31st December, 2005 were at fixed interest rates ranging from 6.138% to 7.254% per annum during the year and were fully repaid during the year ended 31st December, 2006.

The above bank borrowings are all denominated in RMB. The directors consider that the carrying amounts of bank borrowings approximate their fair values.

23. BALANCE SHEET INFORMATION OF THE COMPANY

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

	2006 RMB'000	2005 RMB'000
Non-current assets		
Property, plant and equipment	**119,334**	126,267
Prepaid lease payments	**7,686**	—
Investments in subsidiaries	**50,265**	32,865
	177,285	159,132
Current assets		
Inventories	**234,687**	160,715
Trade and other receivables	**120,776**	90,866
Other current assets	**60,772**	45,318
Tax refundable	**4,315**	—
Bank balances and cash	**129,720**	33,080
	550,270	329,979
Current liabilities		
Other current liabilities	**65,347**	45,248
Short-term bank borrowings	**50,000**	74,000
	115,347	119,248
Net current assets	**434,923**	210,731
Total assets less current liabilities	**612,208**	369,863
Non-current liability		
Government grants	**900**	900
Net assets	**611,308**	368,963
Capital and reserves		
Share capital	**519,522**	317,122
Reserves	**91,786**	51,841
Total equity	**611,308**	368,963

24. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**50,265**	32,865

At 31st December, 2006, the Company has the following subsidiaries:

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Equity interest directly held by the Company	Principal activities
Tianye Recycling	25th September, 2002 The PRC	Limited liability company	RMB2,500,000	98%	Recycling of used materials
Gansu Tianye	4th April, 2002 The PRC	Limited liability company	RMB11,050,000	90%	Trading of PVC pipes
Tianye Installation	22nd December, 2003 The PRC	Limited liability company	RMB10,000,000	95%	Installation of irrigation system
Alaer Tiannong	6th August, 2002 The PRC	Limited liability company	RMB10,000,000	51%	Manufacture and sale of irrigation system and equipment
Hami Tianye (note (i))	15th October, 2003 The PRC	Limited liability company	RMB19,000,000	60%	Manufacture and sale of irrigation system and equipment
Zhaoqing Tianye (note (ii))	5th September, 2006 The PRC	Limited liability company	RMB3,000,000	80%	Recycling of used materials
Kuitun Tiantun (note (iii))	4th September, 2006 The PRC	Limited liability company	RMB12,000,000	80%	Manufacture and sale of irrigation system and equipment

Notes:

(i) On 30th August, 2006, the registered capital of Hami Tianye was increased from RMB10,000,000 to RMB19,000,000. Pursuant to a verification report dated 20th September, 2006, the increased amount of RMB9,000,000 has been fully paid up as to RMB5,400,000, representing 60% of the increased amount, by the Company on 19th September, 2006 and the remaining balance of RMB3,600,000 by the minority shareholder on 11th September, 2006.

24. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(ii) Zhaoqing Tianye was established under the laws of the PRC with limited liability on 5th September, 2006 with an operating period of ten years. The registered capital of Zhaoqing Tianye was RMB3,000,000 which is owned as to 80% by the Company and 20% by Zhaoqing Tifo New Fibre Co., Ltd.. Pursuant to a verification report dated 1st September, 2006, the registered capital has been fully paid up as to RMB2,400,000 by the Company and RMB600,000 by Zhaoqing Tifo New Fibre Co., Ltd., respectively in August 2006.

(iii) Kuitun Tiantun was established under the laws of the PRC with limited liability on 4th September, 2006 with an operating period of ten years. The registered capital of Kuitun Tiantun was RMB12,000,000 which is owned as to 80% by the Company and 20% by Xinjiang Production & Construction Corps No. 7 Division State-owned Assets Operation Company. Pursuant to a verification report dated 31st August, 2006, the registered capital has been fully paid up as to RMB9,600,000 by the Company and RMB2,400,000 by Xinjiang Production & Construction Corps No. 7 Division State-owned Assets Operation Company, respectively in August 2006.

25. SHARE CAPITAL

	2006		2005	
Ordinary shares of RMB1.00 each	No. of shares ('000)	RMB'000	No. of shares ('000)	RMB'000
Authorised:				
At 1st January	317,122	317,122	317,122	317,122
Increase during the year	202,400	202,400	—	—
At 31st December	519,522	519,522	317,122	317,122
Issued and fully paid:				
At 1st January	317,122	317,122	317,122	317,122
Issue of H shares through placing	202,400	202,400	—	—
At 31st December	519,522	519,522	317,122	317,122

Pursuant to the prospectus of the Company dated 21st February, 2006 (the "Prospectus"), the Company issued and placed 176,000,000 H Shares of RMB1.00 each at HK$1.18 per H Share (the "Placing"). In addition, Sun Hung Kai International Limited ("Sun Hung Kai", for itself and on behalf of the Underwriters as set out in the Prospectus) exercised the over-allotment option granted by the Company as set out in the Prospectus in full on 23rd March, 2006, accordingly, the Company allotted and issued an additional 26,400,000 H Shares of RMB1.00 each at the Placing price of HK$1.18 per H Share on the same date. Such new shares rank pari passu in all aspects with the existing shares.

26. RESERVES

(i) As stipulated by the relevant laws and regulations in the PRC, each of the entities comprising the Group is required to set aside 10% of its net profit for a statutory reserve fund (except where the reserve balance has reached 50% of the contributed capital of the relevant entity).

The statutory reserve fund can be used to:

- make up prior periods' losses; and
- convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory reserve fund does not fall below 25% of the contributed capital of the relevant entity.

(ii) The appropriation to the statutory reserve fund has been made in accordance with the reported profits of the relevant entity prepared under the PRC accounting standards and regulations.

Profit of the Company is to be appropriated in the following sequence:

- Set-off against prior years' losses;
- transfer to statutory reserve fund; and
- distribution of dividends.

27. CAPITAL COMMITMENTS

	2006 **RMB'000**	2005 RMB'000
Capital expenditure of the Group in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,657**	865

28. RETIREMENT BENEFIT SCHEMES

The employees of the Group are members of state-managed retirement benefit schemes (the ''Schemes'') operated by the PRC government. The Group is required to contribute 20% of the applicable payroll costs of permanent employees to the Schemes to fund the benefits. The only obligation of the Group with respect to the Schemes is to make the required contributions under the Schemes.

29. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	2006 RMB'000	2005 RMB'000
Plant and machinery	280	280
Premises	1,531	1,965
	1,811	2,245

At the respective balance sheet dates, the Group had commitments for future minimum lease payment under non-cancellable operating lease which fall due as follows:

	2006 RMB'000	2005 RMB'000
Within one year	1,940	1,859
In second to fifth year inclusive	1,588	2,773
	3,528	4,632

Operating lease payments represent rentals payable by the Group for a factory premise and an office premise. Leases are negotiated for an average term of ten years and rentals are fixed for an average of ten years.

30. RELATED PARTY TRANSACTIONS

(a) Transactions

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

Nature of transactions/business	Note	2006 RMB'000	2005 RMB'000
Sales of finished goods		13,537	17,872
Purchase of raw materials		59,741	59,034
Purchases of property, plant and equipment		—	2,145
Rentals of plant and machinery		280	280
Rentals of premises	(i)	1,464	1,464
Interest income		—	2
Interest expenses		—	186

30. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions (Continued)

Note:

(i) Pursuant to an agreement entered into by the Company and Tianye Company in 2002 which expires on 31st October, 2012, the Company is obliged to pay an annual rental of RMB83,000 to Tianye Company for the use of a piece of land on which certain of the Company's buildings are erected. The rental for the year ended 31st December, 2005 has been included in the rental of premises above. The agreement was terminated effective from 1st January, 2006.

(b) Corporate guarantees

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

	2006 RMB'000	2005 RMB'000
Tianye Holdings Group	**50,000**	2,000

(c) Balances

Details of the balances with related parties are set out on the consolidated balance sheet and notes 18 and 21.

(d) Compensation to key management personnel

The remuneration paid to the directors, supervisors and other key management personnel of the Company are as follows:

	2006 RMB'000	2005 RMB'000
Directors and supervisors (Note)	**550**	286
Other key management personnel	**191**	184
Total	**741**	470

Note: Details of the remuneration paid to the directors and supervisors are set out in note 10 to the consolidated financial statements.

31. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (''state-controlled entities''). In addition, the Group itself is part of a larger group of companies under Tianye Holdings which is controlled by the PRC government. Apart from the transactions with Tianye Holdings and fellow subsidiaries disclosed in note 30 above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

31. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC (Continued)

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

(a) Material transactions

Nature of transactions	2006 RMB'000	2005 RMB'000
Sales of goods	**297,763**	240,760
Purchase of raw material	**191,605**	70,475
Purchase of property, plant and equipment	**7,700**	—
Interest expense	**3,840**	3,912

(b) Material balances

	2006 RMB'000	2005 RMB'000
Bank balances	**118,938**	53,933
Trade and other receivables	**82,439**	82,102
Trade and other payables	**7,970**	13,173
Bank borrowings	**55,500**	80,000

(c) As at 31st December, 2005, a state-controlled enterprise had provided corporate guarantee to a bank in respect of a bank loan granted to the Group as follows:

	2006 RMB'000	2005 RMB'000
Guarantee provided	**—**	49,000

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

32. GOVERNMENT GRANTS

During the year ended 31st December, 2003, the Group received government grants of RMB900,000 which were designated for the development of two specific water efficient irrigation system projects. During the two years ended 31st December, 2006, these projects were in progress and the related costs incurred by the Group in relation to these projects were capitalised as property, plant and equipment. As the relevant assets have not been put in use, the government grants were not recognised as income during the year and they were accounted for as a non-current liability at the respective balance sheet dates.

Five Years Financial Summary

The table below summarises the audited results, assets and liabilities of the Group for the year ended 31st December, 2006, 2005, 2004, 2003 and 2002. Such information are compiled based on a consolidated basis. The information from the year 2006, 2005, 2004 and 2003 are compiled based on the Hong Kong Financial Reporting Standards while those from the year 2002 is compiled based on China Accounting Standards.

RESULTS

	2006 **RMB'000**	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	**461,809**	376,251	389,183	241,878	137,593
Profit Attributable to Shareholders of the Company	**62,497**	52,658	42,432	23,537	31,755

ASSETS AND LIABILITIES

	2006 **RMB'000**	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total Assets	**779,786**	541,743	557,074	464,226	370,456
Total Liabilities	**144,558**	150,718	183,528	134,983	173,426
Minority Interest	**(15,887)**	(12,017)	(12,313)	(1,563)	(0)
Equity Attributable to Equity holders of the Company	**619,341**	379,008	361,233	327,680	197,030

Property

PROPERTY INTERESTS HELD BY THE GROUP IN THE PRC

Commercial Property	Lease term	Percentage of interests attributable to the Group	Floor Area (sq.m.)
1. A parcel of land and various buildings erected thereon, West of Qing Song Nan Road and North of Sheng Li Boulevard, Alaer Shi, Xinjiang Uygur Autonomous Region the PRC	Long	51%	3,207.54 sq.m.
2. A parcel of land and various buildings and structures erected thereon, No. 1 Hong Guang Road, Hami Shi, Xinjiang Uygur Autonomous Region the PRC	Medium	60%	4,600.86 sq.m.