



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

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31ST MARCH 2007

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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

Summary

- For the three months ended 31st March 2007, the Group recorded an unaudited profit attributable to equity holders of the Company of approximately RMB9,860,000, representing an increase of approximately RMB1,100,000 or 12.56% as compared to the corresponding period in 2006 of approximately RMB8,760,000;
- The Board does not recommend the payment of interim dividend for the three months ended 31st March 2007;
- For the three months ended 31st March 2007, the basic earnings per share was approximately RMB0.019.

The board (the “Board”) of Directors hereby announced the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31st March 2007, together with the comparative figures of the unaudited consolidated results for the corresponding period in 2006 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		For the three months ended 31st	
		March	
	Notes	2007 RMB'000	2006 RMB'000
Turnover	3	116,883	107,027
Cost of sales		(95,516)	(84,779)
Gross profit		21,367	22,248
Other operating income		842	254
Distribution costs		(5,662)	(7,452)
Administrative expenses		(4,419)	(3,104)
Other operating expenses		(551)	(11)
Profit from operations		11,577	11,935
Finance costs	4	(1,150)	(1,176)
Profit before taxation		10,427	10,759
Taxation	5	(382)	(1,798)
Profit for the period		10,045	8,961
Profit attributable to:			
Equity holders of the Company		9,860	8,760
Minority interests		185	201
		10,045	8,961
Dividends	6	—	—
Earnings per share — basic	7	RMB0.019	RMB0.023

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

For the three months ended 31st March 2007

1. BASIS OF PREPARATION

The Company 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. On 28th February 2006, the Company's H Shares are listed on the GEM.

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

The unaudited consolidated financial results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The unaudited consolidated results have been prepared on the historical cost basis except for financial instruments, which are initially measured at fair values.

The unaudited consolidated financial results are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

2. ACCOUNTING POLICIES

The accounting policies adopted in preparing the unaudited consolidated financial results were in consistent with those applied for the annual financial report of the Group for the year ended 31st December 2006.

3. 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 period, and is analysed as follows:

	For the three months ended 31st March	
	2007	2006
	RMB'000	RMB'000
Drip films and drip assemblies	77,609	80,178
PVC/PE pipelines	39,214	26,849
Provision of installation services	60	—
	<u>116,883</u>	<u>107,027</u>

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

4. FINANCE COST

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

5. TAXATION

The amounts represent provision for the PRC Enterprise Income Tax ("EIT") on the estimated assessable profit of the Group for the three months ended 31st March 2007.

During each of the three months ended 31st March 2007 and 31st March 2006, pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to EIT of 33%.

Pursuant to 《中華人民共和國外商投資企業和外國企業所得稅法》, the Company is exempted from EIT for the two years ended 31st December 2008 and reduce half of the EIT tax rate for the period from 1st January 2009 to 31st December 2011.

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 202”), for an entity operated in the western part of the PRC which is mainly engaged in the business prescribed in 《當前國家重點鼓勵發展的產業、產品的技術目錄(2000年修訂)》(Industries currently encouraged to be developed by the State, Technical Catalog of Products) (2000 Revision) and that such business contributes to over 70% of its operating income, such entity is entitled to specific tax relief. Certain 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:

Pursuant to Notice No. 202 and Approval Application Document [2002] No. 44 issued by the State Administration of Taxation of Gansu Province (甘肅國家稅務局[2002]44號批文), 甘肅省張掖市天業節水器材有限公司 granted a reduced EIT tax rate of 15% for the period from 1st January 2002 to 31st December 2010.

Pursuant to “Approval of EIT Exemption of State Administration of Taxation of Hami Region to Hami Tianye Hongxing Water Saving Irrigation Company Limited”, Ha Guo Shui Ban [2005] No. 32 (哈國稅辦[2005]32號《哈密地區國家稅務局關於對哈密天業紅星節水灌溉有限責任公司減徵企業所得稅的批覆》) issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局) on 28th January 2005, 哈密天業星節水灌溉有限責任公司 was granted a reduced EIT tax rate of 15% for the period from 1st January 2004 to 31st December 2007.

The other companies of the Group are subject to EIT of 33%.

6. DIVIDENDS

The Board does not recommend the payment of interim dividend for the three months ended 31st March 2007 (corresponding period in 2006: nil).

7. BASIC EARNING 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 RMB9,860,000 (corresponding period in 2006: RMB8,760,000) and on the weighted average number of 519,521,560 (corresponding period in 2006: 382,046,004) ordinary shares in issue during the period.

8. RESERVES

	Share premium RMB'000 (unaudited)	Statutory reserve fund RMB'000 (unaudited)	Statutory welfare fund RMB'000 (unaudited)	Accumulated profit RMB'000 (unaudited)	Total RMB'000 (unaudited)
At 1st January 2006	—	5,503	2,752	53,631	61,886
Profit for the period and total recognised income for the period	—	—	—	8,760	8,760
Issue of H shares through placing	10,000	—	—	—	10,000
Dividends declared to equity holders of the Company	—	—	—	(34,860)	(34,860)
Transfer	—	5,178	2,589	(7,767)	—
At 31st March 2006	10,000	10,681	5,341	19,764	45,786
At 1st January 2007	10,296	14,695	—	74,828	99,819
Profit for the period and total recognised income for the period	—	—	—	9,860	9,860
Dividends declared to equity holders of the Company	—	—	—	(18,702)	(18,702)
Transfer	—	7,767	—	(7,767)	—
At 31st March 2007	10,296	22,462	—	58,219	90,977

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months ended 31st March 2007, the Group recorded an unaudited turnover of approximately RMB116,883,000, representing an increase of about 9.21% from the unaudited turnover of approximately RMB107,027,000 for the corresponding periods last year. The increase of turnover was mainly due to the increase of sales in the Group's agricultural water-saving pipes.

Gross Profit

For the three months ended 31st March 2007, the unaudited gross profits reached approximately RMB21,367,000 with a gross profits margin of about 18.28%, while the unaudited gross profits and gross profits margin were approximately RMB22,248,000 and 20.79% respectively for the corresponding period last year. The corresponding decrease of gross profit margin was 2.51%, which was mainly due to the increase in the cost of recycling of drip films, resulting in an increase of production cost and a decrease in gross profits margin.

Operating Costs and Expenses

The distribution costs decreased by approximately RMB1,790,000 or about 24.02% from RMB7,452,000 for the corresponding period in 2006 to approximately RMB5,662,000 for the three months ended 31st March 2007. The decrease was mainly due to the decrease in traveling expenses and business entertainment fees of approximately RMB1,770,000.

The administration expenses increased by approximately RMB1,315,000 or about 42.36% from RMB3,104,000 for the corresponding period in 2006 to approximately RMB4,419,000 for the three months ended 31st March 2007. It was mainly resulted from the increase in related expenses incurred after the Company's H shares listed on the GEM.

The finance costs slightly decreased by approximately RMB26,000 or about 2.21% from RMB1,176,000 for the corresponding period in 2006 to approximately RMB1,150,000 for the three months ended 31st March 2007.

The unaudited profit attributable to equity holders of the Company increased by approximately RMB1,100,000 or about 12.56% from approximately RMB8,760,000 for the corresponding period in 2006 to approximately RMB9,860,000 for the three months ended 31st March 2007.

Prospects

The Directors expects, with the rapid economic growth in the PRC, the supply of water resources is being intensified. Focusing on the large consumption of water in irrigation but less effectiveness in the agricultural industry of the PRC, a change in agricultural irrigation could release the demand of water supply and the waste of water in the PRC, which, in turn, enhances the utilisation of water for achieving a quality and effective agricultural industry for today and the future.

For the three months ended 31st March, 2007, the sales of agricultural water saving irrigation products of the Group maintained a sustainable growth as compared to the corresponding period last year. The Group will strengthen its competitive edge by the application of new technologies and materials with an aim to expand its market share.

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

As at 31st March 2007, the interests of the Directors, supervisors (the "Supervisors") (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong) has applied to the Supervisors) or chief executives of the Company, including their respective associates, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as record 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 interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation as at 31st March 2007.

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

So far as is known to the Directors, the Supervisors and chief executives of the Company, as at 31st March 2007, none of the Directors, the Supervisors or chief executives of the Company or any of their respective associates (including spouses and children under 18 years of age) had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares of the Company.

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

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

As at 31st March 2007, 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. The letter "L" denotes the person's/entity's long positions in the shares of the Company.
2. The approximate percentage of shareholding is calculated with reference to the total issued share of 519,521,560 shares of the Company (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 of the Company 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 of the Company held by Tianye Company.
5. The domestic shares held by Li Tai Lai were equivalent to approximately 29.64% of the total domestic shares of the Company 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 Lai, is deemed to be interested in 93,994,831 domestic shares of the Company held by Li Tai Lai.

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

As at 31st March 2007, 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	18,196,000(L)	3.50% (Note 3)
Value Partners Limited	Corporate	Investment manager	16,338,000(L)	3.14% (Note 4)
Cheah Cheng Hye (Note 5)	Personal	Interest in controlled corporation	16,338,000(L)	3.14%
Dreyfus Premier Greater China Fund	Corporate	Investment manager	13,982,000(L)	2.69% (Note 6)
BNP Paribas Asset Management	Corporate	Investment manager	12,954,000(L)	2.49% (Note 7)

Notes:

1. The letter "L" denotes the person's/entity's long positions in the shares of the Company.
2. The approximately percentage of shareholding is calculated with reference to the total issued share of 519,521,560 shares of the Company (including domestic shares and H shares).
3. The H shares held by Fidelity International Limited were equivalent to approximately 8.99% of the total H shares of the Company in issue.
4. The H shares held by Value Partners Limited were equivalent to approximately 8.07% of the total H shares of the Company in issue.
5. The H shares were held by Value Partners Limited. By virtue of the SFO, Cheah Cheng Hye, who is interested in approximately 35.65% of the registered capital of Value Partners Limited, is deemed to be interested in the 16,338,000 H shares of the Company held by Value Partners Limited.
6. The H shares held by Drefus Premier Greater China Fund were equivalent to approximately 6.91% of the total H shares of the Company in issue.
7. The H shares held by BNP Paribas Asset Management were equivalent to approximately 6.40% of the total H shares of the Company in issue.

Save as disclosed above, as at 31st March 2007, the Directors were not aware of any persons (other than the Directors, the Supervisors and chief executive of the Company) who had an interest and short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTEREST

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

INTERESTS OF THE COMPLIANCE ADVISER

Based on the latest information and notices from Sun Hung Kai International Limited, the Company's compliance adviser, pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules, as at 31st March 2007, neither Sun Hung Kai International Limited nor its directors, employees or associates had any interests in the share capital of the Company. Pursuant to an agreement dated 20th February 2006 entered into between Sun Hung Kai International Limited and the Company (the "Agreement"), Sun Hung Kai International Limited received and will receive fees for acting as the Company's compliance adviser for a term expiring on the date on which the Company distributes the annual report for the second full financial year after its listing on 28th February 2006, or for the period until the termination under the terms and conditions of the Agreement.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company (the "Audit Committee") include reviewing and monitoring the financial reporting procedures and internal control system of the Group. As at 31st March 2007, the Audit Committee comprises three independent non-executive Directors, namely Messrs. He Lin Wang, Xia Jun Min and Gu Lie Feng.

The unaudited consolidated financial results of the Group for the three months ended 31st March 2007 have been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results have been complied with the applicable accounting standards and requirements and have contained adequate disclosures.

The unaudited consolidated financial results of the Group for the three months ended 31st March 2007 have not been reviewed by the external auditors of the Company.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31st March 2007, the Company has adopted the code of conduct for securities transactions by the Directors (the "Code"), which terms are no less than the required terms for dealings of Shares by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. In addition, the Company has made specific inquiries of all the Directors, and has not been notified of any non-compliance with the Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the three months ended 31st March 2007, the Company and/or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Guo Qing Ren
Chairman

Xinjiang, the PRC, 27th April 2007