

## **HISTORY AND DEVELOPMENT**

### **Changes in names**

The Company (formerly known as Xinjiang Shihezi Tianye Water Saving Container Development Company Limited (新疆石河子天業節水器具開發有限公司) (“**Tianye Container**”)) was established in the PRC as a limited liability company on 27th December, 1999. On 26th December, 2000, the former name of the Company was changed from Tianye Container to Xinjiang Shihezi Oasis Water Saving Irrigation System Company Limited (新疆石河子市綠洲節水灌溉有限公司) (“**Oasis Water Saving**”), and the Company renewed its business licence. On 28th November, 2003, the People’s Government of Xinjiang Uygur Autonomous Region of China (新疆維吾爾自治區人民政府) approved the reorganisation of Oasis Water Saving into a joint stock limited company by way of promotion with the Promoters acting as its promoters. On 18th December, 2003, the Industrial and Commercial Administration Bureau of Xinjiang Uygur Autonomous Region of China (新疆維吾爾自治區工商行政管理局) issued a business licence to the Company whereupon Oasis Water Saving was reorganised into a joint stock limited company with the name of Xinjiang Tianye Water Saving Irrigation System Company Limited (新疆天業節水灌溉股份有限公司), the existing name of the Company.

### **Changes in registered capital and equity interests of the Company**

#### *Phase I: Establishment*

On 27th December, 1999, Tianye Container was established in the PRC as a limited liability company with an initial registered capital of RMB25,940,000. The respective contributions to the registered capital of Tianye Container and the approximate percentages of equity interests held by the initial equity holders of Tianye Container were as follows:

<b>Equity holders</b>	<b>Amount of registered capital held (RMB)</b>	<b>Approximate percentage of equity interests</b>
Tianye Company	13,220,000	50.96%
Xinjiang Shihezi Yunfa Investment Company Limited (新疆石河子運發投資有限責任公司) (“ <b>Yunfa</b> ”) (Note 1)	12,720,000	49.04%
	25,940,000	100%

#### *Phase II: Increase in registered capital and introduction of new equity holders*

Pursuant to a capital increase agreement dated 16th October, 2000 entered into amongst Tianye Company, Yunfa and 13 individuals, (i) Yunfa agreed to increase its contribution to the registered capital of Tianye Container by RMB3,060,000 from RMB12,720,000 to RMB15,780,000; and (ii) the 13 individuals agreed to contribute RMB6,000,000 in aggregate to the registered capital of Tianye Container and became equity holders of Tianye Container.

Pursuant to the approval of the then equity holders of Tianye Container on 26th November, 2000, the above were approved and the registered capital of Tianye Container was then increased from RMB25,940,000 to RMB35,000,000.

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Upon completion of the above increase in the registered capital of Tianye Container and introduction of new equity holders, the respective contributions to the registered capital of Tianye Container and the approximate percentages of equity interests held by the then equity holders of Tianye Container were as follows:

<b>Equity holders</b>	<b>Amount of registered capital held (RMB)</b>	<b>Approximate percentage of equity interests</b>
Tianye Company	13,220,000	37.77%
Yunfa ( <i>Note 1</i> )	15,780,000	45.09%
13 individual equity holders ( <i>Note 2</i> )	<u>6,000,000</u>	<u>17.14%</u>
	<u>35,000,000</u>	<u>100%</u>

### *Phase III: Increase in registered capital and transfers of equity interests*

Pursuant to an equity interests transfer agreement dated 8th January, 2001 entered into between Yunfa and Northwest Sci-Tech and an equity interests transfer agreement dated 10th January, 2001 entered into between Yunfa and Machinery Science, Yunfa agreed to transfer its equity interests in Oasis Water Saving as to RMB400,000 to Northwest Sci-Tech at a consideration of RMB400,000 and as to RMB600,000 to Machinery Science at a consideration of RMB600,000 respectively.

Pursuant to an equity interests transfer agreement dated 20th July, 2001 entered into amongst the 13 individual equity holders, Tianye Company and Yunfa, the 13 individual equity holders agreed to transfer all of their equity interests in Oasis Water Saving amounting to RMB6,000,000 to Tianye Company at an aggregate consideration of RMB8,880,000, which was determined based on the audited net asset value of Oasis Water Saving as at 30th June, 2001.

Pursuant to the approval of the then equity holders of Oasis Water Saving on 20th July, 2001, (i) the above transfers of equity interests were approved; (ii) the registered capital of Oasis Water Saving was increased from RMB35,000,000 to RMB52,800,000; and (iii) the contribution of Tianye Company to the registered capital of Oasis Water Saving increased by RMB23,800,000 from RMB13,220,000 to RMB37,020,000, of which RMB17,800,000 was contributed by way of cash and RMB6,000,000 in the registered capital was acquired from the 13 individual equity holders.

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Upon completion of the above increase in the registered capital of Oasis Water Saving and transfers of equity interests, the 13 individual equity holders ceased to have any equity interest in Oasis Water Saving and the respective contributions to the registered capital of Oasis Water Saving and the approximate percentages of equity interests held by the then equity holders of Oasis Water Saving were as follows:

Equity holders	Amount of registered capital held (RMB)	Approximate percentage of equity interests
Tianye Company	37,020,000	70.11%
Yunfa (Note 1)	14,780,000	27.99%
Machinery Science	600,000	1.14%
Northwest Sci-Tech	400,000	0.76%
	52,800,000	100%

### *Phase IV: Transfer of equity interests*

Pursuant to an equity interests transfer agreement dated 24th April, 2002 and a supplemental equity interests transfer agreement dated 10th June, 2002 respectively, both entered into between Yunfa and Tianye Company, and the approval of the then equity holders of Oasis Water Saving on 10th June, 2002, Yunfa transferred all of its equity interests in Oasis Water Saving amounting to RMB14,780,000 to Tianye Company at a consideration of RMB27,771,600, which was determined based on the audited net asset value of Oasis Water Saving as at 30th April, 2002.

Upon completion of the above transfer of equity interests, Yunfa ceased to have any equity interest in Oasis Water Saving and the respective contributions to the registered capital of Oasis Water Saving and the approximate percentages of equity interests held by the then equity holders of Oasis Water Saving were as follows:

Equity holders	Amount of registered capital held (RMB)	Approximate percentage of equity interests
Tianye Company	51,800,000	98.10%
Machinery Science	600,000	1.14%
Northwest Sci-Tech	400,000	0.76%
	52,800,000	100%

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### *Phase V: Increase in registered capital*

Pursuant to a capital increase agreement entered into between Tianye Company and Oasis Water Saving dated 5th December, 2002, a capital increase agreement entered into between Machinery Science and Oasis Water Saving dated 5th December, 2002, and the approval of the then equity holders of Oasis Water Saving on 6th December, 2002, (i) the registered capital of Oasis Water Saving was increased from RMB52,800,000 to RMB98,992,900; (ii) the subscription of RMB45,637,300 in the registered capital of Oasis Water Saving by Tianye Company at a consideration of RMB82,147,200 which was contributed by way of injection of properties with an aggregate net asset value of RMB82,147,200 as at 31st October, 2002; and (iii) the subscription of RMB555,600 in the registered capital of Oasis Water Saving by Machinery Science at a consideration of RMB1,000,000 which was contributed by way of cash.

Upon completion of the above increase in the registered capital of Oasis Water Saving, the respective contributions to the registered capital of Oasis Water Saving and the approximate percentages of equity interests held by the then equity holders of Oasis Water Saving were as follows:

<b>Equity holders</b>	<b>Amount of registered capital held (RMB)</b>	<b>Approximate percentage of equity interests</b>
Tianye Company	97,437,300	98.43%
Machinery Science	1,155,600	1.17%
Northwest Sci-Tech	<u>400,000</u>	<u>0.40%</u>
	<u>98,992,900</u>	<u>100%</u>

### *Phase VI: Increase in registered capital and introduction of new equity holders*

Pursuant to the approval of the then equity holders of Oasis Water Saving on 23rd May, 2003 and a capital increase agreement dated 30th May, 2003 entered into amongst Tianye Company, Machinery Science, Northwest Sci-Tech, Li Tai Lai, Guo Shu Qing (郭書清), Wang Xiao Xian (王孝先) and Oasis Water Saving, (i) the registered capital of Oasis Water Saving was increased from RMB98,992,900 to RMB152,842,900; (ii) Li Tai Lai, Guo Shu Qing (郭書清) and Wang Xiao Xian (王孝先) contributed RMB90,000,000, RMB9,000,000 and RMB8,000,000 respectively in order to subscribe the amounts of RMB45,294,400, RMB4,529,400 and RMB4,026,200 respectively in the registered capital of Oasis Water Saving and became the equity holders of Oasis Water Saving.

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Upon completion of the above increase in registered capital of Oasis Water Saving and introduction of new equity holders, the respective contributions to the registered capital of Oasis Water Saving and the approximate percentages of equity interests held by the then equity holders of Oasis Water Saving were as follows:

Equity holders	Amount of registered capital held (RMB)	Approximate percentage of equity interests
Tianye Company	97,437,300	63.75%
Machinery Science	1,155,600	0.76%
Northwest Sci-Tech	400,000	0.26%
Li Tai Lai	45,294,400	29.64%
Guo Shu Qing (郭書清)	4,529,400	2.96%
Wang Xiao Xian (王孝先)	4,026,200	2.63%
	<u>152,842,900</u>	<u>100%</u>

### *Phase VII: Conversion into a joint stock limited company*

On 28th November, 2003, Oasis Water Saving obtained the Approval for the Change and Establishment of Xinjiang Tianye Water Saving Irrigation System Company Limited (Xin Zheng Han [2003] No. 193) (《關於同意變更設立新疆天業節水灌溉股份有限公司的批覆》(新政函[2003]193號)) from the People's Government of Xinjiang Uygur Autonomous Region of China (新疆維吾爾自治區人民政府) for the reorganisation of Oasis Water Saving into a joint stock limited company in the PRC by way of promotion with a registered capital of RMB317,121,560 (which represented the net asset value of Oasis Water Saving as at 31st May, 2003), divided into 317,121,560 Domestic Shares with a nominal value of RMB1.00 each. On 18th December, 2003, Oasis Water Saving was converted into a joint stock limited company, being the Company.

Upon completion of the conversion, the respective contributions to the registered capital of the Company and the approximate percentages of shareholding held by the Promoters were as follows:

Promoters	Amount of registered capital held (RMB)	Approximate percentage of shareholding
Tianye Company	202,164,995	63.75%
Machinery Science	2,410,123	0.76%
Northwest Sci-Tech	824,516	0.26%
Li Tai Lai	93,994,831	29.64%
Guo Shu Qing (郭書清)	9,386,798	2.96%
Wang Xiao Xian (王孝先)	8,340,297	2.63%
	<u>317,121,560</u>	<u>100%</u>

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Notes:

1. Yunfa was a company established in the PRC, which is now dissolved under the laws of the PRC.
2. The names, relationships with the Company and/or any associates of the connected persons of the Company, the respective contributions to the registered capital of the Company, and the approximate percentages of equity interests held by the 13 individual equity holders were as follows:

<b>Equity holders</b>	<b>Relationships with the Company and/or any associates of the connected persons of the Company</b>	<b>Contributions to registered capital (RMB)</b>	<b>Approximate percentage of equity interests</b>
Guo Qing Ren (郭慶人)	an executive Director, the chairman (until 30th June, 2007) and a director of Tianye Company and the chairman (since 6th June, 2007) and a director of Tianye Holdings	800,000	2.29%
Huang Yao Xin (黃耀新)	a former executive Director and a director of Tianye Holdings (since 6th June, 2007)	600,000	1.71%
Zhang Xin Li (張新力)	a former Director who ceased to be a Director in 2003 and a director of Tianye Holdings	600,000	1.71%
Yu Tian Chi (余天池)	a former Director who ceased to be a Director in 2003 and a director of Tianye Company and a director of Tianye Holdings until 6th June, 2007	600,000	1.71%
Wang Can (王燦)	a former Director who ceased to be a Director in 2002 and a director of Tianye Company until 30th June, 2007	600,000	1.71%
Shi Xiang Shen (師祥參)	an executive Director	600,000	1.71%
Yang Jin Qi (楊金麒)	a director of Tianye Holdings until 6th June, 2007	600,000	1.71%
Qi Yong Bai (祁永柏)	a former Supervisor who ceased to be a Supervisor in 2005	250,000	0.71%
Xu Kai Fu (徐開福)	a former Supervisor	250,000	0.71%
Zheng Xiao Ming (鄭曉明)	a former member of the senior management of the Company	350,000	1.00%
Ni Mei Lan (倪美蘭)	a Supervisor	250,000	0.71%
Li Shuang Quan (李雙全)	an executive Director and a director of Tianye Company until 30th June, 2007	250,000	0.71%
Zhu Jia Ji (朱嘉驥)	an executive Director and a director of Tianye Company since 30th June, 2007	250,000	0.71%
		<u>6,000,000</u>	<u>17.1%</u>

Save as disclosed above, none of the 13 individual equity holders are connected with the Company and its connected persons and their respective associates.

## **H Shares listed on the GEM**

The H Shares were listed on the GEM since 28th February, 2006 (stock code: 8280). As at the Practicable Date, based on the closing price of the H Shares on GEM of HK\$3.3 per H Share, the Company had a market capitalization of the H Shares of approximately HK\$668 million.

## **Transformed into a Sino-foreign joint stock limited liability company**

On 18 October 2006, with the approval granted by Ministry of Commerce of the PRC (中華人民共和國商務部), the Company transformed into a joint stock limited company (with Taiwan, Hong Kong and Macau investment). The Company is regulated by the Law of the PRC on Sino-foreign Equity Joint Ventures.

## **Changes in the shareholding structures of the members of the Group**

### *Tianye Recycling*

On 18th July, 2003, the Company entered into an agreement with Tianye Company, under which the Company agreed to acquire from Tianye Company 90% of the equity interests in Tianye Recycling at a consideration of RMB496,800, which was determined based on the audited net asset value of Tianye Recycling as at 30th June, 2003. Upon completion of the above transfer, Tianye Recycling was owned as to 90% by the Company and 10% by Alashankou Tianye Company Limited (阿拉山口天業有限責任公司) (“**Alashankou Tianye**”) (which is owned as to 99.6% by Xinjiang Tianye Foreign Trade Company Limited (新疆天業對外貿易有限責任公司) (“**Tianye Foreign Trade**”) (which is owned as to 99.75% by Tianye Company), 0.2% by Tang Hong Jian (湯宏建) and 0.2% by Wang Lin (王琳)).

On 1st November, 2005, the Company entered into a capital increase agreement with Alashankou Tianye and Tianye Recycling, pursuant to which the Company agreed to subscribe the increased amount of the registered capital of Tianye Recycling of RMB2,000,000 at a consideration of RMB2,020,000. On 15th November, 2005, the then shareholders of Tianye Recycling approved the increase in the registered capital of Tianye Recycling and the abovementioned capital increase agreement. Pursuant to the capital verification report issued by Xinjiang Xin Xin Hua Tong Certified Public Accountant Company Limited (新疆新新華通有限責任會計師事務所) dated 16th November, 2005, as at 15th November, 2005, the said increased amount of the registered capital of Tianye Recycling was fully paid up by the Company. On 18th November, 2005, Tianye Recycling obtained the new business licence from the relevant authority of the PRC. As at the Latest Practicable Date, the registered capital of Tianye Recycling is RMB2,500,000 which was owned as to 98% by the Company and 2% by Alashankou Tianye.

With the approval of Bureau of Commerce of XCPR, Tianye Recycling was converted to a limited liability company in 2nd February, 2007 (invested by foreign investment enterprises).

### *Gansu Tianye*

On 10th September, 2003, the Company entered into an agreement with Tianye Company, under which the Company agreed to acquire from Tianye Company 90% of the equity interests in Gansu Tianye at a consideration of RMB9,555,000, which was determined based on the audited net asset value of Gansu Tianye as at 30th June, 2003. Upon completion of the above transfer and as at the Latest Practicable Date, Gansu Tianye was owned as to 90% by the Company, 9.5% by Xinjiang Shihezi Zhongfa Chemical Company Limited (新疆石河子中發化工有限責任公司) (“**Zhongfa**

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**Chemical**) (which is owned as to 97.47% by Tianye Company, 0.77% by Zhang Xin Li (張新力), 0.58% by Guo Shu Qing (郭書清) (a Promoter), 0.30% by An Zhi Ming (安志明), 0.28% by Song Xiao Ling (宋曉玲), 0.30% by Xue He Ping (薛和平), 0.16% by Ni Mei Lan (倪美蘭) (a Supervisor) and 0.14% by Xia Yue Xing (夏月星)), 0.18% by Gao Jin Ming (高進明), 0.18% by Wang Hong Tao (王洪濤) and 0.14% by Chen Wei Zhong (陳衛忠).

The minority shareholders of Gansu Tianye, Wang Hong Tao (王洪濤) and Chen Wei Zhong (陳衛忠), holding 0.18% and 0.14% equity interests in Gansu Tianye respectively, were also the directors of Gansu Tianye. Save as disclosed and save for the equity interests held by Wang Hong Tao (王洪濤) and Chen Wei Zhong (陳衛忠) in Gansu Tianye, no minority shareholders of Gansu Tianye or their respective shareholders, directors and senior management or their associates have or had any relationship with the Group.

With the approval of Department of Commerce of Gansu Province, Gansu Tianye was converted to a limited liability company in 27th April, 2007 (invested by foreign investment enterprises).

### *Tianye Installation*

On 22nd December, 2003, Tianye Installation was established in the PRC with a registered capital of RMB10,000,000 and owned as to 95% by the Company. The registered capital of Tianye Installation had been fully paid up. As at the Latest Practicable Date, Tianye Installation was owned as to 95% by the Company, 4.5% by Shihezi Taian Construction Company Limited (石河子市泰安建築工程有限公司) (“**Taian Construction**”) (which is owned as to 51% by Tianye Company and 49% by 13 Independent Third Parties), and 0.5% by Xia Jian Guo (夏建國).

Save that Taian Construction is one of the customers of the Group and save for the equity interests of Tianye Installation held by the minority shareholders, no minority shareholders of Tianye Installation or their shareholders, directors and senior management or their associates have or had any relationship with the Group.

With the approval of Bureau of Commerce of XCPR, Tianye Installation was converted to a limited liability company in 2nd February, 2007 (invested by foreign investment enterprises).

### *Alaer Tiannong*

On 6th January, 2004, the Company entered into an agreement with Tianye Company, under which the Company agreed to acquire from Tianye Company 51% of the equity interests in Alaer Tiannong at a consideration of RMB5,190,830, which was determined based on the audited net asset value of Alaer Tiannong as at 31st December, 2003. Upon completion of the above transfer and as at the Latest Practicable Date, Alaer Tiannong was owned as to 51% by the Company and 49% by Xinjiang Talimu Agriculture Development Company Limited (新疆塔里木農業綜合開發股份有限公司) (“**Talimu Agriculture**”) which is owned as to 50.79% by Xinjiang Akesu Agricultural Industrial & Commerce Union Chief Company (新疆阿克蘇農墾農工商聯合總公司), a state-owned enterprise under the supervision of No. 1 Division. The A shares of Talimu Agriculture have been listed on the Shanghai Stock Exchange since 29th April, 1999.

Pursuant to the Notes to Rules 14A.11(4) of the Listing Rules, Alaer Tiannong will not be regarded as an associate of Talimu Agriculture if Talimu Agriculture is a connected person of the Company only by virtue of being a substantial shareholder holding 49% shares in Alaer Tiannong.



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Since Talimu Agriculture is holding 49% equity interests in Alaer Tiannong, Talimu Agriculture by itself is regarded as a connected person of the Company under the Listing Rules. Save as disclosed, neither Talimu Agriculture nor its shareholders, directors and senior management or their associates have or had any relationship with the Group. As at the Latest Practicable Date, Talimu Agriculture had no right to nominate any directors to the board of Alaer Tiannong under the articles of association of Alaer Tiannong and none of the existing directors of Alaer Tiannong represents the minority interests of Talimu Agriculture.

### *Hami Tianye*

On 15th October, 2004, the Company entered into an agreement with Tianye Holdings, under which the Company agreed to acquire from Tianye Holdings 60% of the equity interests in Hami Tianye at a consideration of approximately RMB6,149,490, which was determined based on the audited net asset value of Hami Tianye as at 30th September, 2004. Upon completion of the above transfer, Hami Tianye was owned as to 60% by the Company and 40% by State-owned Assets Operation and Administration Company Limited of No. 13 Division (第十三師國有資產經營有限公司) (“**SAOA of No. 13 Division**”) which is a state-owned enterprise.

On 15th August, 2006, the Company entered into a capital increase agreement with SAOA of No. 13 Division and Hami Tianye, pursuant to which the Company agreed to subscribe the increased amount of the registered capital of Hami Tianye of RMB9,000,000 at a consideration of RMB9,000,000. On 30th August, 2006, the then shareholders of Hami Tianye approved the increase in the registered capital of Hami Tianye and the abovementioned capital increase agreement. Pursuant to the capital verification report issued by Xinjiang Ruixin Limited Liability Certified Public Accounts (新疆瑞新有限責任會計師事務所) dated 20th September, 2006, RMB5,400,000 and RMB3,600,000 of the registered capital of Hami Tianye was paid by the Company and SAOA of No. 13 Division as at 19th September, 2006 and 11th September, 2006 respectively. On 25th September, 2006, Hami Tianye obtained the new business license from the relevant authority of the PRC.

Since SAOA of No. 13 Division is holding 40% equity interests in Hami Tianye, SAOA of No. 13 Division is regarded as a connected person of the Company under the Listing Rules. Save as disclosed, neither SAOA of No. 13 Division nor its directors, senior management or their associates have or had any relationship with the Group.

As at the Latest Practicable Date, the registered capital of Hami Tianye is RMB19,000,000 which was owned as to 60% by the Company and 40% by SAOA of No. 13 Division. SAOA of No. 13 Division had no right to nominate any directors to the board of Hami Tianye under the articles of association of Hami Tianye and none of the existing directors of Hami Tianye represents the minority interests of SAOA of No. 13 Division.

### *Zhaoqing Tianye*

Zhaoqing Tianye was established under the laws of the PRC with limited liability on 5th September, 2006 with an operating period of ten years. The registered capital of Zhaoqing Tianye was RMB3,000,000 which is owned as to 80% by the Company and 20% by Zhaoqing Tifo New Fibre Co., Ltd. which is a substantial shareholder of Zhaoqing Tianye and is deemed to be a connected person (as ascribed by the Listing Rules) of the Company.

*Kuitun Tiantun*

Kuitun Tiantun was established under the laws of the PRC with limited liability on 4th September, 2006 with an operating period of ten years. The registered capital of Kuitun Tiantun was RMB12,000,000 which is owned as to 80% by the Company and 20% by State-owned Assets Operation and Administration Company Limited of No. 7 Division (第七師國有資產經營有限公司) (“**SAOA of No. 7 Division**”).

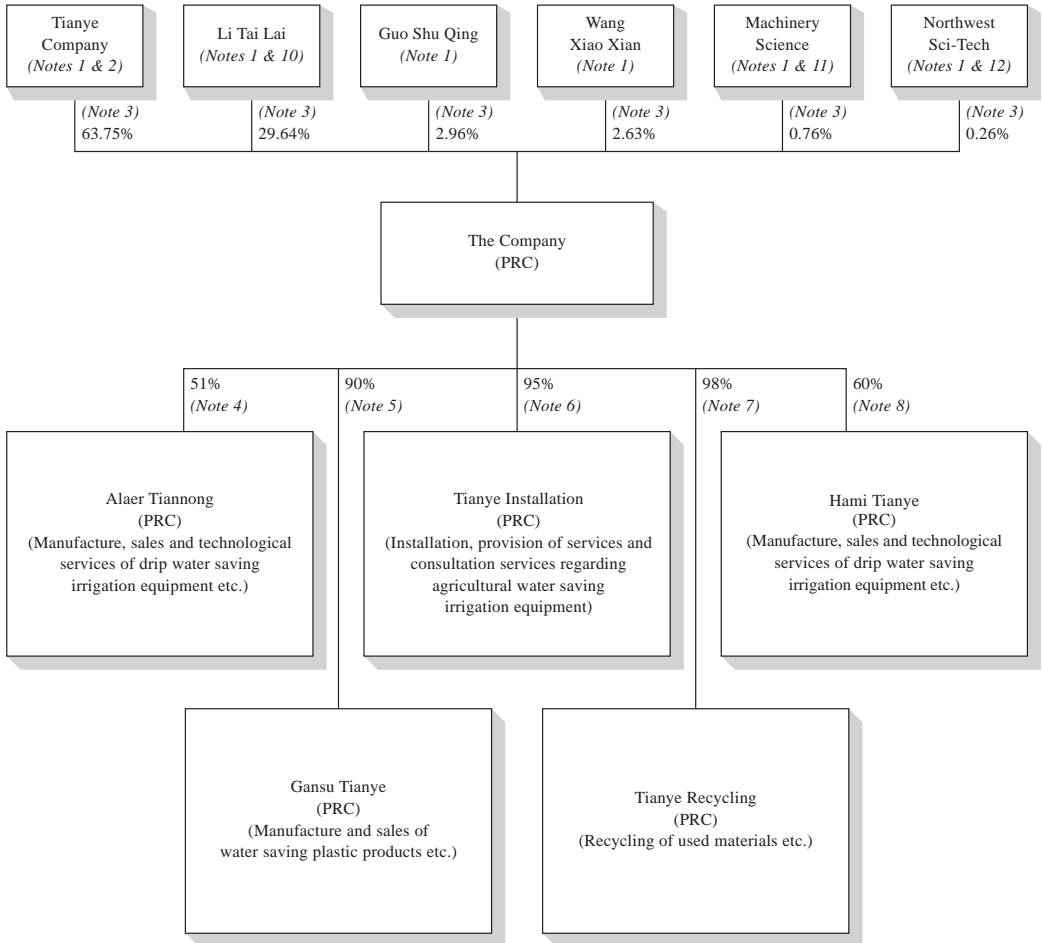
*Hami Huimin*

Hami Huimin was established under the laws of the PRC with limited liability on 20th March, 2007 with an operating period of ten years. The registered capital of Hami Huimin was RMB100,000 and wholly owned by Hami Tianye. On 19th June, 2007, Hami Tianye increased the amount of the registered capital of Hami Huimin to RMB500,000. Pursuant to the capital verification report issued by Hami branch of Xinjiang Ruixxin Limited Liability Certified Public Accountants (新疆瑞新有限責任會計師事務所哈密分所) dated 19th June, 2007, the said increased amount of the registered capital of Hami Huimin was fully paid up by Hami Tianye. On 20th June, 2007, Hami Huimin obtained the new business license from the relevant authority of the PRC. As at the Latest Practicable Date, the registered capital of Hami Huimin is RMB500,000 which is wholly owned by Hami Tianye.

Save as disclosed above and so far as known to the Directors, no minority shareholders of the non-wholly owned subsidiaries of the Group or their respective shareholders, directors and senior management or their associates have or had any relationship with the Group and there is no relationship among the minority shareholders of the non wholly-owned subsidiaries of the Company.

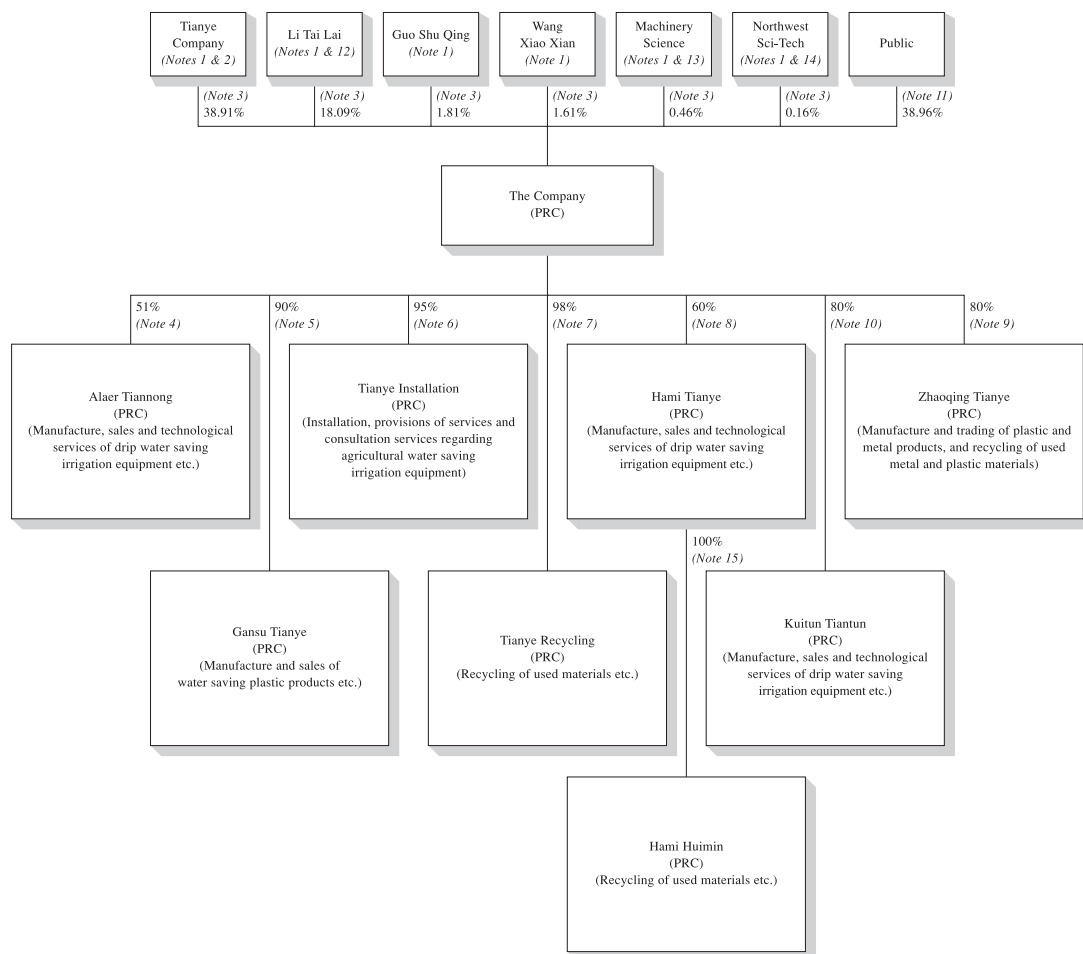
**GROUP STRUCTURE**

On 18th November, 2005, the Group completed a corporate reorganisation in preparation for the listing of the H Shares on the GEM, as a result of which the Company became the holding company of the Group. Details of the corporate reorganisation are set out in the paragraphs headed “Changes in the share capital and shareholding structure of the Company” and “Changes in the share capitals of the subsidiaries of the Company” in Appendix V to this document. The corporate structure after the completion of corporate reorganisation and the main business activities of the members of the Group are set out below:



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The H Shares have been listed on the GEM since 28th February, 2006. As at the Latest Practicable Date, the Group's shareholding structure is set out below:



**Notes:**

1. They are Promoters.
2. Tianye Company was established in the PRC with limited liability on 9th June, 1997, 248,832,000 A shares of which were listed on the Shanghai Stock Exchange as at the Latest Practicable Date. It is owned as to 43.27% of the registered capital by Tianye Holdings which is wholly owned by SAAC of No. 8 Division. Both Guo Qing Ren and Zhu Jia Ji are directors of the Company and Tianye Company respectively. The substantial shareholder of Tianye Company, Tianye Holdings, is one of the customers and suppliers of the Group. Guo Qing Ren is also a director of Tianye Holdings.
3. They hold Domestic Shares.
4. Alajer Tiannong was established in the PRC with a registered capital of RMB10,000,000 and owned as to 51% by the Company and 49% by Talimu Agriculture which is owned as to 50.79% by Xinjiang Akesu Agricultural Industrial & Commerce Union Chief Company (新疆阿克苏农垦工商联合总公司), a state-owned enterprise under the supervision of No. 1 Division which is the Independent Third Party. The A shares of Talimu Agriculture have been listed on the Shanghai Stock Exchange since 29th April, 1999. Alajer Tiannong shall not be considered as a connected person of the Company pursuant to Note 2 of Rule 14A.11(4) of the Listing Rules, pursuant to which a non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non

*wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly owned subsidiary concerned.*


5. *Gansu Tianye was established in the PRC with a registered capital of RMB11,050,000 and owned as to 90% by the Company, 9.5% by Zhongfa Chemical (which is owned as to 97.47% by Tianye Company, 0.77% by Zhang Xin Li (張新力), 0.58% by Guo Shu Qing (郭書清), 0.30% by An Zhi Ming (安志明), 0.28% by Song Xiao Ling (宋曉玲), 0.30% by Xue He Ping (薛和平), 0.16% by Ni Mei Lan (倪美蘭), a Supervisor, and 0.14% by Xia Yue Xing (夏月星)), 0.18% by Gao Jin Ming (高進明), 0.18% by Wang Hong Tao (王洪濤) and 0.14% by Chen Wei Zhong (陳衛忠). Zhongfa Chemical is a subsidiary of Tianye Company and hence is considered as a connected person as ascribed by the Listing Rules. Tianye Company is a passive investor in Gansu Tianye and it is not involved in the management and operations of Gansu Tianye. Gansu Tianye shall not be considered as a connected person of the Company pursuant to Note 2 of Rule 14A.11(4) of the Listing Rules, pursuant to which a non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly owned subsidiary concerned.*
6. *Tianye Installation was established in the PRC with a registered capital of RMB10,000,000 and owned as to 95% by the Company, 4.5% by Taian Construction (which is owned as to 51% by Tianye Company and 49% by 13 Independent Third Parties), and 0.5% by Xia Jian Guo (夏建國). Taian Construction is a subsidiary of Tianye Company and hence is considered as a connected person as ascribed by the Listing Rules. Tianye Company is a passive investor in Tianye Installation and it is not involved in the management and operations of Tianye Installation.*
7. *Tianye Recycling was established in the PRC with a registered capital of RMB2,500,000 and owned as to 98% by the Company and 2% by Alashankou Tianye (which is owned as to 99.6% by Tianye Foreign Trade (which is owned as to 99.75% by Tianye Company and 0.25% by Zhongfa Chemical), 0.2% by Tang Hong Jian (湯宏建) and 0.2% by Wang Lin (王琳)). Tianye Company is a passive investor in Tianye Recycling and it is not involved in the management and operations of Tianye Recycling. Alashankou Tianye is considered as a connected person as ascribed by the Listing Rules.*
8. *Hami Tianye was established in the PRC with a registered capital of RMB19,000,000 and owned as to 60% by the Company and 40% by SAOA of No. 13 Division, an Independent Third Party. SAOA of No. 13 Division is regarded as a connected person under the Listing Rules. Hami Tianye shall not be considered as a connected person of the Company pursuant to Note 2 of Rule 14A.11(4) of the Listing Rules, pursuant to which a non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly owned subsidiary concerned.*
9. *Zhaoqing Tianye was established under the laws of the PRC with limited liability on 5th September, 2006 with an operating period of ten years. The registered capital of Zhaoqing Tianye was RMB3,000,000 which is owned as to 80% by the Company and 20% by Zhaoqing Tifo New Fibre Co., Ltd which is owned as to 51% by Guangdong Junfu Enterprises Limited (廣東俊富實業有限公司) and 49% by Tinri Enterprises Co., Limited (天乙實業有限公司). Zhaoqing Tifo is a Sino-foreign joint venture established on 26th February, 2003 and is principally engaged in the trading of multi-functional fibre. The registered share capital of Zhaoqing Tifo is US\$12 million. The shareholders, the directors and senior management of Zhaoqing Tifo are Independent Third Parties and do not engage in business which may compete with that of the Group. Zhaoqing Tifo is considered as a connected person as ascribed by the Listing Rules. Zhaoqing Tianye shall not be considered as a connected person of the Company pursuant to Note 2 of Rule 14A.11(4) of the Listing Rules, pursuant to which a non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly owned subsidiary concerned.*
10. *Kuitun Tiantun was established under the laws of the PRC with limited liability on 4th September, 2006 with an operating period of ten years. The registered capital of Kuitun Tiantun was RMB12,000,000 which is owned as to 80% by the Company and 20% by SAOA of No. 7 Division. SAOA of No. 7 Division is established on 23rd April, 2003 and established as state-owned enterprise. SAOA of No. 7 Division is principally engaged in the operation, management, custody, providing guarantee, investment, mergers, acquisitions of property rights and transfer of*

state-owned assets. The registered share capital of SAOA of No. 7 Division is RMB67,210,000. The directors and senior management of SAOA of No. 7 Division are Independent Third Parties and do not engage in business which may compete with that of the Group. SAOA of No. 7 Division is considered as a connected person as ascribed by the Listing Rules. Kuitun Tiantun shall not be considered as a connected person of the Company pursuant to Note 2 of Rule 14A.11(4) of the Listing Rules, pursuant to which a non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly owned subsidiary concerned.

11. They hold H Shares.
12. Li Tai Lai is owned as to 58% by Yang Ming Gui (楊明貴), 12% by Hu Hai (胡海), 10% by Xu Jiang (許江), 10% by Wan Ping (萬平), 5% by Zhao Xiao Ning (趙小寧) and 5% by Li Yu Sen (李育森). It is a passive investor of the Company. It has no business or other relationship with the Group and has no involvement in the management of the Company.
13. Machinery Science was established and restructured from Machinery Science Research Institute of Machinery Industrial Department in the PRC on 29th April, 2000. It is under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), which is a PRC Government body. It does not have any board of directors. Save for its shareholding in the Company, it has no business or other relationship with the Group. The Directors confirmed that the governing body of Machinery Science is independent of and has no relationship with the Group or any connected persons of the Company.
14. Northwest Sci-Tech is a university established and funded by the Ministry of Education of the PRC (中華人民共和國教育部). The Ministry of Education of the PRC (中華人民共和國教育部) is a PRC Government body. It does not have any board of directors. Save for its shareholding in the Company, it has no business or other relationship with the Group. The Directors confirmed that the governing body of Northwest Sci-Tech is independent of and has no relationship with the Group or any connected persons of the Company.
15. Hami Huimin was established under the laws of the PRC with limited liability on 20th March, 2007 with an operating period of ten years. The registered capital of Hami Huimin was RMB100,000 and wholly owned by Hami Tianye. On 19th June, 2007, Hami Tianye increased the amount of the registered capital of Hami Huimin to RMB500,000. Pursuant to the capital verification report issued by Hami branch of Xinjiang Ruixin Limited Liability Certified Public Accountants (新疆瑞新有限責任會計師事務所哈密分所) dated 19th June, 2007, the said increased amount of the registered capital of Hami Huimin was fully paid up by Hami Tianye. On 20th June, 2007, Hami Huimin obtained the new business license from the relevant authority of the PRC. As at the Latest Practicable Date, the registered capital of Hami Huimin is RMB500,000 which was wholly owned by Hami Tianye.

## **DESCRIPTION OF BUSINESS**

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 4,107,000 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.

### **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 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 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.



**PRODUCT RANGE****Drip film**

Drip film is fit for row plant in open field and it is the main component of the water saving irrigation system. This kind of products are recyclable and can be categorised into three main types: (1) single-sided labyrinth-style drip films; (2) embedded-style drip films; and (3) heavy flow compensatory-style drip films. The table below illustrates the features, and usage of each type of drip films offered by the Group:

<b>Drip film</b>	<b>Features</b>	<b>Usage</b>
single-sided labyrinth-style drip films	<ul style="list-style-type: none"><li>● Labyrinth, outlet and film are formed at the same time. The cost is the lowest and quality is good</li><li>● Because of big passage, turbulent flow, several inlets, the capability of anti-lugging of this film is better than others</li><li>● Made from good material results in strong tensile strength, it is easy for machine to lay the drip film in open field</li><li>● Small weight per coil makes it easy to transport, lay and recycle</li></ul>	This kind of drip film is fit for row plant in open field or fruit trees in greenhouses
embedded-style drip films	<ul style="list-style-type: none"><li>● Drippers are formed by moulding once with minimal difference in flow rate</li><li>● Efficient anti-clogging with slot filter on the dripper itself and turbulent flow</li><li>● Flat drippers and pipelines are formed by squeezing in an integrated process</li><li>● Convenient to lay and recycle</li><li>● Drip interval can be adjusted freely according to the customers' requirements</li></ul>	This kind of drip film can be used in a wider range of open field

<b>Drip film</b>	<b>Features</b>	<b>Usage</b>
heavy flow compensatory-style drip films	<ul style="list-style-type: none"><li>● Special design without the following weaknesses: initial surge with low pressure, or high pressure shut down</li><li>● Special punch pin makes it very easy to install the dripper into pipe and installation can be finished automatically on the machine line in factory or manual in the field</li><li>● With the filter on the dripper itself and the special vibrate-clean principle it is more efficient on resisting clogging</li><li>● Small size and big discharge, the dripper is the cheapest one</li><li>● Drip film can lay on the ground or be buried underground</li></ul>	This kind of drip film is fit for orchard or for field with long distance or big slope or irregular landform



Drip film

### PVC/PE pipelines

PVC/PE pipelines and their lateral pipelines in water saving irrigation system, together with drip films are collectively named as “aboveground pipelines”, which are connected with the underground mainline for water supply. The raw materials for PVC/PE pipelines are mainly PE and PVC resins.



PVC pipeline



PE pipeline

**Drip assemblies**

The following photographs illustrate some of the drip assemblies manufactured by the Group, which include off-take, coupler, fitting with one inlet and six outlets, 3/4-inch ball valve, clamp, 2-inch ball valve, tee, plug, elbow and tee with male thread, all of which are used for connecting with PVC pipelines and drip films in different models with different diameters.

Drip assemblies



off-take



3/4-inch ball valve



plug



coupler



clamp



elbow



fitting with one inlet and six outlets



2-inch ball valve



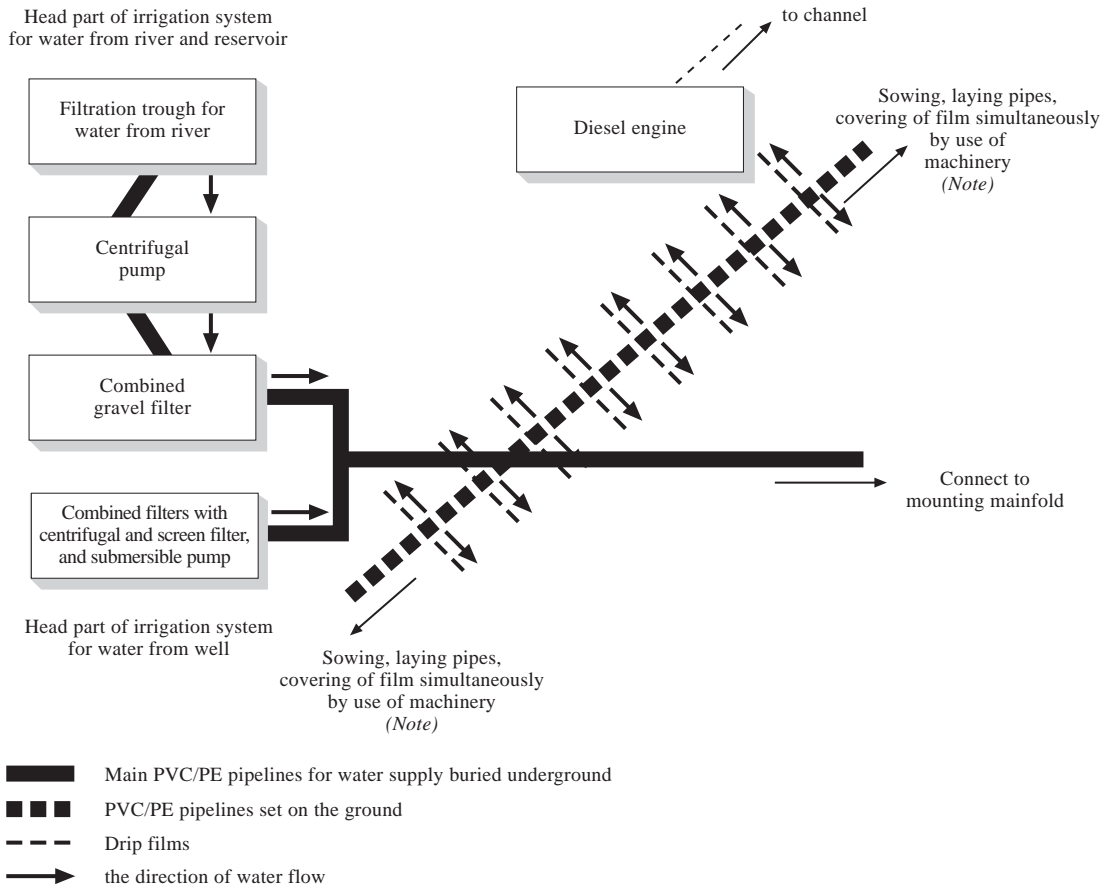
tee with male thread



tee

**INSTALLATION SERVICES OF WATER SAVING IRRIGATION SYSTEM**

Other than manufacturing and sales of components of water saving irrigation system, the Group is also engaged in the provision of one-stop solution on implementing water saving irrigation system on project basis. The diagram below briefly describes the overall structure of water saving irrigation system provided by the Group:



*Note:* Sowing, laying pipes, covering of film simultaneously by use of machinery means that different traditional or modern agricultural stages such as sowing, covering of film, perforating, folding, and pressing are completed simultaneously via mechanical ways.

Installation services projects of the Group are undertaken by its own installation services team of 10 employees, or subcontracting out to the other third parties. In general, it requires approximately 30 to 45 days to install a water saving irrigation system in an area of over 100 hectares.

After certification of an installation services project is passed, training will be provided to a customer to ensure that the customer can operate the water saving irrigation system.

**PROCUREMENT**

Principal raw materials of the Group's products include PVC/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 (i.e. PVC/PE resins) accounted for approximately 70.3%, 69.9%, 67.8% and 78.3% respectively of the Group's total purchase.

The Group's raw materials can be classified into new raw materials and recycled raw materials. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, new raw materials accounted for approximately 87.3%, 86.9%, 84.8% and 79.7% respectively of the total purchase of the Group, while recycled raw materials accounted for approximately 12.7%, 13.1%, 15.2% and 20.3% respectively of the Group's total purchase in the same period.

**New raw materials**

As confirmed by the Directors, the Group currently sources its principal raw materials from suppliers located in the PRC only. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, cost of raw materials procured from the Group's top five suppliers (including Tianye Holdings Group) accounted for approximately 59.8%, 67.3%, 61.5% and 55.3% of the Group's total purchase respectively. For the same period, cost of raw materials from the Group's largest supplier accounted for about 34.4%, 24.8%, 29.4% and 20.0% respectively of the Group's total purchase. The Group has up to 7 years' business relationship with its top five suppliers and the Directors consider that the Group has a good relationship with its top five suppliers. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, purchase 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 Group's total purchase of raw materials 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. Details of these transactions with Tianye Holdings Group are set forth in the paragraph headed "Connected transactions" of this section.

## BUSINESS

Set out below is the information relating to the Group's purchases from Tianye Holdings Group during the Track Record Period:

Suppliers	Principal Business	Products acquired	Upstream and downstream production relationship	Reasons for business not included in the Group
Tianye Company	Production and sales of plastic and chemical products; vehicles transportation; sales of machinery facilities (other than small vehicles and those products required special approval by the State), construction material, hardware electric apparatus, steel products, grain cotton, textiles products, vehicle accessories, livestock products and dried and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste, fertilisers and other side-products or food products (alcohol and cigarettes only allowed for retailing); collating, processing and sales of used plastic; and import and export of goods and technologies (other than those goods and technologies restricted by the State).	PVC resins, contracting films, internal films etc.	The principal raw material for manufacturing the Group's PVC pipelines is PVC resins, which is one of the products manufactured by Tianye Company under its chlorine chemical business. Therefore, Tianye Company's manufacturing of PVC resins is an upstream business of the Group's PVC pipelines. The contracting films and internal films acquired from Tianye Company by the Group are used for packaging of the Group's products. The Directors further consider that there is no upstream and downstream production relationship.	The current annual production capacity of PVC resins of Tianye Company is approximately 300,000 tonnes, and the Group's annual consumption of PVC resins is approximately 26,000 tonnes. Since the annual consumption by the Group is less than 10% of the annual production capacity of Tianye Company, the Directors are of the view that backward integration into the manufacturing of PVC resins by injecting such business from Tianye Company into the Group will not serve the best interests of the Group as a whole. The Directors have the view that inclusion of contracting films and internal films businesses does not improve efficiency and product specialty of the Group, therefore, such business is not included in the Group.
Xinjiang Tianye Chemical and Light Industry Limited Company	Sales of chemical materials, chemical products, mechanical and electrical products, plastic products, agricultural by-products (excluding grains and cotton) and livestock products etc.	Stabilizers	Not applicable The stabilizers are auxiliary material for manufacturing of the Group's products.	It is principally engaged in the trading of various commodities and not engaged in production. Its principal business is different from that of the Group.

## BUSINESS

Suppliers	Principal Business	Products acquired	Upstream and downstream production relationship	Reasons for business not included in the Group
Zhongfa Chemical	Production and sales of PVC resin. Manufacturing of plastic films, plastic boards, pipes and rods, manufacturing and sales of plastic thread woven belts, ropes and packing belts, production and sales of industrial products, such as ion membrane caustic soda	PVC resins	It produces PVC resins, the principal raw material of the Group's product; accordingly, its PVC resins production business is the upstream business of the Group's principal business.	In 2004, Tianye Company has integrated its PVC sales business by centralizing the PVC sales of Tianye Company and its subsidiaries (including Zhongfa Company). As a result, during the Track Record Period, the Group recorded that the Company purchased approximately 0.08% of, nil, nil and nil PVC resins, respectively, from Zhongfa Chemical.
Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司)	Trading and it was no longer engaged in the production of water saving irrigation equipments since 2005.	PE	Not applicable	The principal business of Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司) is different from that of the Group. Beijing Tianye, currently, is principally engaged in leasing of its properties to the Independent Third Parties.

Save as disclosed, none of the Directors, their respective associates or the existing Shareholders who owns more than 5% of the issued share capital of the Company has any interest in the Group's top five suppliers during the Track Record Period.

The Directors confirmed that all purchases of the Group are denominated in RMB and are generally paid by cheque or telegraphic transfer. During the Track Record Period, purchases of the Group were settled by means of cash on delivery and open accounts basis. For the three years ended 31st December, 2006 and the six months ended 30th June, 2007, as to about 85.7%, 79.8%, 79.5% and 69.3% respectively, of total purchases were settled by cash on delivery basis, while as to about 14.3%, 20.2%, 20.5% and 30.7% respectively, of total purchases were settled by open account basis with credit period ranging from 30 to 90 days and repaid according to the agreements under special circumstances.



At present, the Group adopts the internal control procedures regarding procurement prepared by the production technology department of the Group with the aim of ensuring the quality of raw materials. The procedures are carried out by officers of the procurement department of the Group to compile a list of qualified suppliers for procuring new raw materials.

### *Evaluation of potential suppliers*

The procurement department of the Group evaluates a list of potential suppliers in terms of their basic production facilities, on-time delivery performance, testing facilities as well as quality assurance and the results of evaluation are recorded in an evaluation form.

### *Selection of qualified suppliers*

Based on the evaluation form, the performance of all potential suppliers is analysed and compared for compiling a list of qualified suppliers. The department head approves such list of qualified suppliers prior to making any order to those qualified suppliers.

### *Management of suppliers*

In order to ensure continuing supply of high quality raw materials, members of the procurement department of the Group visit the suppliers for evaluating their production processes. Only suppliers who are capable of meeting the Group's standards are qualified as the suppliers of the Group in the following year.

### *Execution of procurement*

Staff of the procurement department of the Group selects appropriate supplier from the approved list of qualified suppliers after receiving an order for procuring specified raw materials.

### *Quality assurance of raw materials supplied*

Based on the internal quality assurance procedures (檢驗和試驗控制程序) prepared by the quality assurance department of the Group, the Group assesses the raw materials supplied, before the production process.

## **Recycled raw materials**

One of the subsidiaries of the Company, Tianye Recycling, is principally responsible for collecting the used drip films from the customers of the Group for processing into recycled raw materials. Since 2002, the Group has adopted the trade-in method (the “**Trade-in Method**”) to collect used drip films from customers and has accounted for the purchase cost of such used drip films at market fair value. Meanwhile, customers of the Group can enjoy sales discount. The actual discount provided to customers is the fair value of the used drip films that were trade-in. This reduces the purchase price actually paid by customers. The Directors believe that such measure can attract more customers and expand the sales market of the Group's products. The Company can use the used products as recycled materials for producing new products which will reduce the production costs of the Group while the customers can enjoy a lower purchase price of the products. The total purchases of recycled raw materials by the Company from Tianye Recycling amounted to approximately RMB27.8 million, RMB35.3 million, RMB91.4 million and RMB47.8 million for the three years ended 31st December, 2006 and the six months ended 30th June, 2007 respectively.

## BUSINESS

During the Track Record Period for the three years ended 31st December, 2006 and for the six months ended 30th June, 2007, the Group's total purchase of recycled raw materials accounted for approximately 12.7%, 13.1%, 15.2% and 20.3%, respectively, of the Group's total purchase for the same year/period, the respective cost-saving was approximately RMB11,784,000, RMB16,639,000, RMB11,951,000 and RMB35,772,000 respectively.

### PRODUCTION

#### Production facilities and capacities

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 use 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.

Name of workshops	Approximate number of employees	Approximate gross floor areas (sq.m.)	Approximate annual output in 2006 (in tonnes)	Approximate output for the six months ended 30th June, 2007 (in tonnes)
Workshop of drip films (Note 1)	311	17,228	15,387	11,460
Workshop of pipelines (Note 2)	104	9,196	27,841	15,492
Utility workshop (Note 3)	26	1,623	N/A	N/A
Recycled raw materials production factory (Note 4)	63	2,122	7,791	5,090
Workshop of earth drip films	5	606	349	210
Others (Note 5)	125	<u>8,612</u>	<u>N/A</u>	<u>N/A</u>
<b>Total:</b>		<u><u>39,387</u></u>	<u><u>51,368</u></u>	<u><u>32,252</u></u>

Notes:

1. Workshop of drip film is the production factory of drip films and drip assemblies.
2. Workshop of pipelines is the production factory of PVC/PE pipelines.
3. Utility workshop is the factory for the internal allocation of water and electricity supply to the factories.

## BUSINESS

4. Recycled raw materials production factory is the production factory with the use of recycled raw materials.
5. Others include guard house, warehouses and workshops for the provision of support to produce auxiliary components and drip assemblies.

The table below shows the utilisation rate for each production line of the Group for the year ended 31st December, 2006:

Product	Peak-season utilisation rate (approximately)	Slack-season utilisation rate (approximately)	Annual consolidated utilisation rate (approximately)
Drip films	99.8	51.6	72.8
PVC pipelines	102.3	102.3	102.3
PE pipelines	91.8	20.3	60.7
Drip assemblies	39.1	8.9	19.0

*Note: Peak season includes January, February, March, April, November and December while the slack season includes May, June, July, August, September and October of 2006.*

The table below shows the size, location and how the Group obtains the right to use of each production line of the Group:

### *The Company*

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of drip films	13,647	168 (ten of which are for PE pipelines and 14 of which are for drip assemblies)	81	Leasing	Shihezi, Xinjiang
Workshop of PVC pipelines	5,081	7	726	Leasing	Shihezi, Xinjiang
Warehouse for raw material of drip films	2,377	Not applicable	Not applicable	Leasing	Shihezi, Xinjiang
Warehouse for raw material of pipelines	1,181	Not applicable	Not applicable	Leasing	Shihezi, Xinjiang

## BUSINESS

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Warehouse for finished goods of drip films	1,180	Not applicable	Not applicable	Leasing	Shihezi, Xinjiang
Utility workshop	1,363	Not applicable	Not applicable	Leasing	Shihezi, Xinjiang
Recycled raw materials production factory	1,089	5	218	Leasing	Shihezi, Xinjiang

### *Hami Tianye*

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of drip films	606	12	51	Ownership	Hami, Xinjiang
Workshop of PVC pipelines	606	2	303	Ownership	Hami, Xinjiang
Workshop of PE pipelines	449	3	150	Ownership	Hami, Xinjiang
Workshop of drip assemblies	606	7	87	Ownership	Hami, Xinjiang
Workshop of earth drip films	606	4	152	Ownership	Hami, Xinjiang
Wheel House	99	Not applicable	Not applicable	Ownership	Hami, Xinjiang
Scraps	69	Not applicable	Not applicable	Ownership	Hami, Xinjiang
Raw materials	519	Not applicable	Not applicable	Ownership	Hami, Xinjiang
Machinery maintenance	456	Not applicable	Not applicable	Ownership	Hami, Xinjiang
Storeroom	525	Not applicable	Not applicable	Ownership	Hami, Xinjiang
Storeroom	62	Not applicable	Not applicable	Ownership	Hami, Xinjiang

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**BUSINESS**

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*Alaer Tiannong*

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of drip films	2,400	18 (two of which are for PE pipelines)	133	Ownership	Akesu, Xinjiang
Utility workshop	260	Not applicable	Not applicable	Ownership	Akesu, Xinjiang
Guard House	18	Not applicable	Not applicable	Ownership	Akesu, Xinjiang

*Gansu Tianye*

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of PVC pipelines	3,060	3	1,020	Leasing	Zhangye, Gansu

*Kuitun Tiantun*

Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of drip films	576	10	57.6	Leasing	Kuitun, Xinjiang

# BUSINESS

Zhaoqing Tianye

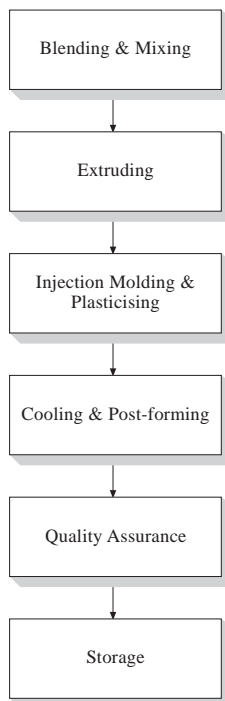
Name of the workshop	Approximate gross floor area (sq.m.)	Number of production lines	Approximate attributable gross floor area for each production line (sq.m.)	Right of use	Location of the workshops
Workshop of granulation	1033	1	1033	Leasing	Zhaoqing, Guangdong

This production line of workshop of granulation was leased from the Company.

## Production process

The following charts illustrate the principal steps involved in the manufacturing of the Group's core products, including pipelines, drip films and drip assemblies, by using new raw materials:

### *Production of core products with new raw materials*



#### 1. *Blending and Mixing*

New raw materials, mainly PVC and PE resins, are blended and mixed with catalysts to form mixtures, and the mixtures are heated to a pre-set temperature.

#### 2. *Extruding*

Through extrusion machine, heated mixtures are extruded into a model with pre-set shape.

3. *Injection Molding and Plasticising*

The model made from extrusion is then plasticised through injection molding.

4. *Cooling and Post-forming*

The plasticised model is fixed and cut into a typical shape as finished product under cooling and post-forming through a cooling machine.

5. *Quality Assurance*

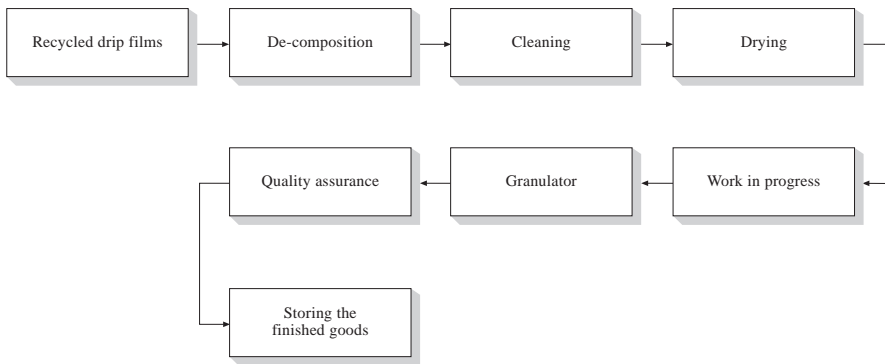
The Group's quality assurance team will ensure the finished products are capable of meeting the Group's pre-defined quality standards.

6. *Storage*

After passing the pre-defined quality standards, finished goods are stored in the specified storeroom.

Apart from manufacturing products from new raw materials, the Group also collects used products from customers for processing the same into recycled raw materials for manufacturing new products, for the purpose of environmental protection. Through recycling used products as illustrated in the flowchart below, new products with assured quality are produced:

***Recycling of used products***



1. Used drip films are collected from the customers and recycled.
2. Work in progress is made through the procedures of decomposition, cleaning and drying.
3. After sifting of the uncompleted products or semi-products by the granulator, finished products are produced.
4. The Group's quality assurance team will ensure the finished products are capable of meeting the Group's pre-defined quality standards.
5. After passing the relevant quality standards, finished goods are stored in the specified storeroom.

### INVENTORY

The Directors believe that maintaining a reasonable inventory level is one of the key factors of the Group's success in the market. The Group's despatch centre is responsible for managing the procedures of transportation, raw materials matching, products delivery and inventory control. Transportation of the Group's products are subcontracted to the other third parties. The Group regularly assesses their quality of work and capabilities according to their previous performance.

The Group's inventory policy on purchasing raw materials is based on confirmed orders. Upon receiving a confirmed order from a customer, a list of raw materials required is prepared, which is then checked against the inventory to determine the amount of raw materials required to be purchased. Stock movements from storeroom of each of the Group's production facilities are recorded in the respective stock ledgers and stock movement reports are examined on a regular basis.

The closing price of inventories of the Group in each year is calculated at the lower cost or realisable net value. Provision for impairment of the inventories is made if the realised net value is lower than the cost. If as at the end of a year, the cost of a particular item of inventories is found to be higher than its realisable net value, provision is made against the difference in excess of the realisable net value.

### QUALITY CONTROL

The Group has implemented stringent quality control procedures made by its quality assurance department. The Group's quality control and assurance functions are performed by its quality control team of the quality assurance department, which currently comprises 54 members. Set out below are the major quality control procedures performed by the Group:

#### **Raw materials**

All incoming products and raw materials are subject to inspection by the quality control team to ensure that these raw materials are capable of satisfying customers' requirements and specifications. If the quality of one lot of raw materials is doubtful, the Group will send the whole lots of raw materials to the quality assurance department for further evaluation and testing.

#### **In-process quality control**

Quality inspection is implemented at each stage of the Group's production process. All uncompleted products or semi-finished products are inspected by the quality control team. Defective semi-finished products identified is to be handled by one of the following ways before entering into the next stage of the production process:

- smashed and re-used in production as raw materials;
- re-work and re-modify; or
- for other uses.



**Finished products quality assurance**

All finished products are inspected to ensure that these products are capable of satisfying customers' specifications and requirements and the relevant quality standards. The Group is committed to produce high-quality products through the implementation of stringent quality control procedures. Finished products have to satisfy the specific quality standards before delivering to the customers, the table below describes the specific quality standards for various products of the Group:

<b>Name of the products/name of quality and technology standard</b>	<b>Quality standard code</b>	<b>Publishing organisation</b>	<b>Year of publication</b>
One-off plastic drip films	QB/T2517-2001	China Light Industry Association	2001
Agricultural hard PVC pipelines	JB/T5125-91	Department of Mechanical and Electronic Industries, PRC	1991
Low-density PE pipelines for water supply	QB1930-93	Department of Light Industry, PRC	1994
Technical parameters and requirements of plastic pipe for sprinkler irrigation — low-density PE pipelines	SL/T96.2-1994	Ministry of Water Resources of the PRC	1994
Low-density PE pipe for sprinkler irrigation	QB/T3803-1999	The State Bureau of Standard, PRC	1986
Unplasticised PVC pipelines for water supply (PVC-U)	GB/T 10002.1-1996	The State Bureau of Technological Supervision	1996
Technical parameters and requirements of plastic pipe for sprinkler irrigation — hard PVC pipelines	SL/T96.1-1994	Ministry of Water Resources of the PRC	1994

**AWARDS**

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 several awards for the R & D of its products and technology. The Group has received the following awards:







<b>Name of Product/Project</b>	<b>Awards/Certificates</b>	<b>Issuing organisation</b>	<b>Year</b>
Water-saving equipment with the brandname of “Tianye” (天業牌節水器材)	Xin Jiang Top Brand (新疆名牌產品)	Xinjiang Top Brand Strategic Promotion Committee (新疆名牌戰略推進委員會)	2006
PVC pipelines with the brandname of “Tianye” (天業牌PVC管材)	Xin Jiang Top Broad (新疆名牌產品)	Xinjiang Top Brand Strategic Promotion Committee (新疆名牌戰略推進委員會)	2006
Plastic water-saving equipment with the brandname of “Tianye” (天業牌塑膠節水器材)	Certified as the top brand in Xinjiang (新疆名牌產品)	Xinjiang Top Brand Strategic Promotion Committee (新疆名牌戰略推進委員會)	2003
Heavy flow compensatory-style drip films (大流量壓力補償式滴灌帶)	Certified as high-tech product (高新技術產品)	Department of Science and Technology, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區科學技術廳)	2003
Heavy flow compensatory-style drip pipes (大流量壓力補償式滴灌管)	Certified as national new products of importance (國家重點新產品)	Ministry of Science and Technology, PRC (中國人民共和國科學技術部)	2002
		State Taxation Administration (國家稅務總局)	
		Ministry of Foreign Trade and Economic Cooperation, PRC (中華人民共和國對外貿易經濟合作部)	

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Name of Product/Project	Awards/Certificates	Issuing organisation	Year
		State Administration for Quality Supervision, Inspection and Quarantine, PRC (中華人民共和國國家質量監督檢驗檢疫總局) State Environmental Protection Administration (國家環境保護總局)	
One-time recyclable plastic drip films (一次性可回收塑膠滴灌帶)	Certified as high-tech product (高科技術產品)	Department of Science and Technology, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區科學技術廳)	2001
Improved PE pipelines with the use of nano-materials (納米材料改性PE輸水軟管)	Certified as high-tech product (高科技術產品)	Department of Science and Technology, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區科學技術廳)	2001
R & D and application of pipelines for use in water-saving irrigation (節水灌溉用管研製及開發應用項目)	Best project of the “ninth five-year” national innovative technology (「九五」國家技術創新優秀項目獎)	State Economic & Trade Commission, PRC (中國國家經濟貿易委員會)	2000

## INTELLECTUAL PROPERTY RIGHTS


### Trademark

The Group owns certain patents and uses the “” trademark on its water saving irrigation system. Such trademark is registered in the PRC by Tianye Company. 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 “” trademark at nil consideration for a term ended on 1st June, 2006. As Tianye Company manufactures waterproof packaging products, which are also sold under the “” trademark but are distinct from the products manufactured by the Group, Tianye Company decided to grant the licence to the Company to use the “” trademark instead of assigning the “” trademark to the Company. As at the Latest Practicable Date, Tianye Company confirmed that it has not granted the right to any other party, except the Group, to use the “” trademark.

The waterproof packaging products manufactured by Tianye Company are used in goods packaging and in construction facilities for anti-penetration purposes. Meanwhile, the Group's products are used in agricultural water saving irrigation system. If the quality of the waterproof packaging products sold under the same “天业” trademark by Tianye Company cannot satisfy the required standard as agreed between the Company and Tianye Company, which in turn ruins the reputation of Tianye Company, sales of the Company's products may be affected. Pursuant to the Trademark Licence Agreement, Tianye Company shall supervise the quality of the goods in respect of which the Company uses the “天业” trademark, and the Company shall guarantee the quality of the goods in respect of which the “天业” trademark is being used. The Company has performed quality control procedures on the products sold under the “天业” trademark by the Company. Tianye Company examines the quality inspection report of the Group's products and the quality assurance system of the Group at the end of every year. 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 terms of 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 on its waterproof packaging products, if the quality of such products manufactured by Tianye Company is not up to standard and creates 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 the 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 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. The Directors confirmed that the terms of the renewed Trademark Licence Agreement shall be of the same terms of the Trademark Licence Agreement and in compliance of the Listing Rules and the relevant laws and regulations of the PRC. Please refer to the paragraph headed “Connected transactions” of this section and the sub-paragraph headed “Intellectual property rights” under the paragraph headed “Further information about the Company” in Appendix V to 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 are conducted through direct contact between the sales representatives and the customers. The sales representatives are not merely responsible for promoting the Group's products, but also for providing comprehensive direct after-sales services to the customers. The provision of after-sales services is an indispensable part of the sales of the Group's products, which is considered by the Directors to be more important than the “天业” trademark used by the Group. The Company

does not have any intention to develop its own trademark. If the Group is not allowed to use the “” trademark, the Group will imprint the Company’s name on its products prominently so that customers can recognise the Group’s products.

### Patents

During the Track Record Period, approximately RMB4,800,000, RMB958,000, RMB1,097,000 and RMB4,948,000, representing approximately 1.23%, 0.25%, 0.23% and 1.66% of the Group’s total turnover respectively, were derived from the Group’s products that have applied patents transferred to the Group from the Tianye Holdings Group. Therefore, the Directors are of the view that the Group does not place significant reliance on the Group’s patents and patents currently under application.

All the patents currently owned or under application by the Group were transferred from Tianye Holdings Group. If other patents developed by Tianye Holdings Group are suitable for use by the Group, the Group will also acquire the patents from Tianye Holdings Group at a consideration negotiated at an arm’s length basis.

### SALES AND MARKETING

#### Customers and Payment Method

The Directors believe that the Group has established good business relationship with its customers and has gained reputation in the agricultural industry. Currently, the Group has a customer base of over 25 active customers which are located in Xinjiang, the PRC. During the Track Record Period, all products manufactured by the Group were sold in the PRC.

The following table shows the breakdown of the Group’s turnover by geographical areas:

Geographical areas	For the year ended 31st December,			For the
	2004	2005	2006	six months
	RMB’000	RMB’000	RMB’000	ended 30th
				June, 2007
				RMB’000
Taxi region	13,497	21,451	24,321	6,212
Western region of Xinjiang	8,728	9,125	11,221	7,291
Shihezi region	181,774	175,946	206,753	147,260
Zhunxi region	13,794	18,872	75,511	56,623
Eastern region of Xinjiang	12,602	11,210	12,559	13,002
Tazhong region	90,473	64,521	45,623	12,770
Wuchang region	24,517	36,542	38,756	16,777
Bazhou region	21,793	22,145	28,537	16,700
Ningxia, Gansu	22,005	16,439	18,527	20,570
Total	<u>389,183</u>	<u>376,251</u>	<u>461,809</u>	<u>297,205</u>

For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, the Group’s top five customers (including Tianye Holdings Group) accounted for approximately 21.5%, 30.4%, 40.7% and 43.9% of the Group’s turnover respectively. During the same period, the largest customer of the Group accounted for about 5.8%, 12.0%, 13.0% and 16.2% of the Group’s turnover respectively. The Group has up to seven years’ business relationship with its top five customers.

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As set out in note 34 under the paragraph headed “Notes to the Financial Information” as set out in the accountants’ report of the Company 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, accounted for approximately 5.8%, 4.7%, 2.9% and 4.7% of the Group’s turnover during the respective periods.

Details of the connected transactions between the Company and Tianye Holdings Group are set forth in the paragraph headed “Connected transactions” of this section.

Save as disclosed, none of the Directors, their respective associates or the existing Shareholders who owns more than 5% of the issued share capital of the Company has any interest in the Group’s top five customers during the Track Record Period.

Set out below is the information relating to the Group’s sales to Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) during the Track Record Period:

Customers	Principal Business	Products purchased	Upstream and downstream production relationship	Self-use or resale	The reason not to sell the finished good to the ultimate customers directly (if applicable)	Reason for business not included in the Group
Tianye Holdings	The production and sales of tomato paste, citric acid, vehicles and road transportation (the above are limited to be operated by subsidiaries); general operations include chemical products (not including dangerous items), production and sales of plastic products; sale of steel, building materials, textile, car accessories, livestock products, dried and fresh fruits, mechanical equipment and chemical industrial products (except special approval projects); growing, cultivation, promotion of water saving agricultural technology, research on water saving agricultural projects, import and export business (except operations that are prohibited under the relevant laws and regulations of the PRC)	Drip irrigation equipment such as drip films, PVC pipelines, etc.	Not applicable	Resale or self-use	The products are used in PRC’s foreign assistance project that Tianye Holdings is responsible for. The abovementioned project is relating to water saving irrigation system for agricultural use. Therefore, the Tianye Holdings has to purchase products from the Group. In addition, the foreign assistance project, which was one-off in nature, that Tianye Holdings was responsible for has been completed in June 2004 and there is no project of similar nature being undertaken by Tianye Holdings subsequently. Therefore, the Directors consider that Tianye Holdings does not have any conflict of interest with the Group as a whole.	Tianye Holdings is responsible for PRC’s foreign assistance project, which is determined by the relevant departments of the PRC Government.
149 Regiment of No. 8 Division (Note 1)	Farming, processing of agricultural by-products	Drip irrigation equipment such as drip films etc.	Not applicable	Self-use	Not applicable	The business of 149 Regiment of No. 8 Division is not in line with the Group’s business development. Accordingly, the business operation of 149 Regiment of No. 8 Division is not incorporated into the Group.

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*Notes:*

- 149 Regiment of No. 8 Division is a wholly-owned subsidiary of Tianye Holdings which is one of the Substantial Shareholders. Thus, it is regarded as a connected person of the Company under the Listing Rules.

Set out below is the information relating to the Group's sales to Tianye Group during the Track Record Period:

Customers	Principal Business	Products purchased	Upstream and downstream production relationship	Self-use or resale	The reason not to sell the finished good to the ultimate customers directly (if applicable)	Reason for business not included in the Group
Tianye Company	Production and sales of plastic and chemical products; vehicles transportation; sales of machinery facilities (other than small vehicles and those products required special approval by the State), construction material, hardware electric apparatus, steel products, grain cotton, textiles products, vehicle accessories, livestock products and dried and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste; collating, processing and sales of used plastic; import and export of goods and technologies (other than those goods and technologies restricted by the State); and processing of agricultural by-products (other than products required special approval by the State).	Drip films and accessories, PVC pipelines	Not applicable	Self-use	Not applicable	The principal businesses of Tianye Company are not related to the principal business of the Group.

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Customers	Principal Business	Products purchased	Upstream and downstream production relationship	Self-use or resale	The reason not to sell the finished good to the ultimate customers directly (if applicable)	Reason for business not included in the Group
Tianye Foreign Trade	To run on its own and act as an agent for the import and export business of grain, oil and food products, textile and silk, light industry products, chemical products and electronics, etc.	Drip films and accessories	Not applicable	Resale	The Group does not have any direct export business at present. Costs will be higher if the Group carries out export on its own. It is beneficial to the Group and Tianye Foreign Trade if the product export business is carried out by Tianye Foreign Trade.	The principal business of Tianye Foreign Trade is different from that of the Group.
Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司)	Trading and it was no longer engaged in the production of water saving irrigation equipments from 2005.	Drip films and accessories, PVC pipelines	Not applicable	Resale	In 2004, Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司) was principally engaged in the production and sales of water saving irrigation products, and since it only produced a singular product, it purchased some products from the Company and combined them with its sales of own products. Since 2005, the Group's sales to Beijing Tianye have been discontinued.	The principal business of Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司) is different from that of the Group.



## BUSINESS

Customers	Principal Business	Products purchased	Upstream and downstream production relationship	Self-use or resale	The reason not to sell the finished good to the ultimate customers directly (if applicable)	Reason for business not included in the Group
Shihezi Tianye Tomato Processing Company Limited	Processing and sales of tomatoes and beverages.	Drip films and accessories. Shihezi Tianye Tomato Processing Company Limited establishes a high yield tomato farm which requires the Group's drip films and accessories for the construction of its irrigation system.	Not applicable	Self-use	Not applicable	The principal business of Shihezi Tianye Tomato Processing Company Limited is different from that of the Group.
Taian Construction	Housing construction projects, anti-erosion heat retention projects, implementation of construction and decoration projects.	PVC pipelines	Not applicable	Self-use	Not applicable	The principal business of Taian Construction is different from that of the Group.

### Settlement and credit control policy

New customers are required by the Group to make the payment before delivery of the Group's products. For customers who have established good relationships with the Group for more than one year, their invoices can normally be settled on an open-account basis with credit terms ranging from 30 days to one year. The Group evaluates its customers' credit history based on their (i) payment record; (ii) financial statements; (iii) financial capability; and (iv) market reputation. Meanwhile, the Group would extend credit terms for those customers with good credit history to three years. For each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007, approximately 32.1%, 28.9%, 27.5% and 33.6%, respectively, of the total sales were settled on an open account basis, while the remaining 67.9%, 71.1%, 72.6% and 66.4% respectively, of the total sales were settled by cash on delivery. Among those credit sales, approximately 2.2%, 2.9%, 1.9% and 3.01% respectively, had credit terms is normally one year or ranged from one to two years for each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007. The Directors believe that the Group's credit control policy can help promoting the sales of the products of the Group and is in the best interests of the Group. Also, the Directors believe that the credit terms of one to two years conforms with market norms and the usual practice of the agricultural materials markets in the PRC.

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The Directors confirmed that, during the Track Record Period, sales of the Group were denominated in RMB only. For sales settled by cash on delivery, the customers will pay the Group with cash, cheques and bank drafts. The internal control system for the Group to handle the receipt of cash is governed under the “Cash Management Control Procedure” formulated by the Company. The main procedures include: (1) credit note to be issued by the Group’s bank upon receipt of the deposit made by the customer into the Group’s bank accounts; and (2) a delivery note and a sales invoice to be issued by the Group to the customer upon presentation of the credit note. Accounting entries will be made by a sales account clerk with the relevant credit note and sales invoice for such transaction and relevant accounting entries will also be made by a treasurer with the credit note. Whenever a customer settles with the Group in cash, the Group will request the customer to deposit the settlement sum to the Group’s bank account. Whenever, a customer settles with the Group by cheque or bank draft, the Group will deposit the cheque or bank draft into the Group’s bank account on the date of receipt from the customer.

During the Track Record Period, the Group had not been involved in any litigation or dispute with any of its customers regarding settlement arrangement. The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on the payment history and current credit-worthiness of the customers. The Group continuously monitors receipts and payments from its customers and maintains allowances for estimated credit losses based on its experience and any specific collection issues that it has identified.

Allowance is made against trade receivables which are considered to be doubtful. Based on the past experience and present circumstances, the Group estimates allowances for overdue trade receivables as the differences between the carrying amounts of overdue receivables and the present value of estimated future cash flows of those receivables discounted at the effective interest rate computed at initial recognition, which approximate the following ratios:

<b>Aging of overdue trade receivables</b>	<b>Overdue for one to two years</b>	<b>Overdue over two years</b>
Estimated allowance	50%	100%

The Directors confirmed that the amount of provision is sufficient and adequate based on (i) historical bad debt of the Group; (ii) the aging analysis of the Group; (iii) the credit terms granted by the Group to its customers; (iv) the Group’s policy for allowance for bad and doubtful debts; and (v) subsequent settlement of trade receivables at respective balance sheet dates. The Group has carried out risk evaluation in respect of the status of guarantee, credibility, etc. on receivables with credit term of over one year (with credit term of one to three years) and those with recoverability guarantee are deducted when making allowance for bad and doubtful debts.

### **Marketing and promotion**

The Group has a marketing and sales team of 75 employees to serve each of its key existing and potential customers. The primary responsibility of the Group’s marketing team is to foster business relationships with its customers and end-users of its products and to capture business opportunities with potential customers. It is one of the major tasks of the Group’s marketing team to obtain latest market information and trends of agricultural machinery that can meet the needs of farmers and solve the problem of insufficient water supply for agricultural industry, and discuss such information with the Group’s product design and development team.

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 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 Group's five strategies in marketing and promotion are as follows:

1. *Provision of cost effective products to the potential customers*

The potential customers of the Group are mainly farmers from drought-affected areas. In order to enhance their acceptance on new products used in water saving irrigation system, the Group provides training and demonstration to the farmers, and the Directors believe that the Group's cost effective and reliable products with good after-sales services can satisfy the needs of the farmers.

2. *Keeping good relationship with provincial governors and various media*

The Directors believe that support from provincial governors and media is very important for promoting the Group's products. The Group has made significant breakthrough in the implementation of agricultural water saving irrigation system.

3. *Promoting of the Group's products to XPCR*

XPCR is under the supervision of the State Council. It is a government agency in charge of many farms in Xinjiang. The Directors believe that promoting the Group's products to XPCR would in turn encourage the use of the Group's products by other farmers.

4. *Establishing demonstration centres in the PRC*

The Group plans to establish a demonstration centre in each target market, as the Directors believe that the demonstration of the use of water saving irrigation system to the farmers can provide them with a deeper understanding on the Group's products.

5. *Provision of extensive training to the Group's customers*

The Group does not only offer the products to the customers, but also provides the free services of training for the customers, and acts as a one-stop solution provider for water saving irrigation system in the PRC. At present, the Group's training team has over 50 staff members. The Directors believe that provision of free training services is important in enhancing the sales of the Group and enabling the customers to use the water saving irrigation system in a more effective and efficient way.

### **Pricing strategy**

The Group's pricing strategy is based on the mark-up of the production costs, targeting to ensure that there is operating profit for the Group. By recycling some of the used products collected from the customers, production cost of the Group can be further lowered, and thus the price can be set at a level acceptable to the customers. Apart from the concerns on the acceptance level of the customers, the pricing strategy is also based on the factors set out below:

- production costs;
- technological improvement;
- price of competitors;
- seasonal effect;
- size of the customers' orders;
- credit of the customers; and
- payment terms.

Since the price of the Group's products is not fixed on a standard amount, it could be adjusted on the basis of the above factors. Since 2002, in order to expand the Group's market share, the Group has adopted a trade-in sales policy of collecting, reusing and recycling used products so that used products can be used as raw materials for manufacturing new products. The actual discount provided to customers is the fair value of the used drip films that were trade-in.

### **PRODUCT DESIGN AND DEVELOPMENT**

In order to capture the market trends and opportunities, as at the Latest Practicable Date, the Group had a product design and development team of 15 employees who design and develop products in two aspects: (1) improve the existing products with new functionalities or design brand-new products to meet the customers' requirements and specifications; and (2) improve the raw materials used for developing the Group's products. Among those fifteen employees, 8 of them obtained bachelor's degree in the fields of electronic mechanic engineering, chemistry or oil refinery respectively.

Pursuant to the Group's procedures on product design and development, before any project is implemented, the Group conducts market research for gathering information including the customers' needs, the market trend of the similar existing products and the newly introduced technology, raw materials and products in the market. Through detailed analysis of the information obtained from the market research by the Group's product design and development team, the project of design and development of new products will be voted and approved in the meeting of the Board with the managers of various departments, such as financial department, sales and marketing department, production department as well as the professional lawyers will also be appointed for discussing any legal issues in the project.

The main product technologies of the Group includes localisation of water saving irrigation product equipment, the irrigation system for large-field films and the utilisation techniques for recycling used drip films. With the help of the scientific and research academic institutions such as the National Centre of Efficient Irrigation, Engineering and Technology Research (Xinjiang) (國家節水灌溉工程技術研究中心(新疆)), Research Institute of Advance Production Technology of Xian Jiaotong University (西安交通大學先進制造技術研究所), Xinjiang Academy of Agricultural Science (新疆農墾科學院) and Shihezi University (石河子大學) in R&D of new products, new technologies and new raw materials, the continuity of the Group's R&D is ensured with less contribution by the Group.

In order to strengthen the Group's R & D capability and enhance quality of its products, the Group has also entered into cooperation agreements with a number of well-established institutions or universities in the PRC, which include 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)), Xinjiang Academy of Agricultural Science (新疆農墾科學院), Shihezi University (石河子大學) and Research Institute of Advance Production Technology of Xian Jiaotong University (西安交通大學先進制造技術研究所). There is no detailed provision in the co-operation agreements in relation to the funding arrangements. However, the Directors confirmed that the Group and the relevant research institutes contributed funds in the research projects in accordance with the proportion as agreed among themselves. Both the Group and the relevant research institutes are entitled to the relevant intellectual property rights developed by them jointly or accordance with the proportion to be agreed among themselves.

On 7th January, 2004, the Company entered into a technology development cooperation agreement with National Centre of Efficient Irrigation Engineering Technology Research (Xinjiang) (國家節水灌溉工程技術研究中心(新疆)). The cooperation agreement is in respect of the joint technology development of (i) technology for effective use of water for crops in open fields and water saving technology for enhancing the yield of crops in open fields; (ii) the production facilities of the water saving irrigation equipment; (iii) new agricultural water saving irrigation products; and (iv) other technical cooperating services for agricultural water saving irrigation technology. Pursuant to the cooperation agreement, all patents and technology know-how developed as a result of the cooperation will be co-owned by the parties thereto, and the term of this cooperation agreement commenced from 1st January, 2004 and will expire on 31st December, 2008.

On 26th May, 2004, the Company entered into a technology development cooperation agreement with Xinjiang Academy of Agricultural Science (新疆農墾科學院) and Shihezi University (石河子大學). The cooperation agreement is in respect of the joint technology development of (i) technology of effective use of water utilisation technology for crops in open fields and water saving technology for enhancing the yield of crops in open fields; (ii) the production facilities for water saving irrigation equipment; (iii) products for new agricultural water saving irrigation system; and (iv) other technical cooperating services for agricultural water saving irrigation technology. Pursuant to the cooperation agreement, all patents and technology know-how developed as a result of the cooperation will be co-owned by all parties thereto unless otherwise agreed by the parties and the term of at this cooperation agreement commenced from 1st January, 2004 and will expire on 31st December, 2008.

On 18th October, 2004, the Company entered into a cooperation agreement with Research Institute of Advanced Production Technology of Xian Jiaotong University (西安交通大學先進創造技術研究所) in respect of the commercialisation of anti-blockage streaming technology. Pursuant to the cooperation agreement, the Company was responsible for (i) the trial operation of anti-blackage streaming irrigator; (ii) testing and mass production of the mould of anti-

blockage streaming irrigator; and (iii) mass production and promotion at anti-blockage streaming irrigator. Research Institute of Advanced Production Technology of Xian Jiaotong University (西安交通大學先進創造技術研究所) was responsible for (i) the provision of designed chart and related technology of anti-blockage streaming; (ii) the designed chart for self-cleaning and pressure compensatory irrigator of dual-streaming anti-blockage for anti-blockage streaming; (iii) the provision of parametric design of irrigation equipments (with one-year usage term) and usage training; (iv) the related technical support for the commercialisation of anti-blockage streaming irrigator; and (v) the application for patents and making conclusion on the related technology. The right to use the products developed under the cooperation agreement will be vested in the Company, and the sharing of profits arising from the products development would be subject to further negotiation between the parties thereto.

The Directors confirm that, as at the Latest Practicable Date, the Group is yet to have any concrete result or milestone achievement arising from the abovementioned cooperation agreements.

The Directors confirm that in order to maintain its competitive advantages, the Company will continue to expand the production capacity of the existing products and to develop other sophisticated products. During the Track Record Period, the Company emphasised on developing three new products, namely the R&D of agricultural PVC pipelines, co-extruded drip films and the R&D of exclusive valves for large-field irrigation control systems. The related information is set out as follows:

The R&D of agricultural PVC pipelines: the objectives of developing such product are to lower the cost of the agricultural PVC pipelines and to form the agricultural water saving auxiliary products. The Directors believe that the successful development of the product will facilitate the promotion of the water saving irrigation system of the Company.

The R&D of co-extruded drip films: the objectives of developing such product are: (i) to enhance the production rate and further expand the production efficiency; (ii) on the basis of maintaining the functions of the existing drip films, to further reduce the consumption of raw materials so as to lower the production costs; and (iii) to upgrade the appearance and quality of the products. The Directors believe that the successful development of such product will help maintaining the Company's leading position under competition.

The R&D of exclusive valves for large-field irrigation control systems: the objectives are set at the affordability of the farmers and the implementation of agricultural water saving irrigation automatic control system. The Directors believe that the successful development of the such product will further upgrade the modernisation level in agricultural cultivation of farmers, and it has huge potential market demand.

## INSURANCE

The Group currently maintains an insurance policy to cover its fixed assets and damage to its machines and equipment. The Directors consider that the Group's current insurance policy is sufficient to cover the Group's assets. The total premium paid by the Group on its current insurance policy amounted to approximately HK\$509,000.

As disclosed in the paragraph headed "Limited insurance coverage" under the section headed "Risk factors" of this document, the Group does not maintain any insurance policy to cover its inventories.

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## BUSINESS

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The Group has implemented stringent fire prevention measures in the warehouses of the Group including, but not limited to, firewall. Therefore, the Directors consider that the current insurance arrangement in relation to the inventories is sufficient.

Except for the above-mentioned insurance policy, the Directors confirmed that the Group does not maintain any third-party insurance policy to cover any claims in relation to its products, nor any insurance policy to cover its inventories. The Directors believe that since the Group has established a set of comprehensive quality control procedures, the Group can effectively control the risks of liabilities on product quality through stringent quality control during its operations. In addition, during the Track Record Period and as at the Latest Practicable Date, the Group has not received any material claims or complaints from any customers relating to the quality of the Group's products. The Directors believe that the Group's insurance coverage is adequate and in line with the customary practice of the PRC. Please refer to the paragraph headed "Limited insurance coverage" under the section headed "Risk Factors" of this document.

### COMPETITION

The Group is one of the pioneers in providing one-stop solution for water saving irrigation system in the PRC, and offering a wide range of products used in water saving irrigation system to its customers. Through the R & D undertaken by the Group and the academic and research institutions, the Group has succeeded in developing high quality products. Presently, the Group considers that its direct competitors are mainly local manufacturers in the PRC.

The PRC is facing the problem of shortage of water resources, particularly in the northwestern region. Hence, developing effective water saving irrigation technique is important for the development of the PRC's agricultural industry. The water saving irrigation area in the PRC increased from approximately 16.39 million hectares to approximately 21.34 million hectares from 2000 to 2005, representing a CAGR of approximately 5.42%. The following table shows the area of farmland and water saving irrigation area of four northwestern provinces in 2005:

<b>Province/autonomous region name</b>	<b>Approximate farmland area (000' hectares)</b>	<b>Approximate water saving irrigation area (000' hectares)</b>	<b>Approximate non-water saving irrigation area (000' hectares)</b>
Xinjiang	3,985.70	2,038.31	1,947.39
Gansu	5,024.70	826.32	4,198.38
Shaanxi	5,140.50	796.44	4,344.06
Ningxia Hui Autonomous Region	1,268.80	177.01	1,091.79

Source: China Agriculture Yearbook, 2006

In 2006, the Group's drip irrigation system was used in approximately 187,000 hectares of farmland, mainly for growing cotton and tomatoes. Apart from crops which is uneconomical for using the drip irrigation system in terms of cost-effectiveness, most crops such as cotton, vegetables, fruits, etc. can use the Group's drip irrigation system. Save for approximately 187,000 hectares of farmland that is already using the Group's drip irrigation system that need to replace drip films annually, there were approximately 2,000,000 hectares of farmland which does not currently use water saving irrigation technology in Xinjiang in the end of 2005. Therefore, the Group will actively promote the use of the Group's drip irrigation system in these farmlands, as well as Gansu, Shaanxi,

Ningxia and other regions of northwestern China where water saving irrigation technology has yet been widely adopted. Therefore, the Directors believe that there is a strong market demand for the Group's products and ample rooms for the Group to expand its market shares.

According to the China Plastic Industry Yearbook 2006, the total number of state-owned plastic production enterprises and non state-owned plastic production enterprises with an aggregate sales revenue of more than RMB5,000,000 in the PRC at the end of 2005 was 11,726, in which 937 enterprises had a sales revenue of more than RMB100,000,000. At the end of 2005, there were 402 enterprises in Xinjiang engaging in plastic production, in which 5 enterprises had an annual production volume of more than 10,000 tonnes, 18 enterprises had an annual production volume between 3,000 and 10,000 tonnes, 379 enterprises had an annual production volume of less than 3,000 tonnes. At the end of 2005, there were over 500 enterprises engaging in the production of water saving irrigation equipment in the PRC and the annual production volume of all water saving irrigation equipment amounted to more than 400,000 tonnes. The enterprises engaging in the production of plastic water saving irrigation equipment in the PRC primarily distributed among drought-affected areas in the northwestern part of the PRC, such as Xinjiang and Gansu. Among the 23 major enterprises in the PRC engaging in the production of plastic water saving irrigation equipment, 4, including our Group, were located in Xinjiang. Foreign enterprises were the major competitors of the PRC enterprises engaging in the production of plastic water saving irrigation equipment. Over 10 foreign enterprises engaging in the profession of water saving irrigation have entered into the PRC market.

Despite the keen competition, the Directors believe that the Group is well-positioned to capitalise on the significant potential market of water saving irrigation system in the PRC since most of the northern part of the PRC has been suffering from the problem of water shortage. The Directors are of view that the Group has gained competitive advantages over its competitors due to the following reasons:

- (i) its ability to provide one-stop solution on water saving irrigation system to its customers, both products and services, including design support services, implementation, application as well as after-sales services;
- (ii) its experienced workforce to generate high turnover which, in turn, enables the Group to adopt competitive pricing policies;
- (iii) the continuous effort of the Group's R & D team and support through the cooperation with academic and research institutions, to develop innovative accessory production tools which lower production time and cost;
- (iv) the Group's production base is located in Xinjiang, a region in the PRC with lots of drought-affected areas, so there is strong potential demand for the Group's products;
- (v) the Group's production flow is revised and adjusted from time to time so as to enhance shorter production time and lower material loss; and
- (vi) the stringent quality control procedures to ensure the raw materials, work in progress and finished goods are in compliance with the general standards and customers' requirements and specifications.



Due to the continuous growth of the population and industrialisation of various countries, the issue of insufficient water resources has been restricting economic and social development for different countries. Water for agricultural use, in particular water for irrigation, represents over 70% of the total water consumption. Compared with the traditional irrigation technologies, the Group's water saving irrigation system substantially reduced the amount of irrigation water required.

### **RELATIONSHIP WITH TIANYE HOLDINGS GROUP**

As at the Latest Practicable Date, Tianye Company owns approximately 38.91% of the issued share capital of the Company. As at the Latest Practicable Date, Tianye Holdings owns approximately 43.27% of the registered capital of Tianye Company.

Tianye Company is established in the PRC as a joint stock limited company on 9th June, 1997 and is located in Shihezi, which is known as pearl of Gobi Desert in Xinjiang Uygur Autonomous Region. Its A shares have been listed on the Shanghai Stock Exchange since 17th June 1997. It is principally engaged in the production and sales of plastic and chemical products; vehicles transportation; sales of machinery facilities (other than small vehicles and those products required special approval by the State), construction material, hardware electric apparatus, steel products, grain cotton, textiles products, vehicle accessories, livestock products and dried and fresh fruits; agricultural cultivation, livestock feeding and exploitation of land and agricultural water for use; production and sales of tomato paste; collating, processing and sales of used plastic; import and export of goods and technologies (other than those goods and technologies restricted by the State); and processing of agricultural by-products (other than products required special approval by the State). The PVC resins produced by Tianye Company is one of the principal raw materials consumed by the Group. The machinery produced by Tianye Company is for industrial purposes. The construction installation services provided by Tianye Company are for the construction of real estates. The agricultural water and land exploration services provided by Tianye Company are for the development of agricultural industry. Therefore, the Company considers the businesses of Tianye Company are distinct from those of the Group. As at the Latest Practicable Date, the Directors confirmed that the Group and Tianye Company have distinct businesses.

During the Track Record Period, the Company and Tianye Company had entered into several agreements and pursuant to which, Tianye Company leased the Leased Properties and the Leased Assets (all of which are related to the manufacturing and storing of drip films, PVC/PE pipelines, and drip assemblies used in water saving irrigation system) to the Group. Particularly, these assets include the office and factory premises of an aggregate gross floor area of approximately 26,900 sq.m., and the principal place of business of the Company. 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. The Group will continue to lease the Leased Properties and the Leased Assets from Tianye Company after the Introduction. The details of the Leased Properties, the Leased Assets (including the costs of Leased Properties and net book values of Leased Assets as at 31st March, 2007) and the connected transactions in relation to the Leased Properties and the Leased Assets are set out in the paragraph headed "Connected transactions" of this section.

At present, the Group and Tianye Holdings Group have distinct businesses. 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 the agricultural customers, while Tianye Holdings Group is principally engaged in different kinds of businesses, including the production and sales of plastic and chemical products, transportation, machinery facilities (for industrial purposes),

construction installation (for the construction of real estates), steel products, grain cotton and oil products, vehicle accessories, crop production, cultivation, production and sales of tomato paste and other food products, exploitation of land and water for agricultural use, processing of agricultural products and by-products and supply of electricity. The Group does not engage in exploitation of land and water for agricultural use. The Group's products are manufactured with the raw materials that were procured from Tianye Holdings Group (including Tianye Group), which accounted for approximately 3.8%, 22.0%, 9.9% and 7.8% respectively, of the Group's total purchase for each of the three years ended 31st December, 2006 and the six months ended 30th June, 2007. 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. Furthermore, the Group is not the exclusive or sole supplier to Tianye Holdings and Tianye Holdings is free to purchase similar products on a reasonable price and similar quality from the Independent Third Parties. In order to regulate the relationship between the Group and Tianye Company and/or Tianye Holdings, the Group has entered into a number of agreements to govern the terms of the transactions between them. Details of these agreements are set out in the paragraph headed "Connected transactions" of this section.

Although the Leased Properties and the Leased Assets thereof are owned by Tianye Company, the Directors are of the view that except for the indirect interest in each of Tianye Installation, Gansu Tianye and Tianye Recycling held by Tianye Company, Tianye Company and Tianye Holdings are not competing and will not compete, directly or indirectly, with the business of the Group because (i) Tianye Company is not engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines, and drip assemblies used in water saving irrigation system, and is not engaged in the provision of construction services of water saving irrigation system; (ii) the Leased Properties and the Leased Assets owned by Tianye Company have been leased to the Group pursuant to the Lease, the Assets Leasing Agreement and the Office Leasing Agreements 1 and 2; and (iii) each of Tianye Company and Tianye Holdings has executed a Non-competition Undertaking in favour of the Group to protect the Group from future competition. Tianye Company and Tianye Holdings have undertaken unconditionally and irrevocably that during the period from the date of the Non-competition Undertaking until the date of which either (i) Tianye Company or Tianye Holdings or their respective associates (as the case may be) ceases to hold (directly or indirectly) 10% or more of the shareholding of the Company; or (ii) the H Shares cease to be listed on the Main Board, regardless in any places, inter alia:

- (i) it shall not for itself or together with or on behalf of any person, firm or company, or in any form such as joint venture or cooperation with other person to, directly or indirectly, establish, develop, operate or assist to operate, participate, involve in, make benefit from, invest, engage or attempt to engage, or be employed in any business, enterprise or project, for which those business, enterprise or project, or any other business engaged by it and its subsidiaries from time to time may, directly or indirectly, compete with the business of the Group or any part thereof; and
- (ii) it shall not for itself or together with or on behalf of any person, firm or company, during the period of the Non-competition Undertakings, recruit, attract or attempt to recruit or attract the clients or customers, or the identified future clients or customers of the Group or any person, firm, company or organisation of a supplier of the Group, to provide to such client, customer or identified future client or customer, or to obtain from such supplier any products or services similar to the business of the Group or which compete or may compete, directly or indirectly, with the business of the Group.

Furthermore, pursuant to the Non-competition Undertakings, Tianye Company and Tianye Holdings also undertaken to provide an annual confirmation to the Company in respect of its compliance with the terms of the Non-competition Undertakings and the Company will disclose such confirmation in the annual report of the Company. Concerning the Non-competition Undertakings, (i) the independent non-executive Directors would review, at least on an annual basis, the compliance with the terms of the Non-competition Undertakings provided by each of Tianye Company and Tianye Holdings and if any, the options, pre-emptive rights or first rights of refusals provided by each of Tianye Company and Tianye Holdings and/or their respective associates on their existing or future competing businesses; (ii) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-competition Undertakings either through the annual report, or by way of announcement; and (iii) the Company shall disclose in the Corporate Governance Report of its annual reports on how the terms of the Non-competition Undertakings are complied with and enforced.

Tianye Company and Tianye Holdings have further undertaken that if it is offered or becomes aware of any opportunity directly or indirectly in relation to a business of the Group, it shall:

- (a) promptly notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to come to an informed assessment of such opportunity; and
- (b) use its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it.

In the event that the Company does not take up the business opportunity referred by the Tianye Company and/or Tianye Holdings, the Company shall disclose its decision by way of public announcement as well as annual report for not taking up such a business opportunity and give reasons thereof. The Directors (including the independent non-executive Directors) will be involved in making such decisions on accepting or rejecting a future business opportunity, and any interested Directors will refrain from attending the meeting approving, and abstain from making, such decision. Each of Tianye Company and Tianye Holdings has undertaken that it will not and will procure its respective associates not to engage in the business of the Group even after the Group declined the relevant business opportunity.

The Company confirms that except for the indirect interest in each of Tianye Installation, Gansu Tianye and Tianye Recycling held by Tianye Company, the existing business of Tianye Holdings Group will not, directly or indirectly, compete with the Group's business.

### **Financial independence of the Group**

#### *Amounts due from or due to Tianye Holdings Group*

As at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007, amount due from Tianye Holdings Group amounted to approximately RMB6.1 million, RMB4.8 million, nil and nil, respectively, while amount due to Tianye Holdings Group amounted to approximately RMB13.9 million, RMB1.3 million, RMB0.5 million and RMB10.3 million respectively.

The terms of the above non-trade receivables as at 31st December, 2004 are unsecured and have no fixed terms of repayment. The non-trade balance due to Tianye Holdings Group carried interest at 120% of the standard annual rate offered by The People's Bank of China. The amount was fully repaid during 2005.

To enhance the capital management within the Group, Tianye Holdings Group has established the Tianye Holdings Group Settlement Centre (the "**Settlement Centre**") to regulate the working capital of the Group and provide capital support to the subsidiaries of Tianye Holdings. The Settlement Centre does not function as a profit-making centre. Interest bearing advance due from Tianye Holding Group carries interest at the standard annual rate effected by the PBOC. Interest bearing advance from Tianye Holdings Group carries interest at 120% of the standard annual rate offered by the PBOC. The Group paid higher interests to Tianye Holdings Group during the Track Record Period because the loans offered by Tianye Holding Group bear different interest rates for short, medium and long-term loans. The medium and long-term loans bear higher interest rates. The interests charged to the Group was based on 1-year short-term loan and therefore, a premium over the standard annual rate was charged for Tianye Holdings Group to maintain its cost.

The Group's deposits with the Settlement Centre were short-term deposits. The interests paid by the Settlement Centre were based on standard rate per annum similar to that for demand deposits with commercial banks. Hence, the Group considered it is reasonable to deposit its working capital at the Settlement Centre.

The PRC legal advisers of the Company is concerned that the funding activities between the Group and Tianye Company violated the Rule 61 of the General Principles Regarding Providing Facility and POBC can implement administrative punishment on the companies in accordance with Rule 73 of the General Principles Regarding Providing Facility. Pursuant to the Administrative Punishment Law of the PRC (《中華人民共和國行政處罰法》) ("**Administrative Punishment Law**") that came into effect on 1st October, 1996, administrative punishment implemented by administrative bodies should follow the relevant requirements of the Administrative Punishment Law. According to Rule 27 of the Administrative Punishment Law, administrative punishment is not necessary if the violation is minor and is rectified immediately without causing harmful consequences. Since the funds used between the Group and Tianye Company have been repaid in full, there were no actual or potential legal disputes. As such, the PRC legal advisers of the Company opined that the violations of departmental regulations were minor and were immediately rectified without causing any harmful consequences and that such acts did not constitute a material reason for administrative punishment, so POBC would not implement administrative punishment on the companies.

As at the Latest Practicable Date, non-trade receivables and payables due from/to Tianye Holdings Group have been fully settled.

Since the Company's listing on the GEM up to the Latest Practicable Date, the Directors have confirmed that save and except for the borrowings which are in compliance with the relevant laws and regulations in the PRC and other jurisdictions, where applicable, the Group will not borrow from corporations other than the financial institutions in the PRC. Also, the Group will not engage in lending activities that are not permitted under the relevant laws and regulations in the PRC.

Trade receivables from Tianye Holdings Group as at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007 amounted to approximately RMB479,000, RMB4,846,000, nil and nil, respectively. All of these balances aged within one year from the

respective balance sheet dates and were unsecured, interest free and has no fixed repayment terms and the year-to-year fluctuations was resulted from the volume of transactions and the amount of repayment occurred during the period.

Trade payables to Tianye Holdings Group as at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007 amounted to approximately RMB9,933,000, RMB1,302,000, RMB517,000 and RMB10,313,000, respectively. All of these balances aged within one year from the respective balance sheet dates and were unsecured, interest free and has no fixed repayment terms and the year-to-year fluctuations was resulted from the volume of transactions and the amount of repayment occurred during the period.

According to the PRC legal adviser to the Company, the trade receivables and trade payables with Tianye Holdings Group during the Track Record Period were arisen in the course of ordinary course of business of the Group and does not breach of any prevailing PRC laws and regulations.

### **Corporate guarantees provided by Tianye Holdings Group**

As at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007, corporate guarantees provided by Tianye Holdings Group amounted to approximately RMB10,000,000, RMB2,000,000, RMB50,000,000 and RMB80,000,000 respectively.

During the year ended 31st December, 2005, the Group raised short-term loans of RMB49 million which were guaranteed by third parties, namely 133 Regiment of No. 8 Division as to RMB9 million; Xinjiang Kangi Agriculture Technology Development Co., Ltd. as to RMB20 million and Shihezi Xiqucheng Farm as to another RMB20 million, respectively. On 3rd January, 2006, Tianye Company has undertaken in writing to provide guarantees to the relevant banks should the abovementioned parties withdraw their guarantees. The short-terms loans have been fully settled during the year ended 31st December, 2006.

The Directors have confirmed that all guarantees provided by Tianye Holdings Group as at 30th June, 2007 will be released before the Company's listing on the Main Board.

### **Competing interest of the senior management**

#### *The Board*

As at the Latest Practicable Date, the Board comprised seven Directors, including four executive Directors, namely Guo Qing Ren (who holds approximately 0.0105% of Tianye Company as at the Latest Practicable Date), Shi Xiang Shen (who holds approximately 0.0079% of Tianye Company as at the Latest Practicable Date), Li Shuang Quan and Zhu Jia Ji, and three independent non-executive Directors, namely He Lin Wang, Gu Lie Feng and Xia Jun Min. As disclosed in the section headed "Directors, supervisors, management and staff", Mr. Mak King Sau will be appointed as independent non-executive Director in the forthcoming Extraordinary General Meeting of the Company expected to be held on 15th October, 2007.

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Amongst the abovementioned members of the Board, Guo Qing Ren, Li Shuang Quan and Zhu Jia Ji also held the following positions in certain Substantial Shareholders as at the Latest Practicable Date:

<b>Directors</b>	<b>Positions in the Company</b>	<b>Positions in certain Substantial Shareholders</b>
Guo Qing Ren	Executive Director	the chairman (until 30th June, 2007) and a director of Tianye Company and the chairman (since 6th June, 2007) and a director of Tianye Holdings
Li Shuang Quan	Executive Director	a director of Tianye Company until 30th June, 2007
Zhu Jia Ji	Executive Director	a director of Tianye Company (since 30th June, 2007)

Guo Qing Ren, being the chairman of the Company and an executive Director, is mainly responsible for overseeing all strategic planning of the Group as well as responsible for the overall management of the operations of the Group by monitoring and supervising the Board and making appropriate delegation of work to other suitable Directors or senior management of the Company. He is also responsible for the design and development of new products of the Group. With the assistance from and co-operation with other Directors and senior management of the Company, Guo Qing Ren is and was able to carry out his work and discharge his responsibilities promptly during the Track Record Period despite the fact that he undertakes the positions as (i) the chairman and a director of Tianye Company; (ii) a director of Tianye Holdings; and (iii) the chairman and an executive Director of the Company, at the same time.

Since Guo Qing Ren has to discharge his responsibilities for the Company, Tianye Company and Tianye Holdings, he allocates his time on an equal basis for each company and thus he devotes approximately 33% of his time to the Group. Although Guo Qing Ren only devotes approximately 33% of his time for the Group, he successfully discharged his responsibilities and there was no material adverse impact on the operations of the Group.

With regard to Guo Qing Ren's responsibilities in Tianye Company and Tianye Holdings, he is responsible for planning the corporate development strategies for Tianye Company and Tianye Holdings as being the chairman (until 30th June, 2007) and director of Tianye Company, and the chairman (since 6th June, 2007) and a director of Tianye Holdings.

Li Shuang Quan, being an executive Director, is mainly responsible for the management of daily operation and the management of technology, design and development of new products of the Group, including R & D on water saving technology. Whereas, being a director of Tianye Company (being a director of Tianye Company until 30th June, 2007), he is mainly responsible for the management of agricultural water saving business of Tianye Company. Thus, Li Shuang Quan allocates all of his time for the Group after ceasing to be the director of Tianye Company.

Zhu Jia Ji, being an executive Director, is mainly responsible for the management of sales and marketing activities of the Group. Whereas, being a director of Tianye Company, since 30th June, 2007, he is mainly responsible for the management of the business of the Group. Thus, Zhu Jia Ji allocates approximately 95% of his time for the Group.

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Guo Qing Ren, Li Shuang Quan (being a director of Tianye Company until 30th June, 2007) and Zhu Jia Ji (being a director of Tianye Company since 30th June, 2007) believe that they will have no difficulty in allocating sufficient time to the Group and Tianye Holdings and/or Tianye Company after listing of H Shares on the Main Board. They confirmed that they will make necessary adjustment in relation to their time allocation in accordance with the needs and future development of the Group. Other than Guo Qing Ren, Li Shuang Quan and Zhu Jia Ji, there is no common members of senior management between the Company and the Substantial Shareholders.

Tianye Holdings is a state-owned enterprise established in the PRC, and so far as is known to the Directors, no Director has any interests in Tianye Holdings.

Notwithstanding that the abovementioned Directors holding certain positions in the Substantial Shareholders, the Group is satisfied that these Directors are able to perform their roles in the Company independently with sufficient time devoted to the Group. Since those Substantial Shareholders (i) do not have any business or interest which competes or may compete with the business of the Group; (ii) do not have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules; and (iii) executed the Non-competition Undertakings, those Directors will not find their independence compromised by their concurrent positions.

In the event if there are conflicts of interests for approving a proposed transaction due to the dual positions of Guo Qing Ren and Zhu Jia Ji (being a director of Tianye Company since 30th June, 2007) as both directors of the Company and Tianye Company and/or Tianye Holdings, they shall, pursuant to the relevant provisions of the (i) Articles of Association; and (ii) articles of association of Tianye Company/Tianye Holdings, not attend and abstain from voting in the relevant board meetings of the Company and Tianye Company and/or Tianye Holdings for approving such transaction. Besides, such transaction shall also require the approval by the independent non-executive Directors so as to ensure that the interest of the Company are being served.

In case if Guo Qing Ren and Zhu Jia Ji are required not to attend and abstain from voting in the relevant board meetings of the Company, the remaining Directors (including independent non-executive Directors) have sufficient knowledge and experience to enable the Board to deal with any issues in case of conflicts of interests.

Since the Board comprises seven Directors as at the Latest Practicable Date, if Guo Qing Ren and Zhu Jia Ji (being a director of Tianye Company since 30th June, 2007) are required to abstain from voting, the remaining five Directors are entitled to vote. The Company considers that the chance for the situation where there is an equality of vote of Directors is remote. If such situation arises, the internal procedures of the Company require that the Board shall adjourn the meeting so as to allow the Directors to re-consider the matters and vote again.

According to the service agreements entered into between the Company and the executive Directors, each of the executive Directors has undertaken to the Group, among other things, that he will not (without any prior written approval from the Board) (i) accept any position of a company which business may directly or indirectly compete with the Group's business or be engaged in any business which may directly or indirectly compete with the Group's business; or (ii) solicit any employee of the Group or seduce them to leave the Group or solicit any customers of the Group, during their service term and in the six months after the termination of their service agreements. Save as disclosed, no separate confidentiality undertakings had been given by the executive Directors to the Company in respect of the trade secrets or other confidential information which they would obtain from time to time in their capacities as the Directors.

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Save as disclosed above, each of the Directors and Substantial Shareholders has confirmed that each of them and their respective associates do not have any business or interest which competes or may compete with the business of the Group and do not have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

Save as Guo Qing Ren, an executive Director, receives salary from Tianye Company, all Directors and Supervisors receive salaries from the Company after listing of H Shares on GEM. Further details are set out in the paragraph headed “Further information about Directors, Supervisors, management and staffs” set out in Appendix V to this document.

### *Supervisory Committee*

As at the Latest Practicable Date, the supervisory committee of the Company comprised three members, namely, Huang Jun Lin (who as at the Latest Practicable Date holds approximately 0.0121% of Tianye Company), He Jie and Ni Mei Lan. None of the members of the supervisory committee of the Company holds any position in any of the Substantial Shareholders.

As disclosed above, the Group and Tianye Company and Tianye Holdings Group (except Tianye Company) have distinct businesses and do not have any competition among them, despite the fact that the procurement of the raw materials from Tianye Holdings Group by the Group for the production of its products. In view of the above, the Directors consider that it is not beneficial to include the businesses of Tianye Company and Tianye Holdings Group (except Tianye Company) as part of the Group due to, among others, that (i) the businesses of Tianye Company and Tianye Holdings Group (except Tianye Company) are not within the principal business scope of the Group; (ii) each of the businesses of Tianye Company and Tianye Holdings Group (except Tianye Company) has its own operational management teams independent of the Group for its core operations, despite the fact that Guo Qing Ren, Li Shuang Quan (being a director of Tianye Company until 30th June, 2007) and Zhu Jia Ji (being a director of Tianye Company since 30th June, 2007) are holding certain positions in the Substantial Shareholders; (iii) there is no direct competition among the Group, Tianye Company and Tianye Holdings Group (except Tianye Company); (iv) save as Guo Qing Ren and Zhu Jia Ji, each of the Directors and Substantial Shareholders have confirmed that each of them and their respective associates do not any business or interest which competes or may compete with the business of the Group and do not have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules; (v) Guo Qing Ren, Li Shuang Quan (being a director of Tianye Company until 30th June, 2007) and Zhu Jia Ji (being a director of Tianye Company since 30th June, 2007), despite their holding of certain positions in the Substantial Shareholders, the Group is satisfied that these Directors are able to perform their roles in the Company independently with sufficient time devoted to the Group and the Group has implement sufficient corporate governance procedures to handle events whenever there are conflicts of interests existed; and (vi) the Company has complied with the requirements in relations to the connected transactions as set out in the GEM Listing Rules since listing of the H Shares on the GEM Board in February 2006 and the Directors confirm that the Company will comply with the requirements in relations to the connected transactions as set out in the Listing Rules after the Introduction. In view of the above, the Directors are of the view that the Substantial Shareholders do not have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.



### CONNECTED TRANSACTIONS

#### Non-exempt continuing connected transactions

Prior to the listing of the H Shares on the Main Board, the Group has entered into certain transactions with its connected persons (as defined in the Listing Rules), which are expected to continue after listing of the H Shares on the Main Board and will constitute non-exempt continuing connected transactions (the “**Continuing Connected Transactions**”) of the Company:

- A. Purchase Agreement with Tianye Holdings;
- B. Master Purchase Agreement with Tianye Company;
- C. Sales Agreement with Tianye Holdings;
- D. Master Sales Agreement with Tianye Company; and
- E. Lease, Office Leasing Agreement 1 and Office Leasing Agreement 2 with Tianye Company respectively.

#### **A. *Purchase Agreement with Tianye Holdings***

On 7th February, 2006, the Group entered into the Purchase Agreement with Tianye Holdings, pursuant to which the Group agreed to purchase spare parts and used materials, including but not limited to diamond-shaped wheels and used drip films, from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The diamond-shaped wheels are used to squeeze the drip films during the production process and the used drip films are to be processed into recycled raw materials. The Group’s purchase of diamond-shaped wheels from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) does not constitute upstream and downstream production relationship.

The prices for the spare parts and used materials will be agreed from time to time between the parties concerned and are set at the market prices at the relevant time. The terms to be offered to the Group under the Purchase Agreement will be no less favourable than those offered by Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) to the other independent customers in the ordinary course of business. If the terms offered by other third parties to the Group are more favourable than those to be offered by Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) under the Purchase Agreement, the Group is allowed to purchase spare parts and used materials from such other third parties.

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The following table sets out the historical transaction amounts for the three years ended 31st December, 2006 and the six months ended 30th June, 2007 and the expected cap amounts for each of the two years ending 31st December, 2008 under the Purchase Agreement:

	Year ended			Six months	Year ending	
	31st December,			ended	31st December,	
	2004	2005	2006	30th June, 2007	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical/expected cap amounts under the Purchase Agreement	3,374	2,988	780	4,347	9,760	9,760

The Group's total purchase for the year ended 31st December, 2005 under the Purchase Agreement was approximately RMB2,988,000, representing a decrease of approximately 11.44% as compared with the figure of approximately RMB3,374,000 for the year ended 31st December, 2004, while the Group's total purchase for the year ended 31st December, 2006 under the Purchase Agreement was approximately RMB780,000, representing a significant decrease of approximately 73.9% as compared with the figure of approximately RMB2,988,000 for the year ended 31st December, 2005. The reason for such decrease was due to the decrease in number of depleted components of diamond-shaped wheels replaced by the Group in comparing with the previous years. The Group's total purchase for the six months ended 30th June, 2007 under the Purchase Agreement was approximately RMB4,347,000.

The expected cap amounts under the Purchase Agreement for the two years ending 31st December, 2008 are determined on the estimated rate of replacement for the worn out diamond-shaped wheels (which is about 23% per year) for the existing diamond-shaped wheels fitted in the 182 production lines of drip films owned by the Group at the same purchasing price of the diamond-shaped wheels and the volume of used drip films purchased at the same purchasing price purchased from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) during the Track Record Period. The Group's total purchase for the year ending 31st December, 2007 under the Purchase Agreement is expected to increase by approximately 1,151.28% as compared with the comparative figure for the year ended 31st December, 2006 because the Group expects that the number of depleted components of diamond-shaped wheels to be replaced for the year ending 31st December, 2007 will increase by approximately 100% as compared with the comparative figure for the year ended 31st December, 2006 which is mainly attributable to the original renewal plan of the diamond-shaped in 2006 postponed to 2007 together with the increase of depletion of equipment due to aging and resulting in the increase of renewals. The volume of used drip films to be purchased for the year ending 31st December, 2007 will be four times as much as the comparative figure for the year ended 31st December, 2006 which is mainly attributable to the reduction in purchase from 149 Regiment of No. 8 Division in 2006 as the quality of the recycled drip films provided by 149 Regiment of No. 8 Division was not up to standard while the purchase is expected to increase when the quality of the recycle drip films improves. The Group estimates that the Group's total purchase for the year ending 31st December, 2008 under the Purchase Agreement is expected to remain the same as that for the year ending 31st December, 2007.

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The Directors consider that it is in the interests of the Group to enter into the Purchase Agreement so as to ensure a steady supply of spare parts and used materials as well as the quality of the spare parts supplied to the Group.

### **B. Master Purchase Agreement with Tianye Company**

On 7th February, 2006, the Group entered into the Master Purchase Agreement with Tianye Company, pursuant to which the Group agreed to purchase raw materials, including but not limited to PVC resins, contracting films, internal films and stabilizers, from Tianye Company and/or its subsidiaries and/or its controlled corporations from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The contracting films and internal films are used for packing the drip films while PVC resins are used for producing PVC pipelines during the production process of the Group. Stabilizer is mixed with the PVC resins to prevent them from being disintegrated when being heated. The price for the raw materials will be agreed from time to time between the parties concerned and is set at the market price at the relevant time. The terms to be offered to the Group under the Master Purchase Agreement will be no less favourable than those offered by Tianye Company and/or its subsidiaries and/or its controlled corporations to the other independent customers in the ordinary course of business. If the terms offered by other third parties to the Group are more favourable than those to be offered by Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Purchase Agreement, the Group is allowed to purchase raw materials from such other third parties.

The following table sets out the historical transaction amounts for the three years ended 31st December, 2006 and the six months ended 30th June, 2007 and the expected cap amounts for each of the two years ending 31st December, 2008 under the Master Purchase Agreement:

	<b>Year ended</b>			<b>Six months</b>		<b>Year ending</b>	
	<b>31st December,</b>			<b>ended</b>		<b>31st December,</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>30th June,</b>	<b>2007</b>		<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical/expected cap amounts under the Master Purchase Agreement	9,237	58,032	59,741	14,122	61,220	61,220	

The Group's total purchase for the year ended 31st December, 2004 under the Master Purchase Agreement was approximately RMB9,237,000 with a significant increase to approximately RMB58,032,000 and approximately RMB59,741,000 for the years ended 31st December, 2005 and 31st December, 2006 respectively. The reason for such significant increase was the Group purchased PVC resins from Tianye Company instead of the third parties in 2005, as the price of PVC resins offered by Tianye Company decreased and was even lower than that offered by the third parties (due to the commencement of the new production line for PVC resins by Tianye Company in 2005). Thus, the amount raw materials purchase under the Master Purchase Agreement increased.

The Group's total purchase for the six months ended 30th June, 2007 under the Master Purchase Agreement was approximately RMB14,122,000.

The Board anticipates that the Group's sales volumes for drip films and PVC pipelines for the two years ending 31st December, 2008 will continue to increase, which will result in an upward demand for the raw materials (including but not limited to PVC resins, contracting films, internal films and stabilizers) consumed by the Group. The total consumption amounts of such raw materials for the two years ending 31st December, 2008 are anticipated to be approximately RMB170,470,000 and RMB243,370,000 respectively. The Group plans to purchase those raw materials from both (i) Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Purchase Agreement; and (ii) other independent suppliers (if the terms offered to the Group are more favourable than those to be offered by Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Purchase Agreement), and estimates that the Group's total purchase from Tianye Company and/or its subsidiaries and/or its controlled corporations for the two years ending 31st December, 2008 under the Master Purchase Agreement will more or less remain the same as that for the year ended 31st December, 2006. The expected cap amounts under the Master Purchase Agreement for the two years ending 31st December, 2008 are then determined on the assumptions that the quantity and the price of the raw materials consumed by the Group under the Master Purchase Agreement will remain about the same as that for the year ended 31st December, 2006.

The Directors have confirmed that the Group is able to find alternative suppliers of the raw materials which the Group purchased from Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Purchase Agreement. However, the Directors consider that it is in the interests of the Group to enter into the Master Purchase Agreement due to the following reasons: (i) the Master Purchase Agreement ensures a steady supply of raw materials and the quality of raw materials supplied to the Group; (ii) as Tianye Company has shown that it is able to supply sufficient raw materials to the Group on time; and (iii) since both Tianye Company and the Group are located in Xinjiang, the Group will benefit from shorter distance for product delivery thereby resulting in lower transportation cost.

### ***C. Sales Agreement with Tianye Holdings***

On 7th February, 2006, the Group entered into the Sales Agreement with Tianye Holdings, pursuant to which Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The price for the products manufactured by the Group will be agreed from time to time between the parties concerned and is set at the market price at the relevant time. The terms of sales to be offered by the Group to Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) under the Sales Agreement will be no more favourable than those offered by the Group to its other independent customers in the ordinary course of business.

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The following table sets out the historical transaction amounts for the three years ended 31st December, 2006 and the six months ended 30th June, 2007 and the expected cap amounts for each of the two years ending 31st December, 2008 under the Sales Agreement:

Historical/ expected cap amounts under the Sales Agreement	Year ended 31st December,			Six months ended 30th June,	Year ending 31st December,	
	2004	2005	2006	2007	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	21,466	15,330	12,558	13,165	16,200	16,200

The Group's total sales for the year ended 31st December, 2005 under the Sales Agreement was approximately RMB15,330,000, representing a decrease of approximately 28.58% as compared with the figure of approximately RMB21,466,000 for the year ended 31st December, 2004. The Group's total sales for the year ended 31st December, 2006 under the Sales Agreement was approximately RMB12,558,000, representing a decrease of approximately 18.08% as compared with the figure of approximately RMB15,330,000 for the year ended 31st December, 2005. The reason for such decrease was the sales of PVC pipelines to 149 Regiment of No. 8 Division decreased as the area of new dripping farmland of 149 Regiment of No. 8 Division reduced. The Group's total sales for the six months ended 30th June, 2007 under the Sales Agreement was approximately RMB13,165,000.

The Group's estimated total sales for the year ending 31st December, 2007 under the Sales Agreement is approximately RMB16,200,000, representing an increase of approximately 29% as compared with the figure of approximately RMB12,558,000 for the year ended 31st December, 2006. The reason for such increase is that the Group expects the water saving irrigation system will be used in approximately 150,000 hectares of land owned by 149 Regiment of No. 8 Division in 2007 while the water saving irrigation system were used in only approximately 132,000 hectares of land owned by 149 Regiment of No. 8 Division in 2005 and 2006. The expected cap amount under the Sales Agreement for the year ending 31st December, 2008 is determined on the assumptions that the quantity and price of the products of the Group will be maintained at the same level as the year ending 31st December, 2007.

The Directors consider that it is in the interests of the Group to enter into the Sales Agreement as sales to Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) will increase the volume of sales on the Group's products and the profits of the Group.

#### **D. Master Sales Agreement with Tianye Company**

On 7th February, 2006, the Group entered into the Master Sales Agreement with Tianye Company pursuant to which Tianye Company and/or its subsidiaries and/or its controlled corporations agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The price for the products manufactured by the Group will be agreed from time to time between the parties concerned and is set at the market

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price at the relevant time. The terms of sales to be offered by the Group to Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Sales Agreement will be no more favourable than those offered by the Group to its other independent customers in the ordinary course of business.

The following table sets out the historical transaction amounts for the three years ended 31st December, 2006 and the six months ended 30th June, 2007 and the expected cap amounts for each of the two years ending 31st December, 2008 under the Master Sales Agreement:

Historical/expected cap amounts under the Master Sales Agreement	<b>Year ended 31st December,</b>			<b>Six months ended 30th June,</b>	<b>Year ending 31st December,</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical/expected cap amounts under the Master Sales Agreement	1,156	2,542	979	885	1,250	1,250

The Group's total sales for the year ended 31st December, 2006 under the Master Sales Agreement was approximately RMB979,000, representing a decrease of approximately 61.49% as compared with the figure of approximately RMB2,542,000 for the year ended 31st December, 2005, which such decrease was mainly Tianye Company and Beijing Tianye Oasis Water Technologies Development Company Limited (北京天業綠洲科技發展有限公司) reduced the demand of the Group's products. The total sales under the Master Sales Agreement for the six months ended 30th June, 2007 was approximately RMB885,000.

The expected cap amounts under the Master Sales Agreement for the two years ending 31st December, 2008 are determined on the basis of the value of various contracts for the two years ended 31st December, 2005 and the estimated demand from Tianye Company and/or its subsidiaries and/or its controlled corporations for the coming years. The Company estimates that the cap amounts transactions with Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Sales Agreement for the two years ending 31st December, 2008 will be in a steady basis in the sum of RMB1,250,000.

The Directors consider that it is in the interests of the Group to enter into the Master Sales Agreement as sales to Tianye Company and/or its subsidiaries and/or its controlled corporations will increase the volume of sales on the Group's products and the profits of the Group.

The Directors are of the view that the transactions under the Purchase Agreement, the Master Purchase Agreement, the Sales Agreement and the Master Sales Agreement will be conducted in the ordinary and usual course of business of the Group and the terms have been arrived at after arm's length negotiations between the parties thereto and on normal commercial terms. The Directors, including the independent non-executive Directors, considered that the terms of the Purchase Agreement, the Master Purchase Agreement, the Sales Agreement and the Master Sales Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

As the expected aggregate cap amounts of the transactions contemplated under the Purchase Agreement and the Master Purchase Agreement for each of the two years ending 31st December, 2008 are higher than 2.5% of each of the percentage ratios (as defined in the Listing Rules) (other than the profits ratio) and are higher than HK\$10,000,000, therefore, the transactions under the Purchase Agreement and the Master Purchase Agreement shall constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval requirements under Rules 14A.45 to 14A.54 of the Listing Rules.

The Directors note that the aggregate annual sales amounts for the Sales Agreement and Master Sales Agreement is more than 0.1% but less than 2.5% for each the percentage ratios (other than the profits ratio), the transactions under the Sales Agreement and the Master Sales Agreement constitute continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirements set out in Rule 14A.35(3) of the Listing Rules following the listing of the H Shares on the Main Board.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied for, and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules in respect of the transactions under the Sales Agreement and the Master Sales Agreement, details of which are set forth in the section headed "Waivers from strict compliance with the Listing Rules" of this document.

The Directors, including independent non-executive Directors, and the Joint Sponsors are of the view that the transactions under the Purchase Agreement, the Master Purchase Agreement, the Sales Agreement and the Master Sales Agreement are in the ordinary and usual course of business of the Group and the terms and conditions of these transactions, the relevant agreements and the relevant expected annual cap amounts are on normal commercial terms and fair and reasonable so far as the interests of the independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

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

### **E. Leasing**

On 28th September, 2005, the Group entered into the following agreements with Tianye Company, pursuant to which (i) the Company agreed to lease from Tianye Company: (a) the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號3樓); and (b) the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94-22號) respectively (collectively, the "**Leased Properties**"); (ii) Tianye Installation agreed to lease from Tianye Company the office premises (the "**Tianye Installation Leased Office**") located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層); and (iii) Tianye Recycling agreed to lease from Tianye Company the office premises (the "**Tianye Recycling Leased Office**") located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三小區94-2辦公樓).

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### (1) *The Lease*

Pursuant to the Lease, the Company agreed to lease from Tianye Company the Leased Properties, details of which are set out below:

Leased Properties	Approximate Gross floor area <i>(sq.m.)</i>	Location	Cost <i>(RMB)</i> <i>(Note)</i>	Annual Depreciation <i>(RMB)</i> <i>(Note)</i>	Usage
1. Warehouse for raw material of drip films	2,377	No. 36-3 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	2,895,149.44	72,378.74	Warehouse
2. Workshop of drip films	13,647	No. 36-4 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	18,745,073.23	468,626.83	Production workshop
3. Workshop of PVC pipelines	5,081	No. 36-5 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	7,911,084.89	197,777.12	Production workshop
4. Warehouse for raw material of pipelines	1,181	No. 36-6 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	1,757,064.65	43,926.62	Warehouse
5. Warehouse for finished goods of drip films	1,180	No. 36-7 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	1,629,254.13	40,731.35	Warehouse
6. Utility workshop	1,363	No. 36-8 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	2,249,116.04	56,227.90	Lodging of auxiliary production facilities
7. Recycled raw materials production factory	1,089	No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	925,242.00	23,131.05	Production factory



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Leased Properties	Approximate Gross floor area <i>(sq.m.)</i>	Location	Cost <i>(RMB)</i> <i>(Note)</i>	Annual Depreciation <i>(RMB)</i> <i>(Note)</i>	Usage
8. Office	892	3rd Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	2,757,580.45	52,393.46	

*Note:* Figures are extracted from the management accounts of Tianye Company as at 30th June, 2007.

Prior to the entering into the Lease, the Company and Tianye Company had entered into (i) a factory leasing agreement dated 7th January, 2003 in respect of items 1 to 7 above of the Leased Properties; (ii) a land use rights leasing agreement dated 18th October, 2002 in respect of the land use rights of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC; and (iii) an office leasing agreement dated 25th May, 2003 in respect of item 8 above of the Leased Properties, all of which were replaced by the Lease entered into on 28th September, 2005.

### Term and termination

The term of the Lease is three years commencing from 1st July, 2005 to 30th June, 2008 . If Tianye Company decides to continue to lease the Leased Properties upon the expiry of the Lease, the Company shall have the pre-emptive right to continue to lease the Leased Properties. If the Company decides to continue to lease the Leased Properties, the Company shall serve a notice to Tianye Company three months prior to the expiry of the Lease and the Company and Tianye Company shall execute a renewed agreement accordingly.

The Lease may not be terminated by the Company and Tianye Company, save and except in the following events:

- (i) mutually agrees between the Company and Tianye Company;
- (ii) the Company fails to make the rental payment under the terms of the Lease equivalent to an amount of six-months rental or more;
- (iii) any unpredictable and unavoidable losses and damages on the Leased Properties;
- (iv) changes in the business development objectives of the Company and with the Company serving a three months' notice to Tianye Company; or
- (v) the Company fails to obtain approval for entering into the Lease from its shareholders and/or its ultimate shareholders if such approval is necessary to be obtained in accordance with the relevant laws, rules or regulations of the related regulatory authority.

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### Rent

The rent under the Lease is determined by arm's length negotiations between the Company and Tianye Company with reference to the market rent for similar properties in the same region. The rent (including the property management fee) under the Lease is RMB1,455,820 per annum, which shall be payable to Tianye Company in cash on 31st December of each year. The rent under the Lease for the year ended 31st December, 2005 was calculated on a pro-rata basis with reference to the number of days in 2005 for which the Leased Properties were leased to the Company.

Castores Magi (Hong Kong) Limited, an independent valuer, has reviewed the Lease and has confirmed that the current rental payable by the Company is at market rate and is fair and reasonable to the Group, by using the direct comparison approach and making reference to the recent rental transactions for similar properties in the Xinjiang Uygur Autonomous Region of China. The Directors, including independent non-executive Directors, are of the view that the Lease has been entered into in the ordinary and usual course of business of the Company and the terms of the Lease are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

The Group's principal production facilities are situated in the Leased Properties where the production of the Group is carried out. 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. Despite the fact that substantial portion of the Group's products are manufactured in the Leased Properties, the Directors consider that the Leased Properties are not of utmost importance to the Group as the Group will have no difficulty in leasing similar properties nearby from other third parties at market rent as and when it requires. The reason for the Group to lease rather than to own the Leased Properties is to minimise its capital expenditure so as to ensure effective and flexible use of the working capital of the Group.

### (2) *The Office Leasing Agreement 1*

Pursuant to the Office Leasing Agreement 1, Tianye Installation agreed to lease from Tianye Company the Tianye Installation Leased Office, details of which are set out below:

Uses	Approximate Gross floor area (sq.m.)	Location	Cost (RMB) (Note)	Annual Depreciation (RMB) (Note)
1. Office	40	1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang, PRC	123,658.32	2,349.48

*Note:* Figures are extracted from the management accounts of Tianye Company as 30th June, 2007.

### Term and termination

The term of the Office Leasing Agreement 1 is three years from 1st July, 2005 to 30th June, 2008. If Tianye Company decides to continue to lease the Tianye Installation Leased Office upon the expiry of the Office Leasing Agreement 1, Tianye Installation shall have the pre-emptive right to continue to lease the Tianye Installation Leased Office. If Tianye Installation decides to continue to lease the Tianye Installation Leased Office, Tianye Installation shall serve a notice to Tianye Company three months prior to the expiry of the Office Leasing Agreement 1 and Tianye Installation and Tianye Company shall execute a renewed agreement accordingly.

The Office Leasing Agreement 1 may not be terminated by Tianye Installation and Tianye Company, save and except in the following events:

- (i) mutually agreed between Tianye Installation and Tianye Company;
- (ii) Tianye Installation fails to make the rental payment under the terms of the Office Leasing Agreement 1 equivalent to an amount of six-months rental or more;
- (iii) any unpredictable and unavoidable losses and damage on the Tianye Installation Leased Office;
- (iv) changes in the business development objectives of Tianye Installation and with Tianye Installation serving a three months' notice to Tianye Company; or
- (v) Tianye Installation fails to obtain approval for entering into the Office Leasing Agreement 1 from its shareholders and/or the ultimate shareholders if such approval is necessary to be obtained in accordance with the relevant laws, rules or regulations of the related regulatory authority.

### Rent

The rent under the Office Leasing Agreement 1 is determined by arm's length negotiation between Tianye Installation and Tianye Company with reference to the market rent for similar property in the same region. The current rent under the Office Leasing Agreement 1 is RMB3,500 per annum (including property management fee), which is payable to Tianye Company in cash on 31st December of each year. The rent under the Office Leasing Agreement 1 for the year ended 31st December, 2005 was calculated on a pro-rata basis with reference to the number of days in 2005 for which the Tianye Installation Leased Office was leased to Tianye Installation.

Castores Magi (Hong Kong) Limited, an independent valuer, has reviewed the Office Leasing Agreement 1 and has confirmed that the current rental payable by the Group is at market rate and is fair and reasonable to the Group, by using the direct comparison approach and making reference to the recent rental transactions for similar premises in the Xinjiang Uygur Autonomous Region of China.

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### (3) *The Office Leasing Agreement 2*

Pursuant to the Office Leasing Agreement 2, Tianye Recycling agreed to lease from Tianye Company the Tianye Recycling Leased Office, details of which are set out below:

Uses	Approximate Gross floor area (sq.m.)	Location	Cost (RMB) (Note)	Annual Depreciation (RMB) (Note)
1. Office	60	Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang, PRC	57,708.49	1,478.73

*Note:* Figures are extracted from the management accounts of Tianye Company as at 30th June, 2007.

#### Term and termination

The term of the Office Leasing Agreement 2 is three years from 1st July, 2005 to 30th June, 2008. If Tianye Company decides to continue to lease the Tianye Recycling Leased Office upon the expiry of the Office Leasing Agreement 2, Tianye Recycling shall have a pre-emptive right to continue to lease the Tianye Recycling Leased Office. If Tianye Recycling decides to continue to lease the Tianye Recycling Leased Office, Tianye Recycling shall serve a notice to Tianye Company three months prior to the expiry of the Office Leasing Agreement 2 and Tianye Recycling and Tianye Company shall execute a renewed agreement accordingly.

The Office Leasing Agreement 2 may not be terminated by Tianye Recycling and Tianye Company, save and except in the following events:

- (i) mutually agreed between Tianye Recycling and Tianye Company;
- (ii) Tianye Recycling fails to make the rental payment under the terms of the Office Leasing Agreement 2 equivalent to an amount of six-months rental or more;
- (iii) any unpredictable and unavoidable losses and damage on the Tianye Recycling Leased Office;
- (iv) changes in the business development objectives of Tianye Recycling and with Tianye Recycling serving a three months' notice to Tianye Company; or
- (v) Tianye Recycling fails to obtain approval for entering into the Office Leasing Agreement 2 from its shareholders and/or the ultimate shareholders if such approval is necessary to be obtained in accordance with the relevant laws, rules or regulations of the related regulatory authority.

### Rent

The rent under the Office Leasing Agreement 2 is determined by arm's length negotiation between Tianye Recycling and Tianye Company with reference to the market rent for similar property in the same region. The current rent under the Office Leasing Agreement 2 is RMB4,320 per annum (including property management fee), which is payable to Tianye Company in cash on 31st December of each year. The rent under the Office Leasing Agreement 2 for the year ended 31st December, 2005 was calculated on a pro-rata basis with reference to the number of days in 2005 for which the Tianye Recycling Leased Office was leased to Tianye Recycling.

Castores Magi (Hong Kong) Limited, an independent valuer, has reviewed the Office Leasing Agreement 2 and has confirmed that the current rental payable by the Group is at market rate and is fair and reasonable to the Group, by using the direct comparison approach and making reference to the recent rental transactions for similar premises in the Xinjiang Uygur Autonomous Region of China.

The Directors consider that the Tianye Installation Leased Office and the Tianye Recycling Leased Office are not of utmost importance to the Group because (i) the principal business of Tianye Installation is installation of the water saving irrigation system in customers' farmlands, and thus the operations carried out in its office is not of significance as a whole; (ii) the principal business of Tianye Recycling is to collect the used drip films in customers' farmlands for recycling and re-use, and the operations carried out in its office is not of significance as a whole; and (iii) the Directors consider that the Group will have no difficulty in leasing similar properties nearby from other third parties at market rent as and when it requires. The reason for the Group to lease rather than to own the Tianye Installation Leased Office and the Tianye Recycling Leased Office is to minimise its capital expenditure so as to ensure effective and flexible use of the working capital of the Group.

As the aggregate annual rents under the Lease, the Office Leasing Agreement 1 and the Office Leasing Agreement 2 are less than 2.5% but higher than 0.1% of each of the percentage ratios (as defined in the Listing Rules) (other than the profits ratio) and are higher than HK\$1,000,000, the Lease, the Office Leasing Agreement 1 and the Office Leasing Agreement 2 shall also constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the reporting and announcement requirements, but is exempted from the independent Shareholders' approval requirement under Rule 14A.32 of the Listing Rules.

The Directors, including independent non-executive Directors, and the Joint Sponsors are of the view that the Lease, the Office Leasing Agreement 1 and the Office Leasing Agreement 2 have been entered into in the ordinary and usual course of business of the Company and the terms of the Lease, the Office Leasing Agreement 1 and the Office Leasing Agreement 2 are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

An application has been made to the Stock Exchange for waivers from strict compliance with Rules 14A.47 and 14A.48 of the Listing Rules in respect of the Continuing Connected Transactions, details of which are set forth in the section headed "Waivers from strict compliance with the Listing Rules" of this document.

**Exempt continuing connected transactions**

- (a) The following continuing connected transaction are exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules:

<b>Item no.</b>	<b>Description of transactions</b>
A.	Assets Leasing Agreement with Tianye Company;
B.	Trademark Licence Agreement with Tianye Company; and
C.	Factory Lease with Zhaoqing Tifo New Fibre Company Limited.

**A. *Assets Leasing Agreement***

The Company and Tianye Company entered into an assets leasing agreement dated 28th September, 2005 (the “**Assets Leasing Agreement**”), pursuant to which the Company agreed to lease from Tianye Company the assets and equipment for maintaining and repairing the production facilities of water saving irrigation system with a net asset value as at 31st March, 2007 of approximately RMB2,113,529 (the “**Leased Assets**”), details of which are set out below:

<b>Leased Assets</b>	<b>Approximate Net Book Value as at 31st March, 2007 (RMB)</b>	<b>Approximate Annual Depreciation (RMB)</b>
1. Plant	338,369	13,657
2. Multi-purposes rounded grind	289,338	28,591
3. Data mill	216,529	21,396
4. Digital-controlled lathe	284,104	28,074
5. Vertical-axis square-surface grind	188,258	18,603
6. Vertical multi-purpose elevating mill	100,455	9,927
7. Others	696,476	75,787

*Term and termination*

The term of the Assets Leasing Agreement is three years from 1st July, 2005 to 30th June, 2008.

The Assets Leasing Agreement may be terminated by the relevant parties if the Company fails to obtain approval for entering into the Assets Leasing Agreement from its shareholders and/or the ultimate shareholders if such approval is necessary to be obtained in accordance with the relevant laws, rules or regulations of the related regulatory authority.

*Rent*

The rent is determined by arm's length negotiation between the Company and Tianye Company. The current rent under the Assets Leasing Agreement is RMB280,000 per annum, which is payable to Tianye Company in cash on 31st December of each year. The rent under the Assets Leasing Agreement for the year ended 31st December, 2005 was

calculated on a pro-rata basis with reference to the number of days in 2005 for which the Leased Assets were leased to the Company. The annual rent shall fall within the de minimus threshold for connected transaction as stipulated in Rule 14A.33(3) of the Listing Rules.

Castores Magi (Hong Kong) Limited, an independent valuer, has reviewed the Assets Leasing Agreement and has confirmed that the current rental payable by the Company is at market rate and is fair and reasonable to the Group, by using the direct comparison approach.



The Leased Assets are mechanical repairing and processing equipment and the spare parts produced by the Leased Assets are used by the Group's equipment in the production process of the Group but do not form parts of the Group's end-products. Therefore, the output level, turnover and profit attributed to the Leased Assets cannot be measured. Since the Leased Assets consist of equipment which is commonly used in the mechanical processing industry, and such type of equipment is owned by many corporations in different sales regions where the Group operates, thus the Group should have no difficulty in finding alternatives to the Leased Assets.

The Directors consider that the Leased Assets are not of utmost importance to the Group because the Group will have no difficulty in leasing similar assets nearby from other third parties at market rent as and when it requires. The Group leases rather than to own the Leased Assets so as to minimise the capital expenditure of the Group to ensure effective and flexible use of the working capital of the Group.







### **B. Trademark Licence Agreement**


The Company and Tianye Company entered into the Trademark Licence Agreement on 1st June, 2003, pursuant to which Tianye Company granted the right to use its “天业” trademark to the Company for the period commencing from 1st June, 2003 and ending on 1st June, 2006 at nil consideration. The “天业” trademark has been registered as a trademark owned by Tianye Company with a reference number of 1520839 on 14th February, 2001 and is valid until 13th February, 2011. The “天业” trademark can be applied on the commodity of 17th category as defined by the PRC's Trademark Office of the State Administration for Industry and Commerce (中國國家工商行政管理總局商標局), including rubber band, sealant, agricultural plastic film, plastic pipeline, tube, board and stick, non-metallic soft pipeline, insulating material, non-metallic horseshoe, thermal insulating material and waterproof packaging product.

The “天业” trademark is necessary for the Group's customers to identify the Group's products. However, since the sales of the Group's products are mainly conducted through direct contact between the sales representatives and the customers of the Group, the Directors are of the view that the “天业” trademark is not of the utmost importance to the Group. The sales of the Group's products are supported by direct after-sales services by the sales representatives to the customers. The sales representatives are not merely responsible for promoting the Group's products, but also providing comprehensive direct after-sales services to the customers, such as guidance on installation and users training. More importantly, such after-sales services can solve the problems that customers may encounter when they are using the Group's products. Hence, the provision of after-sales services is an indispensable part of the sales of the Group's products, which is considered by the Directors to be more important than the “天业” trademark used by the Group. Other than Tianye Group, Tianye Holdings, its subsidiaries and

controlled corporations have also used the “” trademark on their products. Tianye Holdings Group is also currently using the “” trademark on its waterproof packaging products.






### *Term and termination*

The term of the Trademark Licence Agreement commenced from 1st June, 2003 and expired on 1st June, 2006. 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 the further renewal of the registration of the “” trademark, make the necessary application to the Trademark Office of the State Administration for Industry and Commerce for the renewal of the registration of the “” 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 “” trademark by Tianye Group and the Group, Tianye Company will not grant the right to use the “” trademark to any other third parties; and (v) should Tianye Company decides to dispose the “” trademark, the Company shall have the pre-emptive rights to acquire the “” 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. The Directors confirmed that the terms of the renewed Trademark Licence Agreement shall be of the same terms of the Trademark Licence Agreement and in compliance of the Listing Rules and the relevant laws and regulations of the PRC.

The Trademark Licence Agreement can be terminated by Tianye Company if the quality of the goods in which the “” trademark is used has failed to meet the product standards agreed between the Company and Tianye Company.


### *Governing laws*

The Trademark Licence Agreement is governed by the Trademark Law of the PRC.

According to Article 40 of the Trademark Law of the PRC, Tianye Company is entitled to, by signing the Trademark Licence Agreement, authorise the Company to use its “” trademark. Tianye Company shall supervise the quality of the goods in respect of which the Company uses its “” trademark, and the Company shall guarantee the quality of the goods in respect of which the “” trademark is being used. Where the Company is authorised to use the “” trademark of Tianye Company, the name of the Company and the origin of the goods must be indicated on the goods that bear the “” trademark. The Trademark Licence Agreement was filed with the PRC’s Trademark Office of the State Administration for Industry and Commerce for record on 28th April, 2004. The renewed Trademark Licence Agreement was filed with the PRC’s Trademark Office of the State Administration for Industry and Commerce for record on 1st June, 2006.



*Consideration*

As the grant of the right by Tianye Company to the Company to use the “” trademark is at nil consideration, it falls within the de minimus threshold for connected transaction as stipulated in Rule 14A.33(3) of the Listing Rules.

**C. *Factory Lease with Zhaoqing Tifo New Fibre Company Limited***

Zhaoqing Tianye and Zhaoqing Tifo entered into a factory lease agreement dated 5th August 2006 (the “**Factory Lease**”), pursuant to which Zhaoqing Tianye agreed to lease from Zhaoqing Tifo the factory premises and space area located at Dong Bei Jiao, Junfu Industrial Area, Zhaoqing (肇慶市俊富工業園東北角) of gross floor area of approximately 6,620 sq.m. for a term of 5 years commencing from 1st September, 2006 and expiring on 31st August, 2011 at a monthly rent of RMB15,057 (equivalent to approximately HK\$15,057) with annual increase of 3%.

The rent is determined by arm’s length negotiation between Zhaoqing Tianye and Zhaoqing Tifo. The current rent under the Factory Lease is RMB180,684 (equivalent to HK\$180,684) per annum, which is payable to Zhaoqing Tifo in cash on 5th day of each month. The annual rent shall fall within the de minimus threshold for connected transaction as stipulated in Rule 14A.33(3) of the Listing Rules.

Castores Magi (Hong Kong) Limited, an independent valuer, has reviewed the Factory Lease and has confirmed that the current rental payable by Zhaoqing Tianye is at market rate and is fair and reasonable to the Group, by using the direct comparison approach and making reference to the recent rental transactions for similar premises in Zhaoqing, the PRC.

The Board, including the independent non-executive Directors, are of the view that the Factory Lease are entered into on normal commercial terms and on arm’s length basis, and that the terms of the Factory Lease are fair and reasonable so far as the shareholders of the Company are taken as a whole.