You should consider carefully all the information containing in this document including the risk factors set out below.

RISKS RELATING TO THE GROUP

Reliance on key management

The Group's success is, to a significant extent, attributable to the expertise and vision of Guo Qing Ren, an executive Director, and other senior management of the Group. Guo Qing Ren is responsible for overseeing all strategic planning of the Group as well as responsible for the overall management of the Group's operations. In addition, he is responsible for the design and development of new products of the Group. The Group's performance also depends on its ability to attract, retain and motivate its officers and key employees and to maintain a sufficient number of experienced employees, without which the Group's business, results of operation and financial position may be materially and adversely affected.

Relationship with Tianye Holdings Group

Tianye Holdings Group is principally engaged in the production and sales of plastics and chemical products, transportation, machinery facilities, construction installation, steel products, grain cotton and oil products, vehicle accessories, crop production, cultivation, production and sales of tomato paste and other food products, agricultural water and land exploitation, and processing of agricultural products and by-products. As set out in note 34 under the paragraph headed "Notes to the Financial Information" in the accountants' report of the Group set out in Appendix I to this document, for each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, sales to Tianye Holdings Group amounted to approximately RMB22.6 million, RMB17.9 million, RMB13.5 million and RMB14.1 million respectively, accounting for approximately 5.8%, 4.7%, 2.9% and 4.7% of the Group's turnover during the respective periods. During the same period, purchases of raw materials from Tianye Holdings Group amounted to approximately RMB10.1 million, RMB59.0 million, RMB59.7 million and RMB18.5 million respectively, which accounted for approximately 3.8%, 22.0%, 9.9% and 7.8%, respectively, of the total purchases for the respective periods. Tianye Holdings Group is not the exclusive or sole supplier to the Group and the Group is free to purchase similar products on a reasonable price and similar quality from the Independent Third Parties.

In addition to the above transactions, the Group had other transactions with Tianye Holdings Group during the Track Record Period, including (i) purchases of property, plant and equipment; (ii) sales of property, plant and equipment; (iii) rental of plant, machinery and premises; (iv) borrowing and lending; and (v) acquisition of subsidiaries.

Regarding the rental of plant, machinery and premises, the Company and Tianye Company had entered into several agreements. Tianye Company is currently leasing various assets and equipment for maintaining and repairing the Group's production facilities for water saving irrigation system to the Group. Tianye Company is also leasing to the Group the office and factory premises of an aggregate gross floor area of approximately 26,900 sq.m.. For the year ended 31st December, 2006, the Group manufactured over 84% of its products in the Leased Properties. For the six months ended 30th June, 2007, the Group manufactured over 80% of its products in the Leased Properties.

For details of the transactions between the Group and Tianye Holdings Group during the Track Record Period and after the Introduction, please refer to note 34 under the paragraph headed "Notes to the Financial Information" in the accountants' report of the Group set out in Appendix I to this document and the paragraph headed "Connected transactions" under the section headed "Business" of this document respectively.

The Directors consider that these transactions with Tianye Holdings Group are in the interests of the Group. In the event that Tianye Holdings Group ceases to place orders with the Group or substantially reduces the volume of transactions with the Group and the Group is unable to find new customers with similar volume of transactions, the Group's business, results of operation and financial position may be adversely affected. Furthermore, in the event that Tianye Holdings Group ceases to supply raw materials to the Group and the Group is unable to find alternative suppliers, the Group's business, results of operation and financial position may be adversely affected. Although the Directors consider that the assets, equipment and premises are not of utmost importance to the Group for the reasons stated in the paragraph headed "Connected transactions" under the section headed "Business" of this document, the Group's operation may be affected if Tianye Holdings Group ceases to lease the assets, equipment and premises to the Group and the Group is unable to lease similar assets, equipment and premises from other parties at similar rents.

Reliance on the "天业" trademark

Currently, the Group is using the "天业" trademark in connection with the production, sales, supply and distribution of all of its drip films, pipelines and drip assemblies used in its water saving irrigation system. The "天业" trademark is registered in the PRC by Tianye Company and is valid until 13th February, 2011. Pursuant to the Trademark Licence Agreement entered into between the Company and Tianye Company on 1st June, 2003, the Company has been granted the right to use the "天业" trademark at nil consideration for a term ended on 1st June, 2006. The Trademark Licence Agreement may not be terminated by the Company and Tianye Company, save and except that the quality of the goods in which the "天业" trademark is being used has failed to meet the standards as agreed between the Company and Tianye Company. Please refer to the paragraphs headed "Intellectual property rights" and "Connected transactions" under the section headed "Business" of this document for further details.

Although the Group is using the "天业" trademark on all of its products, the sales of the Group's products does not rely on the "天业" trademark, instead, the sales of the Group's products are conducted through direct contact between the sales representatives of the Group and the customers. However, the Directors believe that if the Group is not allowed to use the "天业" trademark on its products because of early termination or failure to renew the Trademark Licence Agreement, the Group's sales and business may be adversely affected. On the other hand, since Tianye Company also uses the "天业" trademark, if the quality of such products manufactured by Tianye Company is not up to standard and causes material adverse social impact, the sales of the Group may be adversely affected by virtue of its association with the "天业" trademark.

By an undertaking dated 4th January, 2006 executed by Tianye Company, Tianye Company has undertaken to the Company that (i) Tianye Company will, at the time not later than six months before 13th February, 2011 or the expiry date of further renewal of the registration of the “天业” trademark, make the necessary application for the renewal of the registration of the “天业” trademark; (ii) within 30 days before the expiry date of the Trademark Licence Agreement, Tianye Company will renew the Trademark Licence Agreement for a period of up to 13th February, 2011 at nil consideration provided that the Group does not commit any breach of the terms of the Trademark Licence Agreement (or any renewal agreements made thereafter); (iii) from 13th February, 2011 onwards, Tianye Company will renew the renewed Trademark Licence Agreement (or any further renewal agreements made thereafter) for a period not less than five years within 30 days before the expiry date of the renewed Trademark Licence Agreement (or any further renewal agreements made thereafter) at nil consideration; (iv) save and except for the use of the “天业” trademark by Tianye Group and the Group, Tianye Company will not grant the right to use the “天业” trademark to any other third parties; and (v) should Tianye Company decides to dispose of the “天业” trademark, the Company shall have the pre-emptive rights to acquire the “天业” trademark. On 25th May, 2006, Tianye Company renewed the Trademark Licence Agreement for a period from 1st June, 2006 to 13th February, 2011 at nil consideration. However, if for whatever reasons, Tianye Company has decided not to extend or has become entitled to terminate the Trademark Licence Agreement, or has decided to withdraw the approval for the Group to use the “天业” trademark, the Group’s recognition by the public and business may be adversely affected.

Reliance on major suppliers

For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, the Group’s purchases from the five largest suppliers (including Tianye Holdings Group) of the Group amounted to approximately RMB160,000,000, RMB180,700,000, RMB370,900,000 and RMB130,200,000, respectively, accounting for approximately 59.8%, 67.3%, 61.5% and 55.3%, respectively, of the Group’s total purchases in the respective periods. Purchases from the largest supplier of the Group accounted for approximately 34.4%, 24.8%, 29.4% and 20.0%, respectively, of the Group’s total purchases for each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007. Except for the purchase agreement entered with Tianye Holdings and the master purchase agreement entered with Tianye Company, the Group has not entered into any long term supply contracts with its suppliers. There is no assurance that these suppliers will continue to supply raw materials to the Group in the future. As such, the Group’s business, results of operation and financial position may be materially and adversely affected should any of these suppliers cease to supply raw materials to the Group or if the Group fails to source alternate suppliers of raw materials with similar quality. For details of the abovementioned purchase agreement and master purchase agreement, please refer to the paragraph headed “Connected transactions” under the section headed “Business” of this document.

The Directors consider that it is in the interests of the Group to enter into the long term supply contract with connected parties but not with the Independent Third Parties due to the following reasons: (i) the connected parties ensures a steady supply of raw materials and the quality of raw materials supplied to the Group; (ii) the connected parties have shown that they are able to supply sufficient raw materials to the Group on time; and (iii) since the connected parties and the Group are located in Xinjiang, the Group will benefit from shorter distance for product delivery thereby resulting in lower transportation cost. Although the connected parties have the abovementioned advantages, the Directors further consider that the Group has the right to choose to purchase the raw materials from the Independent Third Parties whenever the terms, including the price of the raw materials, are much more favourable than those being offered by the connected parties.

Collection of trade receivables

As at 31st December, 2004, 31st December, 2005, and 31st December, 2006 and 30th June, 2007, the Group had trade receivables (less allowances) amounted to approximately RMB61,661,000, RMB80,116,000, RMB111,337,000 and RMB157,033,000, respectively, representing approximately 11.1%, 14.7%, 14.3% and 17.3% of the Group's total assets for the respective periods. As at the Latest Practicable Date, approximately RMB43,240,000, representing approximately 27.5% of such trade receivables as at 30th June, 2007, had been settled. There is no assurance that the Group's trade receivables will be fully repaid on a timely basis. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, allowance for trade receivables amounted to approximately RMB2,506,000, RMB1,343,000, RMB52,000 and RMB1,806,000 respectively.

If all or some of the Group's customers with accounts receivables fail to pay all or part of, or delay the payment due to the Group for whatever reasons, additional provisions will have to be made by the Group which may adversely affect its profitability.

Dividend policy

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 for the year ended 31st December, 2006 of RMB0.036 per share, amounting to RMB18,702,776 in aggregate, has been declared and paid to the Shareholders before 29th June, 2007.

There is no assurance that any dividend will be declared in the future and the past dividend payments should not be used as a reference or basis to determine the Company's dividend policy. The amount of dividends which may be declared in the future will depend on, among other things, the Company's operating results, financial position, cashflow, operating and capital requirements, or other relevant factors as stated under the paragraph headed "Dividend policy" set out under the section headed "Financial information" of this document.

Changes in preferential tax treatment

During the Track Record Period, pursuant to the relevant laws and regulations of the PRC, the Group was subject to PRC Enterprise Income Tax ("**EIT**") of 33%. Pursuant to the "Notice of Issues on Tax Incentives Policies on the Development of Western China" Cai Shui Zi [2001] No. 202 (財稅字[2001] 202號《關於西部大開發稅收》), an entity operating in the western part of PRC and mainly engaging in the business prescribed in the Catalogue of Industries, Products and Technologies Contemporarily Encouraged for Major Development by the State (2000 Revision) (《當前國家重點鼓勵發展的產業、產品和技術目錄(2000年修訂)》) is entitled to specific tax relief if 70% of its operating income is derived from such business. Certain entities comprising the Group satisfied these requirements during the Track Record Period and, on the assumption that they will continue to meet these requirements, these entities will continue to be entitled to certain tax relief. Further details regarding the taxation of the Group are set out in note 11 under the paragraph headed "Notes to the Financial Information" in the accountants' report of the Group set out in Appendix I to this document.

There is no assurance that the Group can enjoy the same preferential tax treatment in the future. In the event that the PRC Government changes its tax policy of supporting encouraged enterprises or the Company ceases to be recognised as an encouraged enterprise, the Group may have to be subject to income tax at a rate of 33%, which may adversely affect the Group's operating results.

New corporate income tax law

There can be no assurance that the existing tax laws, their applications and interpretations which are applicable to the activities conducted by the Group will remain in effect and will not change. Any changes in the applicable legislation or regulations or otherwise in the PRC may have a negative impact on the results of the Group's operations.

During the 5th Session of the 10th National People's Congress, which was concluded on 16th March, 2007, the PRC Corporate Income Tax Law ("New Corporate Income Tax Law") was approved and will become effective on 1 January 2008.

The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, (i) a uniform corporate income tax of 25% will be applied to both the domestic and the foreign invested enterprises in the PRC; (ii) based on the regulation promulgated by the State Council of the PRC, the fixed tax holiday may be enjoyed until its expiry, but if an enterprise has not started to enjoy such holiday because of no profit, such holiday shall commence from the year this law becomes effective; and (iii) other enterprises belonged to the encouraged class confirmed by the state may enjoy tax benefits according to the regulations promulgated by the State Council of the PRC (the Group, except Tianye Installation, Tianye Recycling and Zhaoqing Tianye which are not classified as companies whose principal activities are production of water saving equipment, belongs to such encouraged class). There is no assurance as to when the implementation rules of the Corporate Income Tax Law will be promulgated and how such implementation rules will affect the Group, and there is no assurance that no other changes will be made to other existing tax regulations applicable to the Group. Although the current corporate income tax rate applicable to the Group is 33% and the unification of income tax rate to 25% should be beneficial to the Group, since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on our PRC operations cannot be reasonably estimated at this stage.

Reliance on the PRC market and the Xinjiang market

During the Track Record Period, all of the Group's turnover was generated within the PRC. While the Group intends to develop overseas markets in the near future as stated in the section headed "Future plans and prospects" of this document, the Directors expect that the PRC market will remain as the core market for which the Group's operating results are generated.

The Directors confirmed that, during the Track Record Period and as at the Latest Practicable Date, most of the Group's production facilities and customers are based in Xinjiang. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, over 80% of the Group's turnover was generated in Xinjiang.

Accordingly, the Group's performance could be adversely affected as a result of any material adverse change in the economic, political, legal and social conditions in the PRC and in particular, Xinjiang. The Group's strategy is based on the assumption that demand in the PRC and in particular, Xinjiang for water saving irrigation products will continue to grow. Any economic changes in the PRC, and in particular, Xinjiang which is different from such assumption could seriously and adversely affect the Group's business and profitability.

Product liability

Any defects in the Group's water saving irrigation products could result in economic loss, adverse customer reaction against the Group, negative publicity, additional expenditure to rectify the problems and/or legal proceedings against the Group. Any litigation relating to such liability may be expensive and time-consuming, and successful claims against the Group could result in substantial monetary liability or damage to the reputation of the Group and disruption to the business operations of the Group. As at the Latest Practicable Date, the Group did not maintain any product liability insurance to cover any claims in respect of personal injury or deterioration of products sold by the Group. During the Track Record Period, the Group had not experienced any claim for product liability by its customers. There is no assurance that the Group will be free from any claim in this regard, and if any claim is instituted against the Group, the Group's business, results of operation and financial position may be adversely affected.

Limited insurance coverage

Currently, the Group has participated in social insurance scheme for its employees, but the Group did not maintain any business interruption insurance, third party liability insurance for personal injuries and environmental damages arising from accidents in the Group's properties or relating to the Group's operations. Any occurrence of business interruption, injury or liability will have adverse impacts on the Group's business, operations and financial conditions. Furthermore, the Group does not maintain any insurance policy to cover its inventories. As at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007, inventories of the Group amounted to approximately RMB177.1 million, RMB189.6 million, RMB267.7 million and RMB291.7 million respectively. Should there be any loss or damage to its inventories, the Group's business, operations and financial conditions may be adversely affected.

Risks associated with expansion into overseas markets

During the Track Record Period, all of the Group's turnover was generated in the PRC. As part of its strategic development, the Group plans to explore the markets in the mid-Asia and Middle East countries. Establishing overseas market bases may involve substantial time, cost and market uncertainty. In the event that the Group encounters problems or delays in penetrating into such overseas markets and at the same time loses its competitive edge over its competitors in the PRC, the operations and prospects of the Group could be adversely affected. Moreover, since the Group's revenue and expenditures in overseas markets will be mainly denominated in foreign currencies, the expansion into overseas markets may also expose the Group to foreign exchange risk.

Risks in relation to protection of the Group's intellectual property rights

At present, all of the Group's drip films, pipelines and drip assemblies used in its water saving irrigation system are sold under the "天业" trademark. Details of the Group's intellectual property rights are set out in the paragraph headed "Intellectual property rights" under the section headed "Business" of this document. It is possible for other persons or entities to obtain and use the

Group's intellectual property rights without authorisation. In addition, the Group's water saving irrigation products would be launched in countries where protection of intellectual property rights may be limited. There can be no assurance that the Group could effectively prevent any such misappropriation or infringement of intellectual property rights by third parties.

Non-compliance with environmental protection regulations

As the Group's production processes generate noise, waste water, gaseous wastes and other industrial wastes, the Group is required to comply with all national and local regulations regarding protection of the environment. Based on confirmation letters issued by Shihezi City Environmental Protection Bureau and other Environmental Protection Bureaus, the Group is in compliance with present environmental protection requirements. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. The Directors believe that the Group has all necessary permits to conduct its business as it is presently conducted. If the Group fails to comply with present or future environmental regulations, however, the Group may be required to pay substantial fines, suspend production or cease operations.

RISKS RELATING TO THE INDUSTRY

Competition

The Directors are of the view that competition in water saving irrigation industry is keen and will become more intense as the PRC is gradually opening its markets following its accession to the World Trade Organisation. Any improvement of the quality of water saving irrigation products manufactured by the existing manufacturers and any increase in the number of competitors in the market may have material adverse impact on the Group's profitability. The competitors may succeed in providing services, and developing technologies and know-how that are more effective or cost-efficient than those provided by the Group. Any increase in competition could result in the reduction of the Group's market share and have an adverse impact on the Group's business. There can be no assurance that the Group's business performance will be maintained in light of the possible increase in competition with the competitors.

Seasonal factor

Sales of the Group's products are affected by the production cycle of agricultural products, which refers to sowing in Spring and harvesting in Autumn. In turn, sales of the Group's products are subject to seasonal fluctuations. For each of the three years ended 31st December, 2006, the Group recorded relatively higher sales during the period between March and May, which represented approximately 29.3%, 37.3% and 30.3% respectively, of the total sales of the Group's products respectively, and the period between October and December, which represented approximately 30.1%, 24.9% and 35.2% respectively, of the total sales of the Group's products respectively. Should there be any material reduction in the sales of the Group's products during the period between March and May and the period between October and December, the Group's profitability may be adversely affected.

Fluctuations in the price of raw materials

The major raw materials purchased by the Group are PVC and PE resins, which are used for the production of PVC/PE pipelines. As PVC and PE resins are manufactured from crude oil, the increase in oil price would have a direct impact on the selling price of PVC and PE resins. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, the purchase of the Group's principal raw materials accounted for approximately 70.3%, 69.9%, 67.8% and 78.3% respectively of the Group's total purchase. Similar with other manufacturers, the Group was subject to fluctuations in price of raw materials used in the production of its products. The price of PE resins, the major raw material for the Group's products, increased by approximately 17.5% from approximately RMB8,000 per tonne in 2004 to approximately RMB9,400 per tonne in 2005, further increased by approximately 9.8% to approximately RMB10,320 per tonne in 2006 and further increased by approximately 2.3% to approximately RMB10,560 per tonne in June 2007. The price of PVC resins decreased by approximately 1.6% from approximately RMB6,100 per tonne in 2004 to approximately RMB6,000 per tonne in 2005, further decreased by 16.2% to approximately RMB5,030 per tonne in 2006 but increased by approximately 6.2% to approximately RMB5,340 per tonne in June 2007. In order to manage the impact of fluctuation in the price of raw materials, the Group may adjust the production formula and use substitution should the prices of any particular raw material rise substantially. Yet, the Group's result would be adversely affected if it is unable to obtain stable and continuous supply of raw materials in a timely manner or if there are significant increases in the price of the major raw materials in the future and the Group is not able to pass such increases to its customers.

RISKS RELATING TO THE PRC

Political and social considerations in the PRC

In addition to the continuing economic reforms, it is expected that the PRC Government will continue other reforms. Although the PRC economy continued to grow in recent years, other political and social factors may lead to further re-adjustments and amendments to these reformatory measures. No assurance can be given that such reformatory measures will have a positive effect on the Group, and any changes in the policies of the PRC Government may have a significant effect on the operations of the Group.

Legal considerations in the PRC

As all of the Company's business is conducted in the PRC, the Company's operations are governed principally by the laws of the PRC. As a company established in the PRC and offering and listing its H Shares outside the PRC, the Company is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of PRC companies to be listed abroad and are intended to regulate the internal affairs of those companies. Under the Company Law and the Special Regulations, certain aspects such as the protection of shareholders' rights and access to information are less extensive than those applicable to companies incorporated in Hong Kong, the UK, the U.S. and other developed countries or regions.

The Company Law is different in certain important aspects from the companies laws in Hong Kong, the U.S. and other common law countries or regions, particularly with regard to investors' protection, including derivative actions by minority shareholders and other minority protections, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividends.

The limited investors' protection under the Company Law is redressed, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules, which were introduced with a view to reducing the differences between the companies law in Hong Kong and the Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies to be listed in

Hong Kong. The Articles of Association have incorporated the provisions required by the Mandatory Provisions and the Listing Rules. Despite the incorporation of the those provisions, there can be no assurance that the Shareholders will enjoy protections that they may be entitled to as shareholders of companies incorporated in other jurisdictions.

Securities laws and regulations

At present, the regulatory framework for the securities industry in the PRC is at an early stage of development. The CSRC is responsible for administering and regulating the PRC securities markets and drafting relevant regulations for the PRC securities markets. Regulations of the State Council and the relevant implementing measures of the CSRC, such as provisions dealing with acquisitions of listed PRC companies and disclosure of information, apply to listed companies in general without being confined to companies listed on any particular stock exchange. Hence those provisions may be applicable to a joint stock limited company with shares listed on a stock exchange outside the PRC, such as the Company.

On 1st July, 1999, the PRC Securities Law became effective. The PRC Securities Law is the fundamental law that comprehensively regulates the securities markets in the PRC and applies to the issue and trading of shares, company bonds and other securities designated by the State Council according to the relevant laws in the PRC. The Company Law, the rules and regulations recently promulgated thereunder and laws relating to PRC companies with shares offered overseas provide, to a certain extent, a legal framework governing the corporate behaviour of companies, such as the Company, and their directors and shareholders. Investors should note that the regulatory framework for the securities industry in the PRC is at an early stage of development, and there may be changes which are beyond the control of the Company and may affect the rights of the Shareholders.

Enforceability of judgments and arbitration

The PRC is not a party to any agreements or arrangements for the endorsement and enforcement of any judgement of the courts of Hong Kong or in most of the other jurisdictions except that on 14 July 2006, the Hong Kong Government and PRC Government signed an agreement entitled "An Arrangement on Reciprocal Enforcement of Judgements in Civil and Commercial Matters by the Courts of Mainland and of the Hong Kong Special Administrative Region pursuant to the Choices of Court Agreements between Parties Concerned" under which they agreed to recognize money judgements on disputes arising from commercial contracts where the parties concerned, on the basis of freedom of contract, have made an agreement in writing in which a court of the PRC or a court of Hong Kong is expressly designated as the court to have sole jurisdiction for resolving the dispute concerned. Please note that the above money judgements do not cover all judgements made by any courts of the PRC or of Hong Kong. As a result, it may be difficult for the Company to seek endorsement and enforcement in the PRC of any judgement of the courts of Hong Kong or other jurisdictions. It should be stressed that, pursuant to the Articles of Association, any disputes between holders of H Shares and the Company, the Directors, Supervisors, managers or members of the management, or any claim, related to any matter of the Company, arising out of the rights or obligations under the Articles of Association, Company Law or Companies Ordinance, should be put before HKIAC or CIETAC for arbitration. Arbitral award from such organization should be final and binding on all parties involved.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") which has historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. Following the resumption of sovereignty over Hong Kong by the

PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on 21st June, 1999. This new arrangement concerning mutual enforcement of arbitral awards between the PRC and Hong Kong was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1st February, 2000.

Currency conversion and foreign exchange control

RMB is not freely convertible into other currencies in the PRC, except under certain circumstances. Pursuant to Regulations on the Foreign Exchange Settlement, Sale and Payments (《結匯、售匯及付匯管理規定》), foreign exchange required for the payment of dividends to overseas shareholders may be purchased from designated banks upon approval of board resolutions authorising the distribution of profits or dividends of the Company.

The Group's business operation are located in the PRC and the Directors confirmed that all revenue are denominated in RMB. There is no assurance that the Company will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

Fluctuations in the exchange rate of RMB

All of the Group's sales were made within the PRC and settled in RMB during the Track Record Period. The Group intends to develop overseas markets and therefore it will be exposed to foreign currency risk given that RMB is not freely convertible against other currencies due to the PRC Government's foreign exchange control system. With effect from 1st January, 1994, the PRC has adopted a unified floating exchange rate system, whereby the PBOC publishes a PBOC exchange rate based on the previous day's dealings in the inter-bank foreign exchange market. From 21st July, 2005, the PRC started to implement a managed floating exchange rate system which is based on market demand and supply of RMB, adjusted with reference to a basket of foreign currencies. Although new regulations have provided for greater liquidity, RMB is still not a freely convertible currency. There can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

There can be no assurance that RMB will not become volatile against foreign currencies or that RMB will not be re-valued or devalued. There can be no assurance that future movements in the exchange rates of RMB and other currencies will not have an adverse effect on the Group's business, operating results and financial condition.

Risks associated with the historical background of Xinjiang

Xinjiang is located in the northwestern border of the PRC with an area of approximately 1,660,000 square kilometres, representing approximately one-sixth of the total area of the PRC. It is the largest provincial administrative region in terms of area within the PRC. In addition, Xinjiang is in the hinterland of Asia and Europe, with a border of over 5,600 kilometres. It borders eight countries, namely Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Pakistan, Mongolia, India and Afghanistan. Historically, it was a passageway of the ancient Silk Road and has now become the thoroughfare of the second "Asia-Europe Bridge". Therefore, Xinjiang is situated in a strategically important location.

As at the end of 2006, Xinjiang had a population of approximately 20.50 million, of which approximately 60.4% were minority population. There are five Autonomous Prefectures, six Autonomous Counties and 42 rural areas in Xinjiang. The major religions in Xinjiang are Muslim, Buddhism, Christianity, Catholic and Taoism. The GDP of Xinjiang in 2006 amounted to approximately RMB301.90 billion, representing an increase of approximately 11.0% from the previous year, and per capita GDP of Xinjiang in 2006 was approximately RMB14,871, representing an increase of approximately 8.6% from the previous year.

In a white paper regarding the history and development of Xinjiang issued by the PRC Government on 26th May, 2003, separatists in Xinjiang are considered to be terrorists by the PRC Government. Since 1991, sporadic violence and terrorist attacks have taken place in Xinjiang which are alleged to be caused by the separatists. However, there is no assurance that terrorism activities in Xinjiang would not resurface under certain circumstances. If terrorist activities in Xinjiang turn rampant and cause social upheavals with destruction to agricultural production, the Group's operations may be interrupted by any such violence or terrorist attacks, resulting in lower revenues and unbudgeted costs for remedying any damage.

Risks associated with conversion of the Domestic Shares into H Shares

Subject to the approval of the regulatory authorities for securities under the State Council and the approval of the Shareholders in general meeting in accordance with the Articles of Association, the Domestic Shares may be transferred to foreign investors, and such shares may be listed or traded on an overseas stock exchange. Any listing or trading of such shares on an overseas stock exchange will also need to comply with the regulatory procedures, rules and requirements of such stock exchange. No separate class shareholders' meeting's approval is required for the listing and trading of such shares on an overseas stock exchange. In the event that the Domestic Shares are successfully converted into H Shares and listed on the Main Board, the number of H Shares available on the market will increase and as a result, the market price of the H Shares may be significantly affected.