



新疆天业节水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8280)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH JUNE, 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 requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

* for identification purpose only

SUMMARY

- For the three months ended 30th June, 2007, the Group recorded an unaudited profit attributable to equity holders of the Company of approximately RMB21,644,000, representing an increase of approximately 24.62% as compared to the unaudited profit attributable to equity holders of the Company of approximately RMB17,368,000 for the corresponding period in 2006.
- For the six months ended 30th June, 2007, the Group recorded an unaudited net profit attributable to equity holders of the Company of approximately RMB31,504,000, representing an increase of approximately 20.58% as compared to the profit attributable to equity holders of the Company of approximately RMB26,128,000 for the corresponding period in 2006.
- The Board does not recommend the payment of interim dividend for the period ended 30th June, 2007.
- For the three months and six months ended 30th June, 2007, the basic earnings per share were RMB0.042 and RMB0.061 respectively.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

The board (the “Board”) of Directors is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June, 2007, together with the comparative figures of unaudited consolidated results for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	For the three months ended 30th June,		For the six months ended 30th June,	
		2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover	3	180,322	150,689	297,205	257,716
Cost of sales		<u>(148,121)</u>	<u>(123,485)</u>	<u>(243,637)</u>	<u>(208,264)</u>
Gross profit		32,201	27,204	53,568	49,452
Other operating income		1,398	352	2,240	606
Distribution costs		(4,884)	(3,897)	(10,546)	(11,349)
Administrative expenses		(5,246)	(2,343)	(9,665)	(5,447)
Other operating expenses		<u>(22)</u>	<u>(18)</u>	<u>(573)</u>	<u>(29)</u>
Profit from operations	5	23,447	21,298	35,024	33,233
Finance costs		<u>(1,538)</u>	<u>(875)</u>	<u>(2,688)</u>	<u>(2,051)</u>
Profit before taxation		21,909	20,423	32,336	31,182
Taxation	6	<u>199</u>	<u>(2,991)</u>	<u>(183)</u>	<u>(4,789)</u>
Profit for the period		<u>22,108</u>	<u>17,432</u>	<u>32,153</u>	<u>26,393</u>
Attributable to					
Equity holders of the Company		21,644	17,368	31,504	26,128
Minority interests		<u>464</u>	<u>64</u>	<u>649</u>	<u>265</u>
		<u>22,108</u>	<u>17,432</u>	<u>32,153</u>	<u>26,393</u>
Dividends	7	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share					
— Basic	8	<u>RMB0.042</u>	<u>RMB0.033</u>	<u>RMB0.061</u>	<u>RMB0.058</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June, 2007 RMB'000 (Unaudited)	As at 31st December, 2006 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	157,926	154,508
Prepaid lease payments		8,297	8,386
Goodwill		98	98
		<u>166,321</u>	<u>162,992</u>
Current assets			
Inventories		291,734	267,723
Trade and other receivables	10	246,844	163,341
Bills receivable	11	39,540	27,477
Tax refundable		8,399	4,315
Bank balances and cash		155,022	153,938
		<u>741,539</u>	<u>616,794</u>
Current liabilities			
Trade and other payables	12	148,615	88,158
Short-term bank borrowings		110,000	55,500
		<u>258,615</u>	<u>143,658</u>
Net current assets		<u>482,924</u>	473,136
Total assets less current liabilities		649,245	636,128
Non-current liabilities			
Government grants		900	900
Net assets		<u>648,345</u>	<u>635,228</u>
Capital and reserves			
Share capital		519,522	519,522
Reserves		112,620	99,819
Equity attributable to equity holders of the Company		632,142	619,341
Minority interests		16,203	15,887
Total equity		<u>648,345</u>	<u>635,228</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Capital <i>RMB'000</i> (Unaudited)	Share premium <i>RMB'000</i> (Unaudited)	Statutory reserve fund <i>RMB'000</i> (Unaudited)	Statutory welfare fund <i>RMB'000</i> (Unaudited)	Accumulated profits <i>RMB'000</i> (Unaudited)	Attributable to equity holders of the Company <i>RMB'000</i> (Unaudited)	Minority interests <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
At 1st January, 2006	317,122	—	5,503	2,752	53,631	379,008	12,017	391,025
Issue of H shares through placing	202,400	10,000	—	—	—	212,400	—	212,400
Profit for the period and total recognised income for the period	—	—	—	—	26,128	26,128	265	26,393
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)
Advance from a minority shareholder	—	—	—	—	—	—	(1,493)	(1,493)
Transfer	—	—	5,178	2,589	(7,767)	—	—	—
At 30th June, 2006	<u>519,522</u>	<u>10,000</u>	<u>10,681</u>	<u>5,341</u>	<u>37,132</u>	<u>582,676</u>	<u>10,502</u>	<u>593,178</u>
At 1st January, 2007	519,522	10,296	14,695	—	74,828	619,341	15,887	635,228
Profit for the period and total recognised income for the period	—	—	—	—	31,504	31,504	649	32,153
Dividends declared to equity holders of the Company	—	—	—	—	(18,703)	(18,703)	—	(18,702)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(333)	(333)
Transfer	—	—	7,767	—	(7,767)	—	—	—
At 30th June, 2007	<u>519,522</u>	<u>10,296</u>	<u>22,462</u>	<u>—</u>	<u>79,862</u>	<u>632,142</u>	<u>16,203</u>	<u>648,345</u>

CONDENSED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	2007 RMB'000 (Unaudited)	2006 <i>RMB'000</i> (Unaudited)
Net cash (used in) from operating activities	(20,343)	53,625
Net cash used in investing activities	(14,037)	(6,430)
Net cash from financing activities	35,464	177,883
	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,084	225,078
Cash and cash equivalents at 1st January	153,938	53,933
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	155,022	279,011
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL REPORT

For the six months ended 30th June, 2007

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The Company was established as a limited liability company in the People's Republic of China (the "PRC") in 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 Share was 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 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 mainly engaged in the development, manufacture, installation and sale of irrigation system and equipment.

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

The unaudited condensed consolidated financial reports have been prepared in accordance with the 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 condensed consolidated financial reports have been prepared on the historical cost basis except for financial instruments, which are initially measured at fair values.

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

2. ACCOUNTING POLICIES

The accounting policies adopted in preparing the unaudited condensed consolidated financial report 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		For the six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Drip films and drip assemblies	124,832	101,394	202,441	180,748
PVC/PE pipelines	53,586	49,256	92,800	76,929
Provision of installation services	1,904	39	1,964	39
	180,322	150,689	297,205	257,716

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.

* for identification purpose only

4. BUSINESS AND GEOGRAPHICAL SEGMENT

During the period, the sole principal activity of the Group was the development, manufacture, installation and sale of irrigation system and equipment in the PRC and accordingly, no analysis of business and geographical segment is presented.

5. PROFIT FROM OPERATIONS

	For the three months ended		For the six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operation has been arrived				
at after charging:				
Depreciation	5,827	5,796	11,702	11,426
And after crediting:				
Bank interest income	156	352	370	606

6. TAXATION

	For the three months ended		For the six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	(199)	2,991	183	4,789

According to the PRC law, the Company and its subsidiaries are subject to 33% PRC enterprise income tax ("EIT").

Pursuant to Section 8 of the "Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises" (《中華人民共和國外商投資企業所得稅法》) and the "Notice regarding Certain Implement Issues of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises" (State Tax Bureau of Shihezi Development Zone (Kai Guo Shui Ban [2006] No.72) (《關於外商投資企業和外國企業所得稅法若干執行問題的通知》)(石河子開發區國稅局)(開國稅辦[2006] 72號), the Company is exempted for EIT from 2007 to 2008 and shall be exempted for half of its EIT from 2009 to 2011.

Pursuant to the "Provisional Regulations for Investments in PRC by Enterprises with Foreign Investment" (《關於外商投資企業境內投資的暫行規定》), "Approval Notice for the Transaction of Taxation Issue related to Enterprise Income Tax from State Tax Bureau of Ganzhou District" (Gan Qu Kuo Shui Pi Zi [2007] No.001 (《甘州區國稅局企業所得稅務處理事項批覆通知書》), (甘區國稅批字[2007] 001號) our subsidiary, 甘肅天業節水器材有限公司 is exempted from EIT during the period from April 2007 to December 2007.

Pursuant to "Notice of Problem on Certain Incentives Policy on the Development of Western China" Cai Shui Zi [2001] No. 202 (《關於西部大開發稅收優惠政策問題的通知》)(財稅字[2001] 202號)), issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of the Customs (海關總署), for an entity operated in the western part of the PRC which is primarily engaged in the businesses prescribed in "Catalogue of Industries, Products and Techniques Heavily Encouraged by the State (amended in 2000)" (《當前國家重點鼓勵發展的產業、產品的技術目錄(2000年修訂)》) and that such business contributes to over 70% of its operating income, such entity is entitled to specific tax relief. Our subsidiary, 哈密天業紅星節水灌溉有限責任公司, complied with such requirements and was granted a reduced tax rate of 15% for the period from 1st January, 2004 to 31st December, 2007.

7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2007 (corresponding period in 2006: nil).

8. BASIC EARNING PER SHARE

The calculations of basic earnings per share for the three months ended 30th June, 2007 are based on the Group's profit attributed to equity holders of the Company of approximately RMB21,644,000 (corresponding period in 2006: approximately RMB17,368,000) and on the weight average number of 519,521,560 (corresponding period in 2006: 519,521,560) ordinary shares in issue during the period.

The calculations of basic earnings per share for the six months ended 30th June, 2007 are based on the Group's profit attributed to equity holders of the Company of approximately RMB31,504,000 (corresponding period in 2006: approximately RMB26,128,000) and on the weighted average number of 519,521,560 (corresponding period in 2006: 451,163,549) ordinary shares in issue during the period.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB15,120,000 (corresponding period in 2006: RMB7,036,000) on the purchase of the property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

Sales to customers are normally on cash basis. The credit terms to certain stable customers are normally one year.

Included in trade and other receivables of the Group were trade receivables (less allowances) with the following aging analysis:

	As at 30th June, 2007 RMB'000	As at 31st December, 2006 RMB'000
Aged:		
Within 1 year	153,509	105,725
1-1.5 years	2,323	5,612
1.5-2 years	<u>1,201</u>	<u>—</u>
Trade receivables	157,033	111,337
Other receivables and prepayments	22,189	26,944
Prepayments to suppliers (<i>note i</i>)	<u>67,622</u>	<u>25,060</u>
	<u><u>246,844</u></u>	<u><u>163,341</u></u>

Notes:

- (i) Pursuant to a contract entered into between the Company and Tianye Company in November 2004, prepayments to suppliers of the Group as at 30th June, 2007 include prepayments paid to Tianye Holdings Group of approximately RMB6,078,000 (at 31st December, 2006: approximately RMB1,273,000) for sourcing and supply of raw materials. All balance aged within one year from the respective balance sheet date.

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

11. BILL RECEIVABLE

Bills receivable aged within one year from the respective balance sheet dates. The Directors consider that the carrying amounts of bills receivable approximate to their fair values.

12. TRADE AND OTHER PAYABLES

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

	As at 30th June, 2007 RMB'000	As at 31st December, 2006 RMB'000
Aged:		
0–180 days	72,226	11,147
181–365 days	6,737	31,693
1–2 years	1,264	2,324
Over 2 years	<u>3,697</u>	<u>1,419</u>
	83,924	46,583
Other payables and accruals	11,786	11,360
Deposits and prepayments received from customers	<u>52,905</u>	<u>30,215</u>
	<u>148,615</u>	<u>88,158</u>

As at 30th June, 2007, trade payables of the Group include trade payables to Tianye Holdings Group of approximately RMB11,882,000 (at 31st December, 2006: approximately RMB517,000). The balance aged within one year from respective balance sheet dates.

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

13. CAPITAL COMMITMENT

	As at 30th June, 2007 RMB'000	As at 31st December, 2006 RMB'000
Capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the unaudited condensed consolidated financial reports	<u>24,349</u>	<u>2,657</u>

14. RELATED PARTY TRANSACTIONS

(a) Transactions

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

Nature of transaction/business	For the six months ended	
	30th June, 2007 RMB'000	2006 RMB'000
Sales of finished goods	14,050	6,485
Purchase of raw material	18,469	4,810
Rentals of plant and machinery	140	140
Rentals of premises	<u>732</u>	<u>732</u>

(b) **Corporate guarantee**

The Group's banking facilities were secured by the corporate guarantee given by the following company:

	For the six months ended	
	30th June,	
	2007	2006
	RMB'000	RMB'000
Tianye Holdings Group	80,000	—

(c) **Balances**

Details of the balances of related party are set out on the unaudited condensed consolidated balance sheet and notes 10 and 12.

(d) **Compensation to key management personnel**

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

	For the six months ended	
	30th June,	
	2007	2006
	RMB'000	RMB'000
Directors and supervisors	237	282
Other key management personnel	100	97
Total	337	379

15. **MAJOR 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 Enterprises"). 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 14 above, the Group also conducts business with other State-controlled Enterprises. The directors consider those State-controlled Enterprises are independent third parties so far as the Group's business transactions with them are concerned.

In establishing the pricing strategies and approval process for transactions with other State-controlled Enterprises, the Group does not differentiate whether or not the counterparty is a State-controlled Enterprises.

Material transactions/balances with other State-controlled Enterprises are as follows:

(a) **Material transactions**

	For the six months ended	
	30th June,	
	2007	2006
	RMB'000	RMB'000
Nature of transaction		
Sales of finished goods	295,828	207,904
Purchases of raw material	92,119	55,183
Interest expenses	2,512	1,838

(b) **Material balances**

	For the six months ended	
	30th June,	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances	152,022	279,011
Trade and other receivables	137,452	177,915
Trade and other payables	22,548	78,197
Bank borrowings	110,000	51,000

Except as disclosed above, the Directors are of the opinion that the transactions with other State-controlled Enterprises are not significant to the Group's operation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the three months and six months ended 30th June, 2007, the Group recorded an unaudited turnover of approximately RMB180,322,000 and RMB297,205,000 respectively, representing an increase of approximately 19.67% and 15.32% from the unaudited turnover of RMB150,689,000 and RMB257,716,000 for the corresponding period in last year. The increase of turnover was mainly due to the increase of the sales of the Company's products in the market.

Gross Profit

For the six months ended 30th June, 2007, the unaudited gross profits reached approximately RMB53,568,000 with a gross profits margin of about 18.02%, while the unaudited gross profits and gross profits margin were approximately RMB49,452,000 and 19.19% respectively for the corresponding period last year. The gross profit margin was decreased by 1.17%, and such decrease was mainly due to the changes in crude oil prices. The purchase cost of raw materials increased in 2007 as compared to 2006 for the Group, resulting in the increase of production cost and a slight decrease in gross profits margin.

Operating Costs and Expenses

The distribution costs were decreased by approximately RMB803,000 or about 7.08% from RMB11,349,000 for the six months ended 30th June, 2006 to approximately RMB10,546,000 for the six months ended 30th June, 2007. It was mainly because of the decrease in travelling expenses and business entertainment fees.

The administration expenses were increased by approximately RMB4,218,000 or about 77.44% from RMB5,447,000 for the six months ended 30th June, 2006 to approximately RMB9,665,000 for the six months ended 30th June, 2007. It was mainly resulted from the increase of wages and benefits expenses and the increase in related expenses incurred after the Company's H Share listed on the GEM.

The finance costs were increased by approximately RMB637,000 or about 31.06% from RMB2,051,000 for the six months ended 30th June, 2006 to approximately RMB2,688,000 for the six months ended 30th June, 2007. It was mainly due to the increase of the Company's borrowings of RMB59,000,000 when compared with corresponding period in last year.

Taxation was decreased by RMB4,606,000 or 96.18% from RMB4,789,000 for the six months ended 30th June, 2006 to RMB183,000 for the six months ended 30th June, 2007. It was mainly due to the tax exemption granted to the Company and our subsidiary, 甘肅天業節水器材有限公司.

The unaudited profit attributable to equity holders of the Company was increased by approximately RMB5,376,000 or about 20.58% from approximately RMB26,128,000 for the six months ended 30th June, 2006 to approximately RMB31,504,000 for the six months ended 30th June, 2007. It was mainly due to the growth of the Group's operations as well as the benefits of tax exemption policy.

Prospects

The Group maintained a sustainable growth in sales for the six months ended 30th June, 2007. The Directors expect that with the strong market demand for various types of agricultural water saving irrigation products in the PRC, the Group will be able to generate more income under such circumstances. The Group is optimistic about the future development of the agricultural water saving irrigation industry.

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

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

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

Actual business progress made by the Company from 1st January, 2007 to 30th June, 2007

Expanding the markets in the PRC and developing the international markets

To establish sales points and carry out marketing in Hebei and Shaanxi

Completed

To establish sales points and carry out marketing in Middle Asia and Middle East

The scale in Middle Asia and Middle East still have not been established and the Company decided to continue to carry out marketing and market development by the departmental staff of the Company, and suspends the establishment point of sales

To accomplish the service implemented for demonstration base in 2006

Completed

To undertake site inspection and data collection for four demonstration bases to be set up in the second half of 2007

Completed

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

Actual business progress made by the Company from 1st January, 2007 to 30th June, 2007

Strengthening of the R&D of new innovative products

R & D of agricultural PVC pipes	Mass production
R & D of co-extruded drip films	Mass production
R & D of irrigation system in open fields	Conducting cost-optimisation project and preparing for mass production

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. The construction of new production lines is in progress during the period and is anticipated to be completed by 2007
New production facilities in Shihezi	Construction of new production lines is now in progress

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

	Proposed applications up to 30th June, 2007 as set out in the Prospectus	Actual amount of proceeds used up to 30th June, 2007
	<i>RMB million</i>	<i>RMB million</i>
To expand production capacity for drip films	22.66	22.66
To acquire new production facilities in Alaer <i>(Note 1)</i>	57.58	9.60
To acquire new production facilities in Shihezi	65.30	65.30
Repay bank loans	30.78	30.78
	<hr/>	<hr/>
Total	<u>176.32</u>	<u>128.34</u>

As at 30th June, 2007, the unused proceeds were deposited with banks in the PRC and Hong Kong.

Notes:

1. As the development in 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. As there is a change in the location of the plan, the project is currently carrying out civil construction and most of proceeds have not been used.
2. The remaining amount of the net proceeds of approximately RMB1.78 million raised from the issue of the over-allotment shares would be used to repay part of the principal of bank loans of RMB20 million, which will be due on 11th December, 2006, as stated in the prospectus.

LIQUIDITY AND FINANCIAL RESOURCES

During the period, the Group generates its liquidity mainly from proceeds generated from its business operations and bank facilities. The short term borrowings of the Group increased from RMB55,500,000 as at 31st December, 2006 to approximately RMB110,000,000 as at 30th June, 2007. Such borrowings were used for the daily business operations of the Group. As at 30th June, 2007, all the bank borrowings of the Group were at fixed interest rates ranging from 6.12% to 6.39% per annum. As all the borrowings were denominated in Renminbi, the foreign currency exposure was minimal. The Group's bank borrowings are repayable within one year.

As at 30th June, 2007, the gearing ratio (means total borrowings divided by total equity) of the Group increased approximately to 16.97% (at 31st December, 2006: 8.74%). Cash and cash equivalents increased from approximately RMB153,938,000 as at 31st December, 2006 to approximately RMB155,022,000 as at 30th June, 2007. Most of the Group's bank deposits were denominated in Renminbi and deposited with banks as short-term deposits.

Pledge of assets

As at 30th June, 2007, the bank loans of RMB30,000,000 of the Group was secured by the plant and machinery of a book value of approximately RMB81,675,000.

Contingent liability

As at 30th June, 2007, the Company did not have any significant contingent liability.

Foreign exchange 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 RMB. In the respect, there is no significant currency mismatch in its operational cashflow 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 profitability. The Group offers salary packages with reference to the performance and working experience of individual employee, and the prevailing market rate. As at 30th June, 2007, 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 staffs, 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 benefits scheme were approximately RMB1,225,000 for the six months ended 30th June, 2007.

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 contribution of HK\$1,000 per month in respect of each employee) on a monthly basis to the fund. The accrued benefits are vested to the employee. Expenses incurred by the Company in connection with the provident fund scheme were approximately HK\$6,000 for the six months ended 30th June, 2007.

Housing pension scheme

According to the relevant requirement under “The Decision Regarding the Reinforcement of Reform on Housing Systems in Cities and Towns by the State Council” (《國務院關於深化城鎮住房制度改革的決定》), “The Notice Regarding the Further Reinforcement of Reform on Housing Systems and Acceleration of Housing Facilities in Cities and Towns by the State Council” (《國務院關於深化城鎮住房制度改革加快住房建設的通知》) and “Housing Pension Administrative Rules” (《住房公積金管理條例》), all administrative and business units and their staff shall make contribution as housing pension for the establishment of a housing pension scheme. Both the housing pensions contributed by each staff and by their respective units are vested to the staff. The percentage of the housing pension contributed by the staff and their unit shall not be less than 5% of the average monthly wages of such staff in the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

Material investment

As at 30th June, 2007, the Group had no material investment save for the business objectives set out in the Prospectus.

Material acquisitions and disposals

For the six months ended 30th June, 2007, the Group had no material acquisitions nor disposals of subsidiaries and associated companies.

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

As at 30th June, 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 corporation (within the meaning of Part XV of the SFO) as record in the register required to be kept by the Company pursuant to 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 corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of equity
Guo Qing Ren (Director)	Xinjiang Tianye Company Limited ("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, the Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation as at 30th June, 2007.

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

So far as is known to the Directors, the Supervisors and chief executives of the Company, as at 30th June, 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 30th June, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows the following person 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 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 approximately 58% of the registered capital of Li Tai Li, is deemed to be interested in the 93,994,831 domestic shares of the Company held by Li Tai Lai.

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

As at 30th June, 2007, save for the persons or entities disclosed in sub-section (A) above, the following person or entities (other than a Director, Supervisor, or chief executive of the Company) had notified the Company of relevant interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	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	18,072,000(L)	3.48% (Note 3)
UBS AG	Corporate	Investment Manager	14,733,800(L)	2.84% (Note 4)
BNP Paribas Asset Management	Corporate	Investment Manager	14,212,000(L)	2.74% (Note 5)

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 shares 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 8.93% of the total H shares of the Company in issue.
4. The H Shares held by UBS AG were equivalent to approximately 7.28% of the total H shares of the Company in issue.
5. The H Shares held by BNP Paribas Asset Management were equivalent to approximately 7.02% of the total H shares of the Company in issue.

Save as disclosed above, as at 30th June, 2007, the Directors were not aware of any person (other than the Directors, the Supervisors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTEREST

None of the Directors, the Supervisors and the management shareholders of the Company 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 18.63 of the GEM Listing Rules, as at 30th June, 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 listing of the Company on 28th February, 2006, or for the period until the termination of the terms and conditions under the Agreement.

AUDIT COMMITTEE

The 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 30th June, 2007, the Audit Committee comprises three independent non-executive Directors, namely Messrs. He Lin Wang, Xia Jun Min and Gu Lie Feng.

The unaudited condensed consolidated financial reports of the Group for the six months ended 30th June, 2007 have been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited condensed consolidated financial reports have been complied with the applicable accounting standards and requirements and has contained adequate disclosures.

The unaudited condensed consolidated financial reports of the Group for the six months ended 30th June, 2007 have not been reviewed by the external auditors of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30th June, 2007, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30th June, 2007, the Company has adopted the code of conduct for securities transactions by Directors (the "Code"), which terms are no less than the required terms for dealings of Shares by Directors as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. In addition, the Company has made specific 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 six months ended 30th June, 2007, the Company and/or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
Guo Qing Ren
Chairman

Xinjiang, the PRC, 25th July, 2007