

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

BUSINESS OVERVIEW

As a pioneer in providing one-stop solution 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, and 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 water can be applied, drop by drop, to the soil surface near the root of plant. A properly designed automatic drip irrigation system can save the troubles of deciding when to irrigate and the amount of water to apply. The potential and importance of water saving irrigation system have been recognised by both the PRC Government and the producers of agricultural products in the PRC. Application of water saving irrigation system on large area of farmlands over the country helps to increase productivity in agriculture and solves the problem of uneven water supply in the PRC. As at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007, the total area of farmlands fitted with the Group's water saving irrigation system were approximately 160,000 hectares, 175,000 hectares, 187,000 hectares and 171,000 hectares, respectively.

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. The Group's drip films, pipelines and drip assemblies used in water saving irrigation system are sold under the “” trademark.

According to the “Bulletin of National Economic and Social Development of the Xinjiang Uyghur Autonomous Region 2006”, the total area of farmland in Xinjiang amounted to approximately 4,107,100 hectares. Currently, the products of the Group are primarily sold in various regions in Xinjiang, and also other regions outside Xinjiang in the PRC, such as Gansu and Ningxia. As the sales of the Group's products are usually conducted through direct contact between its sales representatives and its customers, the Group has divided Xinjiang into eight sales regions, including Shihezi, Taxi, Bazhou, western region of Xinjiang, Zhunxi, eastern region of Xinjiang, Tazhong and Wuchang. The Group has maintained a sales team to serve the customers and to expand its market share in each of these eight sales regions. The Directors believe that these eight sales teams have formed an extensive sales and distribution network for the Group.

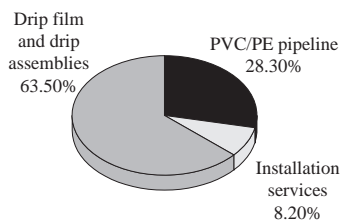
For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, sales of drip films and drip assemblies accounted for approximately 63.50%, 65.91%, 65.21% and 68.12% of the Group's turnover respectively, sales of PVC/PE pipelines accounted for approximately 28.30%, 32.90%, 34.13% and 31.22% of the Group's turnover respectively, and provision of installation services of water saving irrigation system accounted for approximately 8.20%, 1.19%, 0.66% and 0.66% of the Group's turnover respectively.

SUMMARY

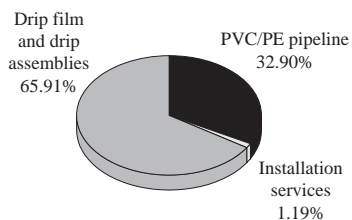
The following charts illustrate the total turnover breakdown by products of the Group during the Track Record Period:

Turnover

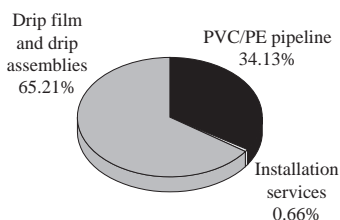
For the year ended 31st December, 2004



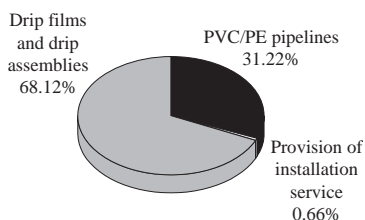
For the year ended 31st December, 2005



For the year ended 31st December, 2006



For the six months ended 30th June, 2007



The Group's production facilities are mainly located in Xinjiang and Gansu in the PRC. As at the Latest Practicable Date, the total gross floor areas of the Group's production facilities and office were approximately 37,864 sq.m. (equivalent to approximately 407,565 sq. ft.) and 1,522 sq.m. (equivalent to approximately 16,383 sq. ft.) respectively. As at the Latest Practicable Date, the Group had 778 employees and the Group's production facilities included: 182 production lines of drip films with an annual production capacity of approximately 30,000 tonnes; 12 production lines of PVC pipelines with an annual production capacity of approximately 24,800 tonnes; 15 production lines of PE pipelines with an annual production capacity of approximately 4,070 tonnes; and 21 production lines of drip assemblies with an annual production capacity of approximately 1,900 tonnes, which can satisfy the supply of water saving irrigation system for the usage on about 300,000 hectares of farmland. The Group's head office is based in Xinjiang, the PRC and is responsible for the management, sales and marketing, administration and finance, purchasing and warehousing functions of the Group.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the Group is well-positioned to capitalise on the potential market of water saving irrigation system in the PRC since the western part of the PRC does not have sufficient water supply. The Directors consider that the Group's principal strengths and competitive advantages are:

High expansion potential of the water saving irrigation system

The Group's production base is mainly located in Xinjiang, an autonomous region in the PRC with lots of drought-affected areas. Accordingly, the Directors believe that there is strong potential demand for water saving irrigation system. Leveraging on modern agricultural production technology, the Group is in the process of promoting its water saving irrigation system to different parts of the PRC. The Group has extensive experience in establishing its production base and R & D bases in Xinjiang. Its established market reputation as a pioneer in

SUMMARY

providing one-stop solution for water saving irrigation system, as well as its sales and distribution network provide a strong basis for the Group to further promoting its products into other parts of the PRC.

Strong R & D capabilities

The Group also places strong emphasis on R & D of the Group's products. The Group undertakes R & D both on its own and through engaging research and academic institutions in the PRC such as National Center of Efficient Irrigation Engineering and Technology Research (Xinjiang) (國家節水灌溉工程技術研究中心(新疆)). Through such R & D activities, the Group is able to improve its water saving irrigation technology which leads to the improvement in the quality of the products and production yield of the customers' farmland. Besides, with its strong R & D capability, the Group is able to utilise used products collected from its customers and recycle and reuse the same as raw materials for manufacturing new products. The Group has the capacity to process approximately 10,000 tonnes of recycled materials for manufacturing new products per year. Such technology on recycling used products has reduced the production costs of the Group.

Sales and distribution network

To guarantee customers' satisfaction, the Group has established online offices as parts of its sales and distribution network. Currently, the products of the Group are primarily sold in various regions in Xinjiang, and also other regions outside Xinjiang in the PRC, such as Gansu and Ningxia. As the sales of the Group's products are usually conducted through direct contact between its sales representatives and its customers, the Group has divided Xinjiang into eight sales regions, including Shihezi, Taxi, Bazhou, western region of Xinjiang, Zhunxi, eastern region of Xinjiang, Tazhong and Wuchang. The Group has maintained a sales team to serve the customers and to expand its market share in each of these eight sales regions. The Directors believe that these eight sales teams have formed an extensive sales and distribution network for the Group. The Directors also believe that such network enables the Group to carry out various front-line or logistical functions effectively, including the collection of up-to-date market information so that the Group could promote its products in different markets appropriately.

Experienced management team

Since the establishment of the Company in 1999, its senior management has gained extensive experience in, and in-depth knowledge of, the agricultural industry in the PRC. Many of the Group's senior management have over seven years' experience in the PRC agricultural industry and water saving irrigation system. The Directors believe that such knowledge and experience will be of crucial importance to the future development of the Group's business. The biographical details of the Directors, Supervisors and senior management of the Group are set out under the section headed "Directors, supervisors, management and staff" of this document.

High quality products

In 2004, the Company was certified as an "Outstanding Enterprise of Qualitative Management Team Activities of the State" (全國質量管理小組活動優秀企業稱號) by Qualitative Institute of the PRC (中國質量協會), the State General Labour Union of the PRC (中國全國總工會), the Common Youth Community of the Central Government (共青團中央) and the Science Technologies Institute of the PRC (中國科學技術協會). The Group has also won

SUMMARY

several awards for the R & D of its products and technology. The details of the awards and recognition of the Group's products and technology are set out in the paragraph headed "Awards" in the section headed "Business" of this document.

FUTURE PLANS

The Group aims to become a leading one-stop solution provider for water saving irrigation system in the PRC and worldwide. Since the problems of insufficient irrigation water supply and suitable farmland for agriculture in the PRC have become increasingly serious, it is necessary to improve the existing cultivation methods in the PRC. The Directors believe that there is significant potential demand for water saving irrigation system in the PRC, which can improve the production yield and reduce the wastage of irrigation water.

The Group intends to achieve its business objectives by implementing the following plans:

Expanding the markets in the PRC and developing the international markets

Currently, the products of the Group are primarily sold in various regions in Xinjiang, and also other regions outside Xinjiang in the PRC, such as Gansu and Ningxia. The Group has maintained a sales team to serve the customers and to expand its market share in each of these regions. The Group plans to stabilize the markets of the south and north of Xinjiang in the next three years and upon which, continues to promote the application of its water saving irrigation system by expanding the existing market share to northern provinces or autonomous regions, such as Ningxia, Liaoning, Shaanxi, Gansu, Inner Mongolia, Shanxi and Hebei. In respect of the international market, the Group plans to explore the markets in mid-Asia and Middle East countries.

Strengthening the R & D of new innovative products

The Group has focused on the large-scaled development with high technological technique, and has planned to further promote the application of its water saving irrigation system. The Group is determined to improve its existing products in a more systematic and automatic way, and to enhance the R & D of new products.

Expanding existing production facilities

The Group has planned to acquire new production facilities to realise an annual production capacity of approximately 10,000 tonnes of plastic water saving equipment (including 4,000 tonnes of drip films, 5,000 tonnes of PVC pipelines and 1,000 tonnes of PE pipelines) and an annual capacity to process approximately 2,500 tonnes of recycled drip films collected from the customers in Kuitun, Xinjiang for manufacturing new products. Currently, the Group has the capacity to process approximately 10,000 tonnes of recycled materials.

In addition, the Group has also planned to acquire new production facilities with an additional annual production capacity of approximately 10,000 tonnes finished products, and also to enlarge the existing factory of the Company in Shihezi, Xinjiang with an additional gross floor area of approximately 3,000 sq.m..

SUMMARY

The Group's production capacity will be expanded by acquiring land or property as well as major production and auxiliary equipment. On 18th December, 2006, the Company entered into a contract with the Bureau of Land and Resources of Shihezi (石河子市國土資源局) for being granted the land use rights for a parcel of land having a site area of 105,975 sq.m., which is located in Shihezi Economic and Technological Development Zone, for a term of 50 years at a land premium of approximately RMB7.5 million.

Establishing demonstration centres in the Group's main target markets

The Group has planned to establish demonstration centres in the Group's main target markets within the next three years to demonstrate the use of the Group's products, to promote brand awareness to the customers, to cope with customers' changing needs and to encourage customers to share their experience and feedback on using the Group's products. The Directors believe that through the marketing activities in the demonstration centres, the Group's business relationships with its customers will be greatly enhanced.

TRADING RECORD

The table below sets out a summary of the audited consolidated results of the Group for each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007. The summary has been prepared on the basis that the current structure of the Group had been in existence throughout the period under review or from the respective dates of acquisition/establishment of the companies now comprising the Group, where this is a shorter period. The summary should be read in conjunction with the accountants' report of the Group set out in Appendix I to this document.

	Notes	Year ended 31st December,			For the six months ended 30th June,	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Turnover	1	389,183	376,251	461,809	257,716	297,205
Cost of sales		<u>(308,947)</u>	<u>(280,373)</u>	<u>(366,601)</u>	<u>(208,264)</u>	<u>(243,637)</u>
Gross profit		80,236	95,878	95,208	49,452	53,568
Other operating income		1,769	336	6,983	606	2,240
Distribution costs		(14,170)	(18,512)	(22,965)	(11,349)	(10,546)
Administrative expenses		(12,173)	(11,197)	(15,525)	(5,447)	(9,665)
Other operating expenses		<u>(93)</u>	<u>(305)</u>	<u>(631)</u>	<u>(29)</u>	<u>(573)</u>
Profit from operations		55,569	66,200	63,070	33,233	35,024
Finance costs		<u>(3,523)</u>	<u>(3,566)</u>	<u>(3,840)</u>	<u>(2,051)</u>	<u>(2,688)</u>
Profit before taxation		52,046	62,634	59,230	31,182	32,336
Taxation		<u>(7,951)</u>	<u>(7,595)</u>	<u>824</u>	<u>(4,789)</u>	<u>(183)</u>
Profit for the year/period		<u>44,095</u>	<u>55,039</u>	<u>60,054</u>	<u>26,393</u>	<u>32,153</u>

SUMMARY

		Year ended 31st December,			For the six months ended 30th June,	
		2004	2005	2006	2006	2007
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	(Unaudited)
Profit/(loss) attributable to:						
Equity holders of the Company		42,432	52,658	62,497	26,128	31,504
Minority interests		1,663	2,381	(2,443)	265	649
		44,095	55,039	60,054	26,393	32,153
Dividends		8,879	34,883	34,860	34,860	18,703
Earnings per Share						
— basic	2	RMB0.13	RMB0.17	RMB0.13	RMB0.06	RMB0.06

Notes:

1. Turnover is measured at the fair value of the consideration received and receivable for goods sold, net of returns, allowances and value-added tax and revenue arising on long-term contracts during the Track Record Period.
2. The calculation of the basic earnings per Share for the year ended 31st December, 2004 and 31st December, 2005 is based on the profit for that year attributable to equity holders of the Company and 317,121,560 Shares in issue during that year.


The calculation of the basic earnings per Share for the year ended 31st December, 2006, six months ended 30th June, 2006 and six months ended 30th June, 2007 is based on the profit for the year/period attributable to equity holders of the Company and the weighted average number of 485,623,477 Shares, 451,163,549 Shares and 519,521,560 Shares respectively in issue during the year/period.

No diluted earnings per share has been presented for the Track Record Period as there was no dilutive shares outstanding during the Track Record Period.

RISK FACTORS

The operations of the Group involve certain risks. Prospective investors should read carefully the section headed “Risk factors” of this document. These risks can be broadly categorised into (i) risks relating to the Group; (ii) risks relating to the industry and; (iii) risks relating to the PRC, and are summarised below:

Risks relating to the Group

- Reliance on key management
- Relationship with Tianye Holdings Group
- Reliance on the “” trademark
- Reliance on major suppliers
- Collection of trade receivables

SUMMARY

- Dividend policy
- Changes in preferential tax treatment
- New corporate income tax law
- Reliance on the PRC market and the Xinjiang market
- Product liability
- Limited insurance coverage
- Risks associated with expansion into overseas markets
- Risks in relation to protection of the Group's intellectual property rights
- Non-compliance with environmental protection regulations

Risks relating to the industry

- Competition
- Seasonal factor
- Fluctuations in the price of raw materials

Risks relating to the PRC

- Political and social considerations in the PRC
- Legal considerations in the PRC
- Securities laws and regulations
- Enforceability of judgments and arbitration
- Currency conversion and foreign exchange control
- Fluctuations in the exchange rate of RMB
- Risks associated with the historical background of Xinjiang
- Risks associated with conversion of the Domestic Shares into H Shares