



SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

The Directors

新疆天業節水灌溉股份有限公司

(Xinjiang Tianye Water Saving Irrigation System Company Limited*)

Sun Hung Kai International Limited

KGI Capital Asia Limited

30 August 2007

Dear Sirs,

We set out below our report on the financial information (the “Financial information”) regarding 新疆天業節水灌溉股份有限公司 (Xinjiang Tianye Water Saving Irrigation System Company Limited*) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2004 and 2005 and 2006 and the six months ended 30 June 2007 (the “Track Record Period”) for inclusion in the document of the Company date 30 August 2007 (the “Introduction Document”).

The Company, formerly known as 新疆石河子天業節水器具開發有限公司 (Xinjiang Shihezi Tianye Water Saving Container Development Company Limited*) and 新疆石河子市綠洲節水灌溉有限公司 (Xinjiang Shihezi Oasis Water Saving Irrigation System Company Limited*) was established as a limited liability company in the People’s Republic of China (the “PRC”) on 27 December 1999. Pursuant to an approval granted by the relevant PRC authorities on 18 December 2003, the Company restructured its capital and was converted into a joint stock limited liability company. During the Track Record Period, the Company set up three subsidiaries and acquired two other subsidiaries from its holding companies, all of which were accounted for using the purchase method. The background information of the Company was set out in more details in note 1 to the Financial Information of this report.

The Company’s H shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 February 2006. The Company has proposed to withdraw its listing on the GEM of the Stock Exchange so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

The Group is engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in agricultural water saving irrigation system, and the Group is also engaged in the provision of installation services of water saving irrigation system for its customers. The registered office and principal place of business of the Company is No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

The Company and its subsidiaries have adopted 31 December as their financial year end date. Particulars of the Company's subsidiaries are set out in note 26 to the Financial Information of this report.

We have acted as auditors of the Company and have audited the consolidated financial statements of the Company for the year ended 31 December 2006, as prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements of the Company for the two years ended 31 December 2004 and 2005 as prepared in accordance with HKFRSs were audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

The statutory financial statements of the entities comprising the Group during the Track Record Period were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises established in the PRC ("PRC GAAP") and were audited by the following certified public accountants, registered in the PRC:

Name of entity	Financial period	Auditors
The Company	For each of the two years ended 31 December 2005	Deloitte Huayong Certified Public Accountants Company Limited***** (德勤華永會計師事務所有限公司)
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
新疆石河子天業物資回收有限責任公司 ("Tianye Recycling")	For the year ended 31 December 2004	Xinjiang Ruixin Certified Public Accountants Company Limited (新疆瑞新有限責任會計師事務所)
	For the year ended 31 December 2005	Xinjiang Zhengxiang Certified Public Accountants Co., Ltd. (新疆正祥有限責任會計師事務所)
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
甘肅省張掖市天業節水器材有限公司 ("Gansu Tianye")	For the year ended 31 December 2004	Xinjiang Ruixin Certified Public Accountants Company Limited (新疆瑞新有限責任會計師事務所)
	For the year ended 31 December 2005	Xinjiang Zhengxiang Certified Public Accountants Co., Ltd. (新疆正祥有限責任會計師事務所)
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
石河水開發區天業節水工程安裝有限責任公司 ("Tianye Installation")	For the year ended 31 December 2004	Xinjiang Ruixin Certified Public Accountants Company Limited (新疆瑞新有限責任會計師事務所)
	For the year ended 31 December 2005	Xinjiang Zhengxiang Certified Public Accountants Co., Ltd. (新疆正祥有限責任會計師事務所)

Name of entity	Financial period	Auditors
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
新疆阿拉爾天農節水灌溉 有限責任公司 ("Alaer Tiannong")**	For the year ended 31 December 2004	Xinjiang Ruixin Certified Public Accountants Company Limited (新疆瑞新有限責任會計師事務所)
	For the year ended 31 December 2005	Xinjiang Zhengxiang Certified Public Accountants Co., Ltd. (新疆正祥有限責任會計師事務所)
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
哈密天業紅星節水灌溉 有限責任公司 ("Hami Tianye")**	For the year ended 31 December 2004	Xinjiang Ruixin Certified Public Accountants Company Limited (新疆瑞新有限責任會計師事務所)
	For the year ended 31 December 2005	Xinjiang Zhengxiang Certified Public Accountants Co., Ltd. (新疆正祥有限責任會計師事務所)
	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
廣東肇慶天業塑膠製品 有限公司 ("Zhaoqing Tianye")***	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
新疆奎屯天屯節水 有限責任公司 ("Kuitun Tiantun")***	For the year ended 31 December 2006	ShineWing Certified Public Accountants (信永中和會計師事務所)
哈密惠民回收 有限責任公司 ("Hami Huimin")****	N/A	N/A

* For identification purpose only

** These companies were acquired by the Group in 2004.

*** These companies were newly established by the Group in 2006.

**** This company was newly established by the Group on 20 March 2007.

***** Deloitte Huayong Certified Public Accountants Company Limited is an affiliated company of Deloitte Touche Tohmatsu, Certified Public Accountants in the PRC.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group and the Company which include the results, cash flows and assets and liabilities of all companies comprising the Group for the Track Record Period or from their respective dates of acquisition or dates of establishment to 30 June 2007 from the audited financial

statements of those companies comprising the Group, and in accordance with HKFRSs (the “Underlying Financial Statements”) and the management accounts for the period from 1 January 2006 to 30 June 2006 of the Group on the basis set out in note 2 to the Financial Information below.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information of the Group which give a true and fair view. In preparing the Financial Information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgments and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The directors of the Company are also responsible for the contents of the Introduction Document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

For the financial information for the period from 1 January 2006 to 30 June 2006, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you.

We have undertaken independent audits of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have examined the Underlying Financial Statements for the Track Record Period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Introduction Document.

For the purpose of this report, we have reviewed on the financial information for the period from 1 January 2006 to 30 June 2006 in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA.

A review consists principally of making enquiries of the group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information for the period from 1 January 2006 to 30 June 2006.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information set out below, for the purpose of this report, and prepared in accordance with the HKFRSs, gives a true and fair view of the consolidated results and consolidated cash flows of the Group for the Track Record Period, and of the consolidated balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 and 30 June 2007.

Moreover, on the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the financial information for the six months ended 30 June 2006.

I. FINANCIAL INFORMATION OF THE GROUP

Consolidated income statements

	NOTES	Year ended 31 December			Six months ended	
		2004	2005	2006	30 June	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Turnover	6	389,183	376,251	461,809	257,716	297,205
Cost of sales		<u>(308,947)</u>	<u>(280,373)</u>	<u>(366,601)</u>	<u>(208,264)</u>	<u>(243,637)</u>
Gross profit		80,236	95,878	95,208	49,452	53,568
Other operating income		1,769	336	6,983	606	2,240
Distribution costs		(14,170)	(18,512)	(22,965)	(11,349)	(10,546)
Administrative expenses		(12,173)	(11,197)	(15,525)	(5,447)	(9,665)
Other operating expenses		<u>(93)</u>	<u>(305)</u>	<u>(631)</u>	<u>(29)</u>	<u>(573)</u>
Profit from operations	8	55,569	66,200	63,070	33,233	35,024
Finance costs	9	<u>(3,523)</u>	<u>(3,566)</u>	<u>(3,840)</u>	<u>(2,051)</u>	<u>(2,688)</u>
Profit before taxation		52,046	62,634	59,230	31,182	32,336
Taxation	11	<u>(7,951)</u>	<u>(7,595)</u>	<u>824</u>	<u>(4,789)</u>	<u>(183)</u>
Profit for the year/ period		<u>44,095</u>	<u>55,039</u>	<u>60,054</u>	<u>26,393</u>	<u>32,153</u>
Profit attributable to:						
Equity holders of the Company		42,432	52,658	62,497	26,128	31,504
Minority interests		<u>1,663</u>	<u>2,381</u>	<u>(2,443)</u>	<u>265</u>	<u>649</u>
		<u>44,095</u>	<u>55,039</u>	<u>60,054</u>	<u>26,393</u>	<u>32,153</u>
Dividends	12	<u>8,879</u>	<u>34,883</u>	<u>34,860</u>	<u>34,860</u>	<u>18,703</u>
Earnings per share						
— basic	13	<u>RMB0.13</u>	<u>RMB0.17</u>	<u>RMB0.13</u>	<u>RMB0.06</u>	<u>RMB0.06</u>

Consolidated balance sheets

	NOTES	At 31 December			At 30 June
		2004	2005	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	14	176,888	159,331	154,508	157,926
Prepaid lease payments	15	34	755	8,386	8,297
Goodwill	16	98	98	98	98
		<u>177,020</u>	<u>160,184</u>	<u>162,992</u>	<u>166,321</u>
Current assets					
Inventories	17	177,106	189,619	267,723	291,734
Trade and other receivables	18	162,323	117,161	163,341	246,844
Bills receivable	19	150	16,000	27,477	39,540
Amounts due from Tianye Holdings Group	22	6,162	4,846	—	—
Tax refundable		—	—	4,315	8,399
Bank balances and cash	20	34,313	53,933	153,938	155,022
		<u>380,054</u>	<u>381,559</u>	<u>616,794</u>	<u>741,539</u>
Current liabilities					
Trade and other payables	23	105,397	58,044	87,641	138,302
Amounts due to Tianye Holdings Group	22	13,855	1,302	517	10,313
Dividend payable		—	5,526	—	—
Tax payables		3,376	4,946	—	—
Short-term bank borrowings	24	60,000	80,000	55,500	110,000
		<u>182,628</u>	<u>149,818</u>	<u>143,658</u>	<u>258,615</u>
Net current assets		<u>197,426</u>	<u>231,741</u>	<u>473,136</u>	<u>482,924</u>
Total assets less current liabilities		374,446	391,925	636,128	649,245
Non-current liability					
Government grants	25	900	900	900	900
Net assets		<u>373,546</u>	<u>391,025</u>	<u>635,228</u>	<u>648,345</u>
Represented by:					
Equity attributable to equity holders of the Company					
Share capital	27	317,122	317,122	519,522	519,522
Reserves		44,111	61,886	99,819	112,620
		361,233	379,008	619,341	632,142
Minority interests		12,313	12,017	15,887	16,203
Total equity		<u>373,546</u>	<u>391,025</u>	<u>635,228</u>	<u>648,345</u>

Balance sheets of the Company

	NOTES	At 31 December			At 30 June
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Non-current assets					
Property, plant and equipment	14	141,945	126,267	119,367	123,385
Prepaid lease payments	15	—	—	7,653	7,579
Investments in subsidiaries	26	<u>30,845</u>	<u>32,865</u>	<u>50,265</u>	<u>50,265</u>
		<u>172,790</u>	<u>159,132</u>	<u>177,285</u>	<u>181,229</u>
Current assets					
Inventories	17	154,329	160,715	234,687	252,495
Trade and other receivables	18	123,923	87,047	132,624	211,805
Bills receivable	19	150	16,000	27,477	38,700
Amounts due from subsidiaries	26	24,328	29,318	33,295	42,386
Amounts due from Tianye Holdings Group	22	479	3,819	—	—
Tax refundable		—	—	4,315	7,644
Bank balances and cash	20	<u>19,848</u>	<u>33,080</u>	<u>129,720</u>	<u>127,541</u>
		<u>323,057</u>	<u>329,979</u>	<u>562,118</u>	<u>680,571</u>
Current liabilities					
Trade and other payables	23	79,808	28,714	64,680	107,255
Amounts due to subsidiaries	26	654	—	11,998	10,559
Amounts due to Tianye Holdings Group	22	9,619	1,302	517	10,252
Dividend payable		—	5,526	—	—
Tax payables		2,763	9,706	—	—
Short-term bank borrowings	24	<u>50,000</u>	<u>74,000</u>	<u>50,000</u>	<u>110,000</u>
		<u>142,844</u>	<u>119,248</u>	<u>127,195</u>	<u>238,066</u>
Net current assets		<u>180,213</u>	<u>210,731</u>	<u>434,923</u>	<u>442,505</u>
Total assets less current liabilities		353,003	369,863	612,208	623,734
Non-current liability					
Government grants	25	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>
Net assets		<u>352,103</u>	<u>368,963</u>	<u>611,308</u>	<u>622,834</u>
Capital and reserves					
Share capital	27	317,122	317,122	519,522	519,522
Reserves	28	<u>34,981</u>	<u>51,841</u>	<u>91,786</u>	<u>103,312</u>
Total equity		<u>352,103</u>	<u>368,963</u>	<u>611,308</u>	<u>622,834</u>

Consolidated statements of changes in equity

	Share Capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2004	317,122	—	—	—	10,558	327,680	1,563	329,243
Profit for the year and total recognised income for the year	—	—	—	—	42,432	42,432	1,663	44,095
Dividends paid	—	—	—	—	(8,879)	(8,879)	—	(8,879)
On acquisition of subsidiaries	—	—	—	—	—	—	9,087	9,087
Transfer	—	—	1,080	540	(1,620)	—	—	—
At 31 December 2004 and 1 January 2005	317,122	—	1,080	540	42,491	361,233	12,313	373,546
Profit for the year and total recognised income for the year	—	—	—	—	52,658	52,658	2,381	55,039
Dividends declared to equity holders of the Company	—	—	—	—	(34,883)	(34,883)	—	(34,883)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(2,677)	(2,677)
Transfer	—	—	4,423	2,212	(6,635)	—	—	—
At 31 December 2005 and 1 January 2006	317,122	—	5,503	2,752	53,631	379,008	12,017	391,025
Profit for the year and total recognised income for the year	—	—	—	—	62,497	62,497	(2,443)	60,054
Issue of H Shares through placing	202,400	44,791	—	—	—	247,191	—	247,191
Share issue expenses	—	(34,495)	—	—	—	(34,495)	—	(34,495)
Dividends declared to equity holders of the Company	—	—	—	—	(34,860)	(34,860)	—	(34,860)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(287)	(287)
Capital contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	6,600	6,600
Transfer	—	—	9,192	(2,752)	(6,440)	—	—	—
At 31 December 2006 and 1 January 2007	519,522	10,296	14,695	—	74,828	619,341	15,887	635,228
Profit for the period and total recognised income for the period	—	—	—	—	31,504	31,504	649	32,153
Dividends declared to equity holders of the Company	—	—	—	—	(18,703)	(18,703)	—	(18,703)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(333)	(333)
Transfer	—	—	7,767	—	(7,767)	—	—	—
At 30 June 2007	519,522	10,296	22,462	—	79,862	632,142	16,203	648,345

Consolidated cash flow statements

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June 2006	2007
NOTE	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
OPERATING ACTIVITIES					
Profit before taxation	52,046	62,634	59,230	31,182	32,336
Adjustments for:					
Interest expenses	3,523	3,566	3,840	2,051	2,688
Interest income	(1,325)	(313)	(2,209)	(606)	(370)
Amortisation of prepaid lease payments	6	22	38	6	89
Depreciation of property, plant and equipment	27,084	22,379	22,910	11,426	11,702
Loss on disposal of property, plant and equipment	—	—	770	770	—
Listing expense written off	—	—	1,821	—	—
Write-down for inventories	1	94	—	—	—
Gain arising from sale of equity investments	—	—	(2,500)	—	(713)
Allowance for trade receivables	2,506	1,343	52	—	1,806
Operating cash flows before movements in working capital	83,841	89,725	83,952	44,829	47,538
(Increase) decrease in inventories	(39,441)	(12,607)	(78,104)	72,222	(24,011)
(Increase) decrease in trade and other receivables	(45,587)	39,452	(41,386)	(73,214)	(85,309)
Decrease (increase) in bills receivable	850	(15,850)	(11,477)	(11,669)	(12,063)
Increase (decrease) in trade and other payables	15,765	(55,984)	28,812	29,577	60,457
Cash generated from (used in) operations	15,428	44,736	(18,203)	61,745	(13,388)
Tax paid	(4,094)	(6,025)	(8,437)	(6,069)	(4,267)
Interest paid	(3,523)	(3,566)	(3,840)	(2,051)	(2,688)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	7,811	35,145	(30,480)	53,625	(20,343)
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(44,619)	(4,822)	(18,857)	(7,036)	(15,120)
Purchases of prepaid lease payments	(40)	(743)	(7,669)	—	—
Purchases of equity investments	—	—	(35,000)	—	(9,781)
Proceeds from sale of equity investments	—	—	37,500	—	10,494
Interest received	1,325	313	2,209	606	370
Acquisition of subsidiaries	29	(3,977)	—	—	—
(Advance to) repayment from Tianye Holdings Group	(3,831)	5,683	—	—	—
Proceeds from disposal of property, plant and equipment	4,723	—	—	—	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(46,419)	431	(21,817)	(6,430)	(14,037)

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
FINANCING ACTIVITIES					
Issue of shares	—	—	247,191	247,191	—
Bank loans raised	80,000	80,000	55,500	51,000	60,000
Capital contributions from minority shareholders of subsidiaries	—	—	6,600	—	—
Repayment of bank loans	(93,000)	(60,000)	(80,000)	(80,000)	(5,500)
Dividends paid to equity holders of the Company	(8,879)	(29,357)	(40,386)	(5,526)	(18,703)
Listing expenses paid	—	—	(36,316)	(34,495)	—
Dividends paid to a minority shareholder of a subsidiary	—	(2,677)	(287)	(287)	(333)
Repayment to Tianye Holdings Group	(14,954)	(3,922)	—	—	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(36,833)</u>	<u>(15,956)</u>	<u>152,302</u>	<u>177,883</u>	<u>35,464</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(75,441)	19,620	100,005	225,078	1,084
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>109,754</u>	<u>34,313</u>	<u>53,933</u>	<u>53,933</u>	<u>153,938</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	<u>34,313</u>	<u>53,933</u>	<u>153,938</u>	<u>279,011</u>	<u>155,022</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATION INFORMATION

The Company's immediate holding company is Xinjiang Tianye Company Limited ("Tianye Company") (新疆天業股份有限公司), a company established in the PRC with its shares listed on the Shanghai Securities Exchange. Xinjiang Tianye (Group) Limited ("Tianye Holdings") (新疆天業(集團)有限公司), a private limited company established in the PRC, is the holding company of the Tianye Company and is the ultimate company of the Company.

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

The Financial Information is prepared based on the Underlying Financial Statements of the Group. Particulars of the Company's subsidiaries as at 30 June 2007 are set out in note 26 below.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information are presented in Renminbi ("RMB") which is also the functional currency of the Group.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. The Financial Information has been prepared on the historical cost basis except for financial instruments, which are initially measured at fair value as explained in the accounting policies set out below.

These accounting policies have been consistently applied to all the Track Record Period presented, unless otherwise stated.

3. APPLICATION OF HKFRSs/CHANGES IN ACCOUNTING POLICIES

During the Track Record Period, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and Interpretations ("INTs") (herein collectively referred to as "New HKFRSs"), which are effective for the accounting periods beginning on or after 1 January 2005. For the purposes of preparing and presenting Financial Information of the Track Record Period, the Group has early adopted all these New HKFRSs throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following standards, amendment and INTs that are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's Financial Information in the period of initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries (i.e. entities controlled by the Company). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the Financial Information from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Subsidiary

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

In the Company's financial statements, investments in subsidiaries are stated at cost less any impairment losses. An assessment of investments in subsidiaries is performed when there is an indication that the asset has been impaired. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Capitalised goodwill on an acquisition of a subsidiary is presented separately in the consolidated balance sheets.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statements. An impairment loss recognised for goodwill is not reversed in subsequent consolidated periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivables and represents amounts receivable from goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

When the outcome of a long-term contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with customer.

When the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Sales of equity investments are recognised on a trade date basis when the risks and rewards of ownership are transferred and title has passed.

Long-term contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the year/period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental payables under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets.

Borrowing costs

Borrowing costs recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the results for the Track Record Period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The liability for current year of the Group is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference are related to goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost, less any identified impairment loss. Costs includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until construction is completed and the assets are ready for their intended use. Construction in progress is transferred to the appropriate categories of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the Track Record Period in which the item is derecognised.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Other investments in equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the group entities become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition, transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Trade receivables, bills receivable and other current receivables

Trade receivables, bills receivable and other current receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables and other current payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the Track Record Period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future

commercial activity. The resultant asset is amortised on a straight-line basis over the its useful life. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgements that can significantly affect the amounts recognised in the Financial Information are disclosed below:

Allowance for trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

Taxation

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred provisions in the period in which such determination is made.

6. TURNOVER

Turnover is measured at the fair value of the consideration received and receivable for goods sold to external customers, net of value-added tax, returns and discounts, and the consideration received and receivable for the services provided during the Track Record period, and is analysed as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Drip films	165,856	194,960	245,802	149,934	177,378
Drip assemblies	81,105	53,047	55,346	30,814	25,063
PVC/PE pipelines	110,216	123,785	157,602	76,929	92,800
Provision of installation service	<u>32,006</u>	<u>4,459</u>	<u>3,059</u>	<u>39</u>	<u>1,964</u>
	<u>389,183</u>	<u>376,251</u>	<u>461,809</u>	<u>257,716</u>	<u>297,205</u>

7. BUSINESS AND GEOGRAPHICAL SEGMENT

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

8. PROFIT FROM OPERATIONS

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June	
	RMB'000	RMB'000	RMB'000	2006	2007
				(Unaudited)	
Profit from operations has been arrived at after charging:					
Staff costs, including directors' and supervisors' emoluments					
— salaries and allowances	21,030	23,769	25,662	10,829	14,902
— retirement benefit scheme contributions	<u>2,228</u>	<u>2,262</u>	<u>2,426</u>	<u>1,585</u>	<u>1,231</u>
Total staff costs	<u>23,258</u>	<u>26,031</u>	<u>28,088</u>	<u>12,414</u>	<u>16,133</u>
Auditors' remuneration	650	700	580	—	300
Research and development costs	180	—	—	—	—
Amortisation of prepaid lease payments	6	22	38	6	89
Depreciation of property, plant and equipment	27,084	22,379	22,910	11,426	11,702
Write-down for inventories	1	94	—	—	—
Allowance for trade receivables	2,506	1,343	52	—	1,806
Listing expenses	—	—	1,821	—	—
Loss on disposal of property, plant and equipment	—	—	770	770	—
and after crediting:					
Bank interest income	1,325	313	2,209	606	370
Gain arising from sale of equity investments	<u>—</u>	<u>—</u>	<u>2,500</u>	<u>—</u>	<u>713</u>

9. FINANCE COSTS

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

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Emoluments of directors and supervisors

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June	
	RMB'000	RMB'000	RMB'000	2006	2007
				(Unaudited)	
Directors and supervisors					
— fee	—	—	—	—	—
— salaries and other benefits	55	229	453	252	255
— bonuses (Note)	—	—	40	—	—
— retirement benefit scheme contributions	<u>15</u>	<u>57</u>	<u>57</u>	<u>21</u>	<u>26</u>
Total emoluments	<u>70</u>	<u>286</u>	<u>550</u>	<u>273</u>	<u>281</u>

Note: The amounts represent bonuses of RMB20,000 each paid to Mr. Shi Xiang Shen and Mr. Li Shuang Quan during the year ended 31 December 2006.

Details of emoluments of directors and supervisors for the Track Record Period are analysed as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Name of executive directors:					
Mr. Guo Qing Ren (<i>Note 1</i>)	—	—	—	—	—
Mr. Shi Xiang Shen (<i>Note 2</i>)	—	—	100	50	50
Mr. Huang Yao Xin (<i>Note 3</i>) (resigned on 10 May 2007)	—	119	119	57	50
Mr. Li Shuang Quan (<i>Note 3</i>)	—	96	119	57	58
Mr. Zhu Jia Ji (appointed on 10 May 2007) (<i>Note 4</i>)	—	—	—	—	7
Total emoluments	<u>—</u>	<u>215</u>	<u>338</u>	<u>164</u>	<u>165</u>
Name of independent non-executive directors:					
Mr. He Lin Wang (<i>Note 5</i>)	—	—	27	15	15
Mr. Xia Jun Min (<i>Note 5</i>)	—	—	27	15	15
Mr. Gu Lie Feng (<i>Note 5</i>)	—	—	27	15	15
Total emoluments	<u>—</u>	<u>—</u>	<u>81</u>	<u>45</u>	<u>45</u>
Name of supervisors and former supervisors:					
Ms. Ni Mei Lam (appointed on 10 May 2007) (<i>Note 4</i>)	—	—	—	—	5
Mr. Xia Yue Xing (<i>Note 3</i>) (resigned on 10 May 2007)	70	71	77	35	36
Mr. He Jie	—	—	27	15	15
Mr. Huang Jun Lin	—	—	27	14	15
Mr. Yang Jin Qi (former)	—	—	—	—	—
Mr. Qi Yongbo (former)	—	—	—	—	—
Total emoluments	<u>70</u>	<u>71</u>	<u>131</u>	<u>64</u>	<u>71</u>
Total	<u>70</u>	<u>286</u>	<u>550</u>	<u>273</u>	<u>281</u>

Notes:

- The salary and retirement benefit of Mr. Guo Qing Ren, were paid by Tianye Company. The Group is not required to reimburse the salary and retirement benefit paid by Tianye Company.
- Mr. Shi Xiang Shen has retired from Tianye Holdings and he has obtained his entitlement of retirement benefit from Tianye Holdings. Therefore, Mr. Shi does not entitle any retirement benefit of the Group.
- The amounts include retirement benefit scheme contributions for the three years ended 31 December 2004, 2005 and 2006 and each of the six months ended 30 June 2006 and 30 June 2007 amounted to approximately RMB15,000, RMB19,000, RMB19,000 RMB7,000 and RMB8,000 respectively.
- The amounts include retirement benefit scheme contributions for the six months ended 30 June 2007 amounted to approximately RMB1,000 (each of the three years ended 31 December 2004, 2005 and 2006 and six months ended 30 June 2006: nil).

5. The independent non-executive directors entitle their respective retirement benefits from the respective organizations or companies which they are serving. Therefore, they do not entitle any retirement benefits of the Group.

During the Track Record Period, no emoluments were paid by the Group to any directors or supervisors of the Company except as disclosed above.

Save as Mr. Xia Yue Xing receives salary from the Company during the year ended 31 December 2004, all other directors and other supervisors of the Company are employees of Tianye Holdings Group and received emoluments from Tianye Holdings Group during the year ended 31 December 2004.

The Group has commenced to pay emoluments to Mr. Huang Yao Xin and Mr. Li Shuang Quan since February 2005. Save as Mr. Huang Yao Xin, Mr. Li Shuang Quan and Mr. Xia Yue Xing receive salaries from the Company during the year ended 31 December 2005, all other directors and other supervisors of the Company are employees of Tianye Holdings Group and received emoluments from Tianye Holdings Group during the year ended 31 December 2005.

All directors and supervisors receive salaries from the Company after listing of H shares on GEM in February 2006 except that Mr. Guo Qing Ren received his salary from Tianye Company during the Track Record Period.

For the three years ended 31 December 2004, 2005 and 2006, and each of the six months ended 30 June 2006 and 30 June 2007, the emoluments that had been paid to the directors and supervisors of the Company by Tianye Holdings Group for their services to the Group and Tianye Holdings Group were approximately RMB886,000, RMB287,000, RMB187,000, RMB91,000 and RMB150,000 respectively. It is not practicable to allocate the emoluments of the directors and supervisors of the Company between their services to the Group and Tianye Holdings Group.

None of the directors or supervisors waived any emoluments during the Track Record Period.

(b) Employee's emoluments

For the six months ended 30 June 2007, the five highest paid individuals include four directors and one employee.

For the six months ended 30 June 2006, the five highest paid individuals include two directors and three employees.

For the year ended 31 December 2006, the five highest paid individuals include three directors and two employees.

For each of the two years ended 31 December 2004 and 31 December 2005, the five highest paid individuals include two directors, one supervisor and two employees.

The emoluments of the five highest paid individuals during the Track Record Period were as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June 2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other benefits	292	230	880	447	459
Bonuses	—	—	20	—	—
Retirement benefit scheme contributions	53	94	57	35	36
	<u>345</u>	<u>324</u>	<u>957</u>	<u>482</u>	<u>495</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals, other directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except as disclosed above, no bonus was paid by the Group to the directors, supervisors and the five highest paid individuals.

During the Track Record Period, the emoluments of each of the five highest paid individuals were below HK\$1,000,000 (years ended 31 December 2004 and 2005: equivalent to approximately RMB1,040,000; year ended 31 December 2006 and each of the six months ended 30 June 2006 and 30 June 2007: equivalent to approximately RMB1,020,000).

11. TAXATION

During the Track Record Period, pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax (“EIT”) of 33%. Pursuant to “Notice of Issue on Certain Incentives Policy on the Development of Western China” Cai Shui Zi [2001] No. 202 (“Notice No. 202”) (財稅字[2001]202號《關於西部大開發稅收優惠政策問題的通知》), for an entity operated in the western part of the PRC which is mainly engaged in the business prescribed in Industries currently encouraged to be developed by the State, Technical Catalog of Products (2000 Revision) (當前國家重點鼓勵發展的產業、產品的技術目錄(2000年修訂)) and that such business contributes to over 70% of its operating income (the “Prescribed Business”), such entity is entitled to specific tax relief. Certain entities comprising the Group satisfied these requirements and, on the assumptions that they will continue to meet these requirements in the relevant periods, these entities were entitled to certain tax relief as follows:

	Notes	Year ended 31 December			Six months ended	
		2004	2005	2006	30 June 2006	2007
The Company	(i)	15%	15%	15%	15%	Exempted
Tianye Recycling	(ii)	Exempted	Exempted	33%	33%	33%
Gansu Tianye	(iii)	15%	15%	15%	15%	Exempted
Tianye Installation		33%	33%	33%	33%	33%
Alaer Tiannong	(iv)	Exempted	Exempted	33%	33%	33%
Hami Tianye	(v)	15%	15%	15%	15%	15%
Zhaoqing Tianye		N/A	N/A	33%	33%	33%
Kuitun Tiantun		N/A	N/A	33%	33%	33%
Hami Huimin		N/A	N/A	N/A	N/A	33%

Notes:

- (i) Pursuant to “Notice of EIT on Certain Incentives Policy”, Cai Shui Zi [1994] No. 1 (財稅字[1994]1號《關於企業所得稅若干優惠政策的通知》), issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局), “EIT Exemption Management Method of State Administration of Taxation of Xinjiang Uygur Autonomous Region”, Xin Guo Shui Fa [1999] No. 120 (新國稅發[1999]120號《新疆維吾爾自治區國家稅務局企業所得稅減免稅管理辦法》), “Approval of Exemption from EIT regarding Xinjiang Shihezi Tianye Water Saving Equipment Development Company Limited”, Xin Guo Shui Ban [2001] No. 177 (新國稅辦[2001]177號《關於新疆石河子天業節水器具開發有限公司免徵企業所得稅的批覆》), issued by the State Administration of Taxation of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國家稅務局), Notice No. 202, “Notice of Adjustment of Level of Authorities in Approval of EIT Exemption and Related Issues”, Xin Guo Shui Han [2003] No. 134 (新國稅函[2003]134號《關於調整企業所得稅減免稅審批權限及有關問題的通知》), issued by the State Administration of Taxation of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國家稅務局) and “Approval Document of Exemption from EIT regarding Xinjian Tianye Water Saving Irrigation System Company Limited”, Shi Guo Shui Ban [2004] No. 118 (石國稅辦[2004]118號《關於新疆天業節水灌溉股份有限公司減徵企業所得稅的批覆》), issued by the State Administration of Taxation of Shihezi (石河子國家稅務局), the Company was granted a reduced EIT tax rate of 15% for the seven years ending 31 December 2010;

Pursuant to “Approval Notice of Exemption from EIT regarding Xinjiang Tianye Water Saving Irrigation System Company Limited”, Kai Guo Shui Ban [2006] No. 72 (關國稅辦[2006]72號《關於新疆天業節水灌溉股份有限公司減免企業所得稅的通知》), issued by the State Administration of Taxation of Shihezi Economic and Technological Development Zone, Shihezi (石河子經濟技術開發區國家稅務局), the Company is exempted from EIT for the two years ending 31 December 2008 and was granted a 50% reduction in EIT for the period from 1 January 2009 to 31 December 2011;

- (ii) Pursuant to “Approval of EIT Exemption for the Administration of Taxation of the Eight Enterprises of Shihezi Suburb from the State Administration of Taxation of Shihezi”, Shi Guo Shui Ban [2004] No. 59 (石國稅辦[2004]59號《石河子國家稅務局關於對石河子城區國家稅務局八戶企業減免企業所得稅的批覆》), Tianye Recycling is exempted from EIT for the two years ended 31 December 2005. Accordingly, Tianye Recycling is subjected to a EIT tax rate of 33% commencing from 1 January 2006;
- (iii) Pursuant to Notice No. 202 and Approval Application Document [2002] No. 44 issued by the State Administration of Taxation of Gansu Province (甘肅省國家稅務局[2002]44號批文), Gansu Tianye was granted a reduced EIT tax rate of 15% for the period from 1 January 2002 to 31 December 2010;

Pursuant to the “Provisional Regulations for Investments in PRC by Enterprises with Foreign Investment” (《關於外商投資企業境內投資的暫行規定》), “Approval Notice for the Transaction of Taxation Issue related to Enterprise Income Tax from State Tax Bureau of Ganzhou District” (Gan Qu Kuo Shui Fi Zi [2007] No. 001 ((甘區國稅批字[2007]001號)《甘州區國稅局企業所得稅務處理事項批復通知書》), Gansu Tianye is exempted from EIT during the period from April 2007 to December 2007;

- (iv) According to “Approval of EIT Exemption to Xinjiang Alaer Tiannong Water Saving Irrigation Company Limited”, A Ke Su Shi Guo Shui [2003] No. 400 (阿克蘇市國稅[2003]400號《關於對新疆阿拉爾天農節水灌溉有限責任公司免徵企業所得稅的批覆》), issued by State Administration of Taxation of Akesu (阿克蘇市國家稅務局), Alaer Tiannong was exempted from EIT for the three years ended 31 December 2005. Accordingly, Alaer Tiannong is subjected to a EIT tax rate of 33% commencing from 1 January 2006; and
- (v) Pursuant to “Approval of EIT Exemption of State Administration of Taxation of Hami Region to Hami Tianye Hongxing Water Saving Irrigation Company Limited”, Ha Guo Shui Ban [2005] No. 32 (哈國稅辦[2005]32號《哈密地區國家稅務局關於對哈密天業紅星節水灌溉有限責任公司減徵企業所得稅的批覆》) issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局) on 28 January 2005, Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1 January 2004 to 31 December 2007.

The EIT for the Track Record Period is calculated at the EIT rate applicable to each of the entities comprising the Group as shown above.

During the 5th Session of the 10th National People’s Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (“the New Corporate Income Tax Law”) was approved and will become effective on 1 January 2008. The New Corporate income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

The Group is not subject to Hong Kong profits tax as the Group's income neither arises in, nor is derived from, Hong Kong.

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Tax charge (credit) comprises:					
Charge for the year/period	7,951	7,595	591	4,789	183
Over-provision of tax in previous years	—	—	(1,415)	—	—
	<u>7,951</u>	<u>7,595</u>	<u>(824)</u>	<u>4,789</u>	<u>183</u>

The charge (credit) for the Track Record Period can be reconciled to the profit per the consolidated income statements as follows:

	Year ended 31 December			Six months ended	
	2004	2005	2006	30 June	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before taxation	<u>52,046</u>	<u>62,634</u>	<u>59,230</u>	<u>31,182</u>	<u>32,336</u>
Tax at the statutory EIT rate of 33%	17,175	20,670	19,546	10,290	10,671
Tax effect on income not taxable for tax purposes	—	—	(490)	(5)	—
Tax effect on expenses not deductible for tax purposes	3,009	3,122	446	806	596
Tax effect on deferred tax assets not recognised	827	348	—	389	168
Reduction of income tax in respect of the tax benefit on locally purchased machinery (Note)	—	—	(9,539)	—	—
Effect of tax exemption and reduction granted to the Group	(13,060)	(16,545)	(9,372)	(6,691)	(11,252)
Over-provision of tax in previous years	—	—	(1,415)	—	—
Tax charge (credit)	<u>7,951</u>	<u>7,595</u>	<u>(824)</u>	<u>4,789</u>	<u>183</u>

There was no significant deferred taxation for the Track Record Period or at the respective balance sheet dates.

Note: Pursuant to relevant PRC tax regulations and subject to the approval of the local tax authority, the Company can claim an additional deduction when calculating the income tax provision if machinery was purchased locally. A reduction of income tax in relation to the machineries locally purchased in 2004 amounting to approximately RMB16,668,000 was approved by the local tax bureau in July 2006. The Company has utilised such deduction to offset against the income tax provision for the year ended 31 December 2006 amounting to approximately RMB9,539,000. In the opinion of directors, it is not probable that the remaining balance of approximately RMB7,129,000 will be utilised in future because the Company has been benefited from the new preferential tax policies which was approved and effective for the year from 2007 to 2011 as mentioned above.

12. DIVIDENDS

A final dividend for the year ended 31 December 2003 of RMB0.028 per share, amounting to RMB8,879,000 in aggregate, was approved on 30 April 2004 and paid to the shareholders of the Company during the year ended 31 December 2004.

A final dividend for the year ended 31 December 2004 of RMB0.110 per share, amounting to RMB34,883,372 in aggregate, was declared on 15 April 2005, RMB29,357,000 of which was paid to the shareholders of the Company during the year ended 31 December 2005 and the remaining amount of RMB5,526,372 was paid to the shareholders of the Company during the year ended to 31 December 2006.

A final dividend for the year ended 31 December 2005 of RMB0.0671 per share, amounting to RMB34,859,897 in aggregate, has been declared and paid to the shareholders of the Company during the year ended 31 December 2006.

A final dividend for the year ended 31 December 2006 of RMB0.036 per share, amounting to RMB18,702,776 in aggregate has been declared and paid to the shareholders of the Company during the six months ended 30 June 2007.

The directors of the Company do not recommend the payment of interim dividend for the six months ended 30 June 2006 and 30 June 2007.

13. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately RMB42,432,000, RMB52,658,000 and RMB62,497,000 for the three years ended 31 December 2004, 2005 and 2006 respectively and on the weighted average number of 317,121,560, 317,121,560 and 485,623,477 ordinary shares in issue during the respective years end 31 December 2004, 2005 and 2006.

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

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

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Construct- ion in progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2004	3,395	9,908	147,068	1,673	151	162,195
Additions	3,776	334	39,854	600	55	44,619
On acquisition of subsidiaries	78	7,601	17,046	193	881	25,799
Transfer	(1,937)	—	1,937	—	—	—
Disposal	—	—	(4,797)	—	—	(4,797)
At 31 December 2004 and 1 January 2005	5,312	17,843	201,108	2,466	1,087	227,816
Additions	3,435	3	1,144	143	97	4,822
Transfer	(5,099)	248	4,851	—	—	—
At 31 December 2005 and 1 January 2006	3,648	18,094	207,103	2,609	1,184	232,638
Additions	13,205	265	4,944	98	345	18,857
Transfer	(3,759)	304	3,455	—	—	—
Disposals	—	—	(1,071)	—	—	(1,071)

	Construct- ion in progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2006 and 1 January 2007	13,094	18,663	214,431	2,707	1,529	250,424
Additions	14,484	190	314	—	132	15,120
At 30 June 2007	27,578	18,853	214,745	2,707	1,661	265,544
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	—	691	22,591	578	58	23,918
Provided for the year	—	696	25,906	385	97	27,084
Disposals	—	—	(74)	—	—	(74)
At 31 December 2004 and 1 January 2005	—	1,387	48,423	963	155	50,928
Provided for the year	—	775	21,113	417	74	22,379
At 31 December 2005 and 1 January 2006	—	2,162	69,536	1,380	229	73,307
Provided for the year	—	634	21,870	343	63	22,910
Disposals	—	—	(301)	—	—	(301)
At 31 December 2006 and 1 January 2007	—	2,796	91,105	1,723	292	95,916
Provided for the period	—	382	11,053	207	60	11,702
At 30 June 2007	—	3,178	102,158	1,930	352	107,618
NET CARRYING VALUE						
At 30 June 2007	27,578	15,675	112,587	777	1,309	157,926
At 31 December 2006	13,094	15,867	123,326	984	1,237	154,508
At 31 December 2005	3,648	15,932	137,567	1,229	955	159,331
At 31 December 2004	5,312	16,456	152,685	1,503	932	176,888

THE COMPANY

	Construct- ion in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
COST						
At 1 January 2004	3,395	9,878	137,254	1,574	130	152,231
Additions	3,467	149	39,133	96	—	42,845
Transfer	(1,937)	—	1,937	—	—	—
Disposal	—	—	(4,797)	—	—	(4,797)
At 31 December 2004 and 1 January 2005	4,925	10,027	173,527	1,670	130	190,279
Additions	2,703	—	837	—	48	3,588
Transfer	(4,296)	—	4,296	—	—	—
At 31 December 2005 and 1 January 2006	3,332	10,027	178,660	1,670	178	193,867
Additions	12,309	—	1,340	—	47	13,696
Transfer	(3,196)	123	3,073	—	—	—
Disposals	—	—	(1,071)	—	—	(1,071)
At 31 December 2006 and 1 January 2007	12,445	10,150	182,002	1,670	225	206,492
Additions	13,786	—	262	—	41	14,089
At 30 June 2007	26,231	10,150	182,264	1,670	266	220,581
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	—	691	22,189	572	57	23,509
Provided for the year	—	463	24,111	306	19	24,899
Disposals	—	—	(74)	—	—	(74)
At 31 December 2004 and 1 January 2005	—	1,154	46,226	878	76	48,334
Provided for the year	—	325	18,642	279	20	19,266
At 31 December 2005 and 1 January 2006	—	1,479	64,868	1,157	96	67,600
Provided for the year	—	219	19,415	177	15	19,826
Disposals	—	—	(301)	—	—	(301)
At 31 December 2006 and 1 January 2007	—	1,698	83,982	1,334	111	87,125
Provided for the period	—	164	9,779	114	14	10,071
At 30 June 2007	—	1,862	93,761	1,448	125	97,196
NET CARRYING VALUE						
At 30 June 2007	26,231	8,288	88,503	222	141	123,385
At 31 December 2006	12,445	8,452	98,020	336	114	119,367
At 31 December 2005	3,332	8,548	113,792	513	82	126,267
At 31 December 2004	4,925	8,873	127,301	792	54	141,945

The following rates are used for the depreciation of property, plant and equipment after considering their respective useful lives:

Buildings	20 to 40 years
Plant and machinery	8 to 14 years
Motor vehicles	6 years
Furniture, fixtures and equipment	5 years

The buildings of the Group are situated in the PRC.

The construction in progress of the Group represents buildings, plant and machinery under construction which are situated in the PRC.

At 31 December 2005, plant and machinery of the Group with an aggregate net carrying value of approximately RMB79,055,000 (2004: RMB83,580,000) were pledged to secure bank borrowings granted to the Group and the pledge has been released during the year ended 31 December 2006.

At 30 June 2007, buildings, plant and machinery of the Group with an aggregate net carrying value of approximately RMB81,675,000 were pledged to secure bank borrowings of approximately RMB30,000,000 granted to the Group.

15. PREPAID LEASE PAYMENTS

	The Group <i>RMB'000</i>	The Company <i>RMB'000</i>
COST		
At 1 January 2004	—	—
Additions	<u>40</u>	<u>—</u>
At 31 December 2004 and 1 January 2005	40	—
Additions	<u>743</u>	<u>—</u>
At 31 December 2005 and 1 January 2006	783	—
Additions	<u>7,669</u>	<u>7,669</u>
At 31 December 2006, 1 January 2007 and 30 June 2007	<u>8,452</u>	<u>7,669</u>
ACCUMULATED AMORTISATION		
At 1 January 2004	—	—
Provided for the year	<u>6</u>	<u>—</u>
At 31 December 2004 and 1 January 2005	6	—
Provided for the year	<u>22</u>	<u>—</u>
At 31 December 2005 and 1 January 2006	28	—
Provided for the year	<u>38</u>	<u>16</u>
At 31 December 2006 and 1 January 2007	66	16
Provided for the period	<u>89</u>	<u>74</u>
At 30 June 2007	<u>155</u>	<u>90</u>
NET CARRYING AMOUNT		
At 30 June 2007	<u>8,297</u>	<u>7,579</u>
At 31 December 2006	<u>8,386</u>	<u>7,653</u>
At 31 December 2005	<u>755</u>	<u>—</u>
At 31 December 2004	<u>34</u>	<u>—</u>

The amount represented medium-term land use right in the PRC and are amortised over the respective lease terms of the land use rights on a straight-line basis.

16. GOODWILL

The Group
RMB'000

COST

Balance at 31 December 2004, 2005 and 2006 and 30 June 2007	<u><u>98</u></u>
---	------------------

The Group tests goodwill annually for impairment, or any time if there are indications that goodwill might be impaired.

17. INVENTORIES

	The Group			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	49,442	113,350	160,849	128,030
Work in progress	—	—	—	—
Finished goods	<u>127,664</u>	<u>76,269</u>	<u>106,874</u>	<u>163,704</u>
	<u><u>177,106</u></u>	<u><u>189,619</u></u>	<u><u>267,723</u></u>	<u><u>291,734</u></u>

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	45,451	102,601	144,260	116,827
Work in progress	—	—	—	—
Finished goods	<u>108,878</u>	<u>58,114</u>	<u>90,427</u>	<u>135,668</u>
	<u><u>154,329</u></u>	<u><u>160,715</u></u>	<u><u>234,687</u></u>	<u><u>252,495</u></u>

At 31 December 2004 and 2005, the Group's finished goods of approximately RMB4,182,000 and RMB5,399,000 were carried at net realisable value respectively. At 31 December 2006 and 30 June 2007, the Group's finished goods were stated at cost.

At 31 December 2004 and 2005, the Company's finished goods of approximately RMB4,142,000 and RMB5,399,000 were carried at net realisable value respectively. At 31 December 2006 and 30 June 2007, the Company's finished goods were stated at cost.

18. TRADE AND OTHER RECEIVABLES

Sales to farmer unions are normally on cash basis. The credit term to other customers is normally one year.

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

	The Group			At 30 June 2007
	At 31 December			
	2004	2005	2006	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aged:				
Within 1 year	48,448	70,455	105,725	153,509
1–1.5 years	4,809	4,031	5,612	2,323
1.5–2 years	<u>7,925</u>	<u>784</u>	<u>—</u>	<u>1,201</u>
Trade receivables	61,182	75,270	111,337	157,033
Other receivables and prepayments	15,232	23,996	26,944	22,189
Amount due from a customer for contract work (<i>note 21</i>)	432	—	—	—
Prepayments to suppliers (<i>note</i>)	<u>85,477</u>	<u>17,895</u>	<u>25,060</u>	<u>67,622</u>
	<u><u>162,323</u></u>	<u><u>117,161</u></u>	<u><u>163,341</u></u>	<u><u>246,844</u></u>

	The Company			At 30 June 2007
	At 31 December			
	2004	2005	2006	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aged:				
Within 1 year	18,585	56,234	87,506	133,356
1–1.5 years	3,710	2,050	760	1,665
1.5–2 years	<u>7,925</u>	<u>166</u>	<u>—</u>	<u>742</u>
Trade receivables	30,220	58,450	88,266	135,763
Other receivables and prepayments	9,293	14,466	20,805	18,229
Prepayments to suppliers (<i>note</i>)	<u>84,410</u>	<u>14,131</u>	<u>23,553</u>	<u>57,813</u>
	<u><u>123,923</u></u>	<u><u>87,047</u></u>	<u><u>132,624</u></u>	<u><u>211,805</u></u>

Movement in the allowance for trade receivables

	The Group			At 30 June 2007
	At 31 December			
	2004	2005	2006	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year/period	2,514	5,020	6,363	6,415
Increased in allowance recognised in profit or loss	<u>2,506</u>	<u>1,343</u>	<u>52</u>	<u>1,806</u>
Balance at end of the year/period	<u><u>5,020</u></u>	<u><u>6,363</u></u>	<u><u>6,415</u></u>	<u><u>8,221</u></u>

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year/period	1,276	3,599	4,549	4,549
Increased in allowance recognised in profit or loss	<u>2,323</u>	<u>950</u>	<u>—</u>	<u>—</u>
Balance at end of the year/period	<u><u>3,599</u></u>	<u><u>4,549</u></u>	<u><u>4,549</u></u>	<u><u>4,549</u></u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for trade receivables.

Note: Pursuant to a contract entered into between the Company and Tianye Company in November 2004, prepayments to suppliers of the Group and the Company as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 include prepayments paid to Tianye Holdings Group of approximately RMB50,000,000, RMB2,000, RMB1,273,000 and RMB6,078,000 respectively, for sourcing and supply of raw materials. All balances aged within one year from the respective balance sheet dates.

The directors consider that the carrying amounts of trade and other receivables approximate their fair values because of their short-term of maturities.

19. BILLS RECEIVABLE — THE GROUP AND THE COMPANY

Bills receivable aged within one year from the respective balance sheet dates. The directors consider that the carrying amounts of bills receivable approximate their fair values because of their short-term of maturities of the bills receivable.

20. BANK BALANCES AND CASH — THE GROUP AND THE COMPANY

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less. The deposits carry fixed interest at prevailing market rates.

Included in bank balances and cash as at 31 December 2006 is amount of RMB35,000,000 deposited in a financial institution. Except for the above, all balances were deposited in banks as at each of the years ended 31 December 2004 and 2005 and the six months ended 30 June 2007.

The directors consider that carrying amounts of these assets approximate their fair values due to their short-term of maturities.

21. AMOUNT DUE FROM A CUSTOMER FOR CONTRACT WORK

	The Group			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracts in progress at the balance sheet date:				
Contract costs incurred	415	—	—	—
Recognised profits	<u>17</u>	<u>—</u>	<u>—</u>	<u>—</u>
	432	—	—	—
Less: Progress billings	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount due from a customer for contract work (note 18)	<u><u>432</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

22. AMOUNTS DUE FROM (TO) TIANYE HOLDINGS GROUP

	Notes	The Group			
		At 31 December			At 30 June
		2004	2005	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from Tianye Holdings Group					
— Interest bearing non-trade receivables	(i), (iv)	4,114	—	—	—
— Non-interest bearing non-trade receivables	(ii), (iv)	1,569	—	—	—
— Trade receivables	(iii)	<u>479</u>	<u>4,846</u>	<u>—</u>	<u>—</u>
		<u><u>6,162</u></u>	<u><u>4,846</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Amounts due to Tianye Holdings Group					
— Interest bearing non-trade payables	(i), (iv)	3,922	—	—	—
— Trade payables	(iii)	<u>9,933</u>	<u>1,302</u>	<u>517</u>	<u>10,313</u>
		<u><u>13,855</u></u>	<u><u>1,302</u></u>	<u><u>517</u></u>	<u><u>10,313</u></u>

	Notes	The Company			
		At 31 December			At 30 June
		2004	2005	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from Tianye Holdings Group					
— Trade receivables	(iii)	<u>479</u>	<u>3,819</u>	<u>—</u>	<u>—</u>
Amounts due to Tianye Holdings Group					
— Trade payables	(iii)	<u>9,619</u>	<u>1,302</u>	<u>517</u>	<u>10,252</u>

Notes:

- (i) The amounts were unsecured and had no fixed terms of repayment. The balance due from Tianye Holdings Group carried interest at the standard annual rate offered by The People's Bank of China. The balance due to Tianye Holdings Group carried interest at 120% of the standard annual rate offered by The People's Bank of China.
- (ii) The amounts were unsecured, interest-free and had no fixed terms of repayment.

- (iii) All of these balances aged within one year from respective balance sheet dates.
- (iv) All of the above amounts aged within one year as at 31 December 2004 and were fully settled during the year ended 31 December 2005.

The directors consider that the carrying amounts of the balances due from (to) Tianye Holdings Group approximate their fair values because of the short-term maturities of their balances.

23. TRADE AND OTHER PAYABLES

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

	The Group			At 30 June 2007
	At 31 December		2006	
	2004	2005		
	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
Aged:				
0–180 days	24,660	21,173	10,630	61,913
181–365 days	2,528	2,471	31,693	6,737
1–2 years	426	2,011	2,324	1,264
Over 2 years	<u>702</u>	<u>923</u>	<u>1,419</u>	<u>3,697</u>
	28,316	26,578	46,066	73,611
Other payables and accruals	13,401	13,233	11,360	11,786
Deposits and prepayments received from customers	<u>63,680</u>	<u>18,233</u>	<u>30,215</u>	<u>52,905</u>
	<u><u>105,397</u></u>	<u><u>58,044</u></u>	<u><u>87,641</u></u>	<u><u>138,302</u></u>
	The Company			At 30 June 2007
	At 31 December		2006	
	2004	2005		
	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
Aged:				
0–180 days	16,635	13,214	4,688	55,191
181–365 days	2,523	2,181	29,007	3,718
1–2 years	419	2,437	1,198	437
Over 2 years	<u>702</u>	<u>711</u>	<u>1,169</u>	<u>2,367</u>
	20,279	18,543	36,062	61,713
Other payables and accruals	6,241	6,413	8,726	5,786
Deposits and prepayments received from customers	<u>53,288</u>	<u>3,758</u>	<u>19,892</u>	<u>39,756</u>
	<u><u>79,808</u></u>	<u><u>28,714</u></u>	<u><u>64,680</u></u>	<u><u>107,255</u></u>

As at 31 December 2004, other payables and accruals of the Group include amount due to No. 13 Division of Agricultural Construction of Xinjiang Production and Construction Regiment, a minority shareholder of a subsidiary, of approximately RMB4,100,000. The amount was unsecured, non-interest bearing and had no fixed terms of repayment. Such advance was fully repaid during the year ended 31 December 2005.

The directors consider that the carrying amounts of trade and other payables approximate their fair values because of their short-term of maturities.

24. SHORT-TERM BANK BORROWINGS

	The Group			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term bank borrowings are analysed as follows:				
Secured	30,000	25,000	—	30,000
Unsecured	<u>30,000</u>	<u>55,000</u>	<u>55,500</u>	<u>80,000</u>
	<u><u>60,000</u></u>	<u><u>80,000</u></u>	<u><u>55,500</u></u>	<u><u>110,000</u></u>

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term bank borrowings are analysed as follows:				
Secured	30,000	25,000	—	30,000
Unsecured	<u>20,000</u>	<u>49,000</u>	<u>50,000</u>	<u>80,000</u>
	<u><u>50,000</u></u>	<u><u>74,000</u></u>	<u><u>50,000</u></u>	<u><u>110,000</u></u>

At the respective balance sheet dates, certain bank borrowings of the Group and the Company were guaranteed by Tianye Holdings Group, details of which are set out in note 34(f).

In addition, Shihezi Paotai Farm, a third party which was maintained long-term business relationship with the Group, provided a guarantee of RMB20,000,000 to a bank at 31 December 2004 in respect of certain banking facilities granted to the Group and the Company. The directors have confirmed that the loans made available to the Group and the Company, which was guaranteed by Shihezi Paotai Farm, had been repaid in full during the year ended 31 December 2005 and such guarantee had been released in September 2005.

The Group's and the Company's bank loan of RMB30,000,000 as at 30 June 2007 is at fixed interest rate at 6.39% per annum and was secured by charged over the buildings, plant and machinery of the Company with an aggregate net carrying value of approximately RMB81,675,000 as at 30 June 2007.

The Group's and the Company's bank loans of RMB80,000,000 as at 30 June 2007 are at fixed interest rate at 6.12% per annum and were guaranteed by Tianye Holdings Group, details of which are set out in note 34(f).

The Group's bank loans of RMB55,500,000 and the Company's bank loan of RMB50,000,000 as at 31 December 2006 were at fixed interest rates ranging from 6.12% to 7.956% per annum during the year ended 31 December 2006.

The Group's bank loans of RMB80,000,000 and the Company's bank loans of RMB74,000,000 as at 31 December 2005 were at fixed interest rates ranging from 6.138% to 7.254% per annum during the year ended 31 December 2005 and were fully repaid during the year ended 31 December 2006.

The Group's bank loans of RMB60,000,000 and the Company's bank loans of RMB50,000,000 as at 31 December 2004 were at fixed interest rates ranging from 5.04% to 6.37% per annum during the year ended 31 December 2004 and were fully repaid during the year ended 31 December 2005.

The above bank borrowings are all denominated in RMB and expose the Group to fair value interest rate risk. The directors consider that the carrying amounts of bank borrowings approximate their fair values because of the borrowing rate currently available for bank borrowings with similar terms and maturities.

25. GOVERNMENT GRANTS — THE GROUP AND THE COMPANY

During the year ended 31 December 2003, the Group received government grants of RMB900,000 which was designated for the development of two specific water efficient irrigation system projects. During the Track Record Period, these projects were in progress and the related costs incurred by the Group in relation to these projects were capitalised as property, plant and equipment.

Upon completion of these projects, verification reports will be submitted to the government for approval and the grants will become unconditional when government approval is obtained. No other contingencies are attached to such grants.

As the relevant assets have not been put in use, the government grants were not recognised as income during the Track Record Period and they were accounted for as a non-current liability at the respective balance sheet dates.

26. INVESTMENTS IN SUBSIDIARIES

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	<u>30,845</u>	<u>32,865</u>	<u>50,265</u>	<u>50,265</u>

At 30 June 2007, the Company has the following subsidiaries:

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Equity interest held by the Company	Principal activities
Directly held by the Company					
Tianye Recycling	25 December 2002 The PRC	Limited liability company	RMB2,500,000	98%	Recycling of used materials
Gansu Tianye	4 April 2002 The PRC	Limited liability company	RMB11,050,000	90%	Trading of PVC pipes

(a) At 30 June 2007, the Company has the following subsidiaries (continued):

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Equity interest held by the Company	Principal activities
Tianye installation	22 December 2003 The PRC	Limited liability company	RMB10,000,000	95%	Installation of irrigation system
Alaer Tiannong	6 August 2002 The PRC	Limited liability company	RMB10,000,000	51%	Manufacture and sale of irrigation system and equipment
Hami Tianye (note (i))	15 October 2003 The PRC	Limited liability company	RMB19,000,000	60%	Manufacture and sale of irrigation system and equipment
Zhaoqing Tianye (note (ii))	5 September 2006 The PRC	Limited liability company	RMB3,000,000	80%	Recycling of used materials
Kuitun Tiantun (note (iii))	4 September 2006 The PRC	Limited liability company	RMB12,000,000	80%	Manufacture and sale of irrigation system and equipment
Indirectly held by the Company					
Hami Huimin (note (iv))	20 March 2007 The PRC	Limited liability company	RMB500,000	100%	Not yet commenced business

Notes:

- (i) On 30 August 2006, the registered capital of Hami Tianye was increased from RMB10,000,000 to RMB19,000,000. Pursuant to a verification report dated 20 September 2006, the increased amount of RMB9,000,000 has been fully paid up as to RMB5,400,000, representing 60% of the increased amount, by the Company on 19 September 2006 and the remaining balance of RMB3,600,000 by the minority shareholder on 11 September 2006.
- (ii) Zhaoqing Tianye was established under the laws of the PRC with limited liability on 5 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.. Pursuant to a verification report dated 1 September 2006, the registered capital has been fully paid up as to RMB2,400,000 by the Company and RMB600,000 by Zhaoqing Tifo New Fibre Co., Ltd., respectively in August 2006.
- (iii) Kuitun Tiantun was established under the laws of the PRC with limited liability on 4 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). Pursuant to a verification report dated 31 August 2006, the registered capital has been fully paid up as to RMB9,600,000 by the Company and RMB2,400,000 by State-Owned Assets Operations and Administration Company Limited of No. 7 Division (第七師國有資產經營有限公司), respectively in August 2006.

- (iv) Hami Humin was established under the laws of the PRC with limited liability on 20 March 2007 with an operating period of 10 years. The initial registered capital of Hami Humin was RMB100,000 and wholly owned by Hami Tianye. Pursuant to a verification report dated 6 March 2007, the initial registered capital of RMB100,000 has been fully paid up by Hami Tianye as of 6 March 2007. On 19 June 2007, Hami Tianye increased the amount of the registered capital of Hami Huimin to RMB500,000. Pursuant to a 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 19 June 2007, the said increased amount of the registered capital of Hami Huimin was fully paid up by Hami Tianye as of 19 June 2007.

- (b) The amounts due from (to) subsidiaries are unsecured, interest-free and had no fixed terms of repayment.

The directors consider that the carrying amounts of the balances due from (to) subsidiaries approximate to their fair values.

27. SHARE CAPITAL

Ordinary shares of RMB1.00 each	2004		At 31 December				At 30 June	
	No. of shares		2005		2006		2007	
	('000)	RMB'000	('000)	RMB'000	('000)	RMB'000	('000)	RMB'000
Authorised:								
At 1 January 2004, 2005, 2006 and 2007	317,122	317,122	317,122	317,122	317,122	317,122	519,522	519,522
Increase during the year/period	—	—	—	—	202,400	202,400	—	—
At 31 December 2004, 2005, 2006 and 30 June 2007	<u>317,122</u>	<u>317,122</u>	<u>317,122</u>	<u>317,122</u>	<u>519,522</u>	<u>519,522</u>	<u>519,522</u>	<u>519,522</u>
Issued and fully paid:								
At 1 January 2004, 2005, 2006 and 2007	317,122	317,122	317,122	317,122	317,122	317,122	519,522	519,522
Issue of H Shares through placing	—	—	—	—	202,400	202,400	—	—
At 31 December 2004, 2005, 2006 and 30 June 2007	<u>317,122</u>	<u>317,122</u>	<u>317,122</u>	<u>317,122</u>	<u>519,522</u>	<u>519,522</u>	<u>519,522</u>	<u>519,522</u>

Pursuant to the prospectus of the Company dated 21 February 2006 (the "Prospectus"), the Company issued and placed 176,000,000 H Shares of RMB1.00 each at HK\$1.18 per H Share (the "Placing"). In addition, Sun Hung Kai International Limited ("Sun Hung Kai", for itself and on behalf of the Underwriters as set out in the Prospectus) exercised the over-allotment option granted by the Company as set out in the Prospectus in full on 23 March 2006, accordingly, the Company allotted and issued an additional 26,400,000 H Shares of RMB1.00 each at the Placing price of HK\$1.18 per H Share on the same date. Such new shares rank pari passu in all aspects with the existing shares.

28. RESERVES

	The Company				Total RMB'000
	Share premium RMB'000	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	
At 1 January 2004	—	—	—	11,001	11,001
Profit for the year and total recognised income for the year	—	—	—	32,859	32,859
Dividends paid	—	—	—	(8,879)	(8,879)
Transfer	—	1,066	533	(1,599)	—
At 31 December 2004 and 1 January 2005	—	1,066	533	33,382	34,981
Profit for the year and total recognised income for the year	—	—	—	51,743	51,743
Dividends declared to equity holder of the Company	—	—	—	(34,883)	(34,883)
Transfer	—	4,423	2,212	(6,635)	—
At 31 December 2005 and 1 January 2006	—	5,489	2,745	43,607	51,841
Profit for the year and total recognised income for the year	—	—	—	64,509	64,509
Issue of H Shares through placing	44,791	—	—	—	44,791
Share issue expenses	(34,495)	—	—	—	(34,495)
Dividends declared to equity holders of the Company	—	—	—	(34,860)	(34,860)
Transfer	—	9,170	(2,745)	(6,425)	—
At 31 December 2006 and 1 January 2007	10,296	14,659	—	66,831	91,786
Profit for the period and total recognised income for the period	—	—	—	30,229	30,229
Dividends declared to equity holders of the Company	—	—	—	(18,703)	(18,703)
Transfer	—	7,767	—	(7,767)	—
At 30 June 2007	<u>10,296</u>	<u>22,426</u>	<u>—</u>	<u>70,590</u>	<u>103,312</u>

Notes:

- (i) As stipulated by the relevant laws and regulations in the PRC, each of the entities comprising the Group is required to set aside 10% of its net profit for a statutory reserve fund (except where the reserve balance has reached 50% of the contributed capital of the relevant entity).

The statutory reserve fund can be used to:

- set-off against prior periods' losses; and
- convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory reserve fund does not fall below 25% of the contributed capital of the relevant entity.

- (ii) The appropriation to the statutory reserve fund and statutory welfare fund has been made in accordance with the reported profits of the relevant entity prepared under the PRC accounting standards and regulations.

Profit of the Company is to be appropriated in the following sequence:

- (a) set-off against prior periods' losses;

- (b) transfer to statutory reserve fund and statutory welfare fund; and
- (c) distribution of dividends.

Starting from 1 January 2006, the Group is not required to transfer any net profit to statutory welfare fund and the Group transferred all the balance of the statutory welfare fund as at 31 December 2005 to the statutory reserve fund during the year ended 31 December 2006 in accordance with the amendment in the PRC Companies Ordinance.

- (iii) The Company's reserves available for distribution to shareholders is the lower of the accumulated profits after appropriation to reserves prepared in accordance with the PRC regulation as stated in the PRC statutory financial statements and the financial statements prepared under HKFRS. The Company's distribution reserve as at 31 December 2004 represented its accumulated profits prepared in accordance with PRC regulation of approximately RMB37,776,000 and the Company's distributable reserve as at 31 December 2005 and 2006 and at 30 June 2007 represented its accumulated profits prepared in accordance with HKFRS of approximately RMB43,607,000, RMB66,831,000 and RMB70,590,000 respectively.

29. ACQUISITION OF SUBSIDIARIES

During the Track Record Period, the Company acquired certain subsidiaries from Tianye Holdings Group (see note 34 for details). These acquisitions have been accounted for using the purchase method of accounting and particulars of the acquisitions are as follows:

	Alaer Tiannong	Hami Tianye	2004 total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Acquiree' carrying amount before acquisitions and fair value of net assets acquired:			
Property, plant and equipment	15,800	9,999	25,799
Inventories	23,068	7,565	30,633
Trade and other receivables	9,071	9,629	18,700
Bank balances and cash	1,359	813	2,172
Tax recoverable	1,094	—	1,094
Trade and other payables	(27,214)	(17,144)	(44,358)
Short-term bank borrowings	(13,000)	—	(13,000)
Tax payable	—	(613)	(613)
Minority interests	(4,987)	(4,100)	(9,087)
Net assets	<u>5,191</u>	<u>6,149</u>	<u>11,340</u>
Satisfied by:			
Set-off of non-interest bearing advances due from Tianye Holdings Group	5,191	—	5,191
Cash	<u>—</u>	<u>6,149</u>	<u>6,149</u>
	<u>5,191</u>	<u>6,149</u>	<u>11,340</u>
Net cash inflow (outflow) arising on acquisition:			
Cash consideration	—	(6,149)	(6,149)
Bank balances and cash acquired	<u>1,359</u>	<u>813</u>	<u>2,172</u>
	<u>1,359</u>	<u>(5,336)</u>	<u>(3,977)</u>

Alaer Tiannong, which was acquired by the Group in January 2004, contribution RMB50,016,000 to the Group's turnover for the year ended 31 December 2004.

Hami Tianye, which was acquired by the Group in October 2004, did not have significant contribution to the Group's turnover for the year ended 31 December 2004.

For the year ended 31 December 2004, no significant profit from operations or cash flows were contributed by the subsidiaries acquired by the Group during the year.

30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2004, aggregate consideration for purchases of subsidiaries from Tianye Holdings Group of approximately RMB5,191,000 was settled by a set-off of non-interest bearing advances due from Tianye Holdings Group.

31. CAPITAL COMMITMENTS

The Group	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for	108	865	2,657	24,349

The Company	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for	108	865	2,657	18,041

32. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The Group's and the employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

The employees of the Group are members of state-managed retirement benefit schemes (the "Schemes") operated by the PRC government. The Group is required to contribute 20% of the applicable payroll costs of permanent employees to the Schemes to fund the benefits. The only obligation of the Group with respect to the Schemes is to make the required contributions under the Schemes.

33. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the Track Record Period:

	The Group and the Company				
	At 31 December			At 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Plant and machinery	280	280	280	140	140
Premises	1,688	1,965	1,531	728	728
	<u>1,968</u>	<u>2,245</u>	<u>1,811</u>	<u>868</u>	<u>868</u>

At the respective balance sheet date, the Group and the Company had commitments for future minimum lease payment under non-cancellable operating lease which fall due as follows:

	The Group			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,817	1,859	1,940	3,665
In second to fifth year inclusive	6,307	2,773	1,588	534
Over five years	<u>5,613</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>13,737</u></u>	<u><u>4,632</u></u>	<u><u>3,528</u></u>	<u><u>4,199</u></u>

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,712	1,736	1,736	1,736
In second to fifth year inclusive	6,290	2,604	868	—
Over five years	<u>5,613</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>13,615</u></u>	<u><u>4,340</u></u>	<u><u>2,604</u></u>	<u><u>1,736</u></u>

Operating lease payments represent rentals payable by the Group and the Company for a factory premise and an office premise. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

34. RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had entered into the following transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary and usual course of the Group's business:

- (a) Continuing connected transactions with Tianye Holdings Group (excluding Tianye Company and its subsidiaries):

	<i>Note</i>	Year ended 31 December			Six months ended	
		30 June			30 June	
		2004	2005	2006	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of spare parts (included in plant and machinery)	(i)	2,467	1,986	780	—	—
Sales of finished goods	(i)	21,466	15,330	12,558	6,403	13,165
Purchase of raw materials	(i)	<u>907</u>	<u>1,002</u>	<u>—</u>	<u>120</u>	<u>4,347</u>

Note i: These transactions were carried out based on normal commercial terms and with reference to prevailing market prices under the sales/purchase agreements.

- (b) Discontinuing transactions and connected transactions with Tianye Holdings Group (excluding Tianye Company and its subsidiaries):

	Notes	Year ended 31 December			Six months ended	
		2004	2005	2006	30 June	
		RMB' 000	RMB' 000	RMB' 000	2006	2007
						(unaudited)
Sales of property, plant and equipment	(i)	4,355	—	—	—	—
Interest income	(ii)	2	2	—	—	—
Interest expenses	(ii)	738	186	—	—	—
Acquisition of subsidiaries	(iii)	<u>6,149</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

- (i) These transactions were carried out based on normal commercial terms and in accordance with the underlying agreements.
- (ii) The interest income was earned at the standard annual rate offered by The People's Bank of China. The interest expenses were paid at 120% of the standard annual rate offered by The People's Bank of China.
- (iii) On 15 October 2004, the Company entered into an agreement with Tianye Holdings for the acquisition by the Company of 60% equity interest in Hami Tianye for a consideration of RMB6,149,000.

The above consideration was determined based on the fair value of the net assets of the investee acquired by the Company.

- (c) Continuing connected transaction with Tianye Company and its subsidiaries:

	Notes	Year ended 31 December			Six months ended	
		2004	2005	2006	30 June	
		RMB' 000	RMB' 000	RMB' 000	2006	2007
						(unaudited)
Sales of finished goods	(i)	1,156	2,542	979	82	885
Purchase of raw materials	(i)	9,237	58,032	59,741	4,690	14,122
Rentals of plant and machinery	(ii)	280	280	280	140	140
Rental of land and buildings	(iii)	<u>1,432</u>	<u>1,464</u>	<u>1,464</u>	<u>732</u>	<u>732</u>

Notes:

- (i) These transactions were carried out based on normal commercial terms and with reference to prevailing market prices under the sale/purchase agreements.
- (ii) The rentals were paid with reference to the annual depreciation of the relevant asset and the percentage mark up ranging from 41% to 49%.
- (iii) Pursuant to an agreement entered into by the Company and Tianye Company in 2002 which expires on 31 October 2012, the Company is obliged to pay an annual rental to Tianye Company for the use of a piece of land on which certain of the Company's buildings are erected. The rental for the two years ended 31 December 2005 have been included in the rental of premises above. The agreement was terminated effective from 1 January 2006 and replaced by a new rental agreement for use of certain buildings and the land for a period up to 30 June 2008.

(iv) A trademark licence agreement dated 1 June 2004 entered into between the Company and Tianye Company whereby Tianye Company granted to the Company the right to use a trademark for the period from 1 June 2003 to 1 June 2006 at nil consideration. On 25 May 2006, the trademark licence agreement has been renewed for a period from 1 June 2006 to 13 February 2011 at nil consideration.

(d) Discontinuing transactions and connected transactions with Tianye Company and its subsidiaries:

	Note	Year ended 31 December			Six months ended	
		2004	2005	2006	30 June	
		RMB'000	RMB'000	RMB'000	2006	2007
Purchases of property, plant and equipment	(i)	<u>26,774</u>	<u>159</u>	<u>—</u>	<u>—</u>	<u>—</u>

(unaudited)

Notes:

- (i) These transactions were carried out based on normal commercial terms and in accordance with the underlying agreements.
- (ii) On 6 January 2004, the Company entered into an agreement with Tianye Company for the acquisition by the Company of 51% equity interest in Alaer Tiannong for a consideration of RMB5,191,000.

The above consideration was determined based on the fair value of the net assets of the investee acquired by the Company.

- (iii) During the year ended 31 December 2004, included in the Group's turnover was an aggregate RMB478,000 which sales contracts were originally entered into by Tianye Company and assigned to the Group by Tianye Holdings at nil consideration.

(e) Balances

Details of the balances with related parties are set out on the consolidated balance sheets and notes 18, 22 and 23 respectively.

(f) Corporate guarantees

At the balance sheet dates, the Group's banking facilities were secured by the corporate guarantees given by Tianye Holdings Group:

	At 31 December			At 30 June
	2004	2005	2006	2007
To the extent of	<u>10,000</u>	<u>2,000</u>	<u>50,000</u>	<u>80,000</u>

During the year ended 31 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 3 January 2006, Tianye Company has undertaken in writing to provide guarantees to the relevant banks should the above parties withdraw their guarantees. The short-term loans have been fully settled during the year ended 31 December 2006. The directors have confirmed that all guarantees as at 30 June 2007 provided by Tianye Holdings Group will be released before the Company's listing on the Main Board.

As at 31 December 2005 and 2006, the Company had granted guarantees to a bank for securing loans in the principal sum of RMB4,000,000 and RMB5,500,000 made to Alaer Tiannong. Such guarantee has been released during the six months ended 30 June 2007 as the related loan has been fully settled during the six months ended 30 June 2007.

(g) Compensation to key management personnel

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

The Group	Year ended 31 December			Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
				<i>(unaudited)</i>	
Directors and supervisors (<i>Note</i>)	70	286	550	273	281
Other key management personnel	<u>222</u>	<u>184</u>	<u>191</u>	<u>97</u>	<u>100</u>
Total	<u>292</u>	<u>470</u>	<u>741</u>	<u>370</u>	<u>381</u>

Note: Details of the remuneration paid to the directors and supervisors are set out in note 10 to the Financial Information.

35. MATERIAL TRANSACTIONS AND BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC

In the opinion of the directors, the Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Tianye Holdings which is controlled by the PRC government. Apart from the transactions with Tianye Holdings and fellow subsidiaries disclosed in note 34 above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions/balances with other state-controlled entities are as follows:

(a) Material transactions

Nature of transactions	Year ended 31 December			Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
				<i>(unaudited)</i>	
Sales of goods	243,608	240,760	297,763	207,904	295,828
Purchases of raw material	44,753	70,475	191,605	55,183	92,119
Purchase of property, plant and equipment	—	—	7,700	—	—
Interest expense	<u>2,785</u>	<u>3,912</u>	<u>3,840</u>	<u>1,838</u>	<u>2,512</u>

(b) Material balances

	The Group			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances	34,313	53,933	118,938	152,022
Trade and other receivables	44,833	82,102	82,439	137,452
Trade and other payables	59,655	13,173	7,970	22,548
Bank borrowings	<u>60,000</u>	<u>80,000</u>	<u>55,500</u>	<u>110,000</u>

	The Company			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances	19,848	33,080	93,805	127,541
Trade and other receivables	35,230	82,102	61,772	116,071
Trade and other payables	55,920	13,173	7,797	16,332
Bank borrowings	<u>50,000</u>	<u>74,000</u>	<u>50,000</u>	<u>110,000</u>

- (c) At the balance sheet dates, a state-controlled enterprise had provided corporate guarantee to a bank in respect of a bank loan granted to the Group and the Company as follows:

The Group and the Company	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee provided	<u>20,000</u>	<u>49,000</u>	<u>—</u>	<u>—</u>

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank borrowings and bank balances and cash. The Group has various other financial instruments such as trade and other receivables, bills receivable, trade and other payables and amounts due from/to Tianye Holdings Group, which arise directly from its operations.

The main risks arising from the Group's financial instruments are commodity price risk, credit risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Commodity price risk

The Group is subject to risk from increases in the price of commodities, Polyethylene and Polyvinyl Chloride, by-products of petroleum which are used in the production of inventories. To minimise this risk, the Group enters into contracts with suppliers in advance and make prepayments to suppliers to secure future supplies.

Credit risk

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 31 December 2004, 2005 and 2006 and at 30 June 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheets.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents and amounts due from Tianye Holdings Group, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances/deposits from these entities.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings. The Group's exposure to interest rate risk is minimal as all the Group's bank borrowings are at fixed interest rate.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Groups' exposure to liquidity risk is minimal.

Capital management

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may raise capital, adjust the amount of dividend paid to shareholders or sell assets to reduce debt.

The Group monitors capital by maintaining cash flows from operating activities, investing activities and financing activities. Capital of the Group comprises all components of equity.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30 June 2007.

III. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable in respect of the Track Record Period by the Group to the Company's directors.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
30 August 2007