



新疆天業節水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

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

(Stock Code: 840)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

GROUP FINANCIAL SUMMARY

- Turnover for the year ended 31st December, 2007 was approximately RMB616,172,000, an increase of approximately 33.43% from 2006;
- Profit for the year ended 31st December, 2007 was approximately RMB70,154,000, an increase of approximately 16.82% from 2006, the profit attributable to equity holders of the Company was RMB70,287,000, an increase of approximately 12.46% from 2006;
- Basic Earnings per share for the year was approximately RMB0.14 (2006: approximately RMB0.13);
- The Board resolved to pay a final dividend of RMB0.036 per share (2006: RMB0.036 per share).

* *For identification purpose only*

RESULTS

The board (the “Board”) of directors (the “Directors”) of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2007, together with the comparative figures for the corresponding period in 2006 as follows:

Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	4	616,172	461,809
Cost of sales		<u>(496,881)</u>	<u>(366,601)</u>
Gross profit		119,291	95,208
Other operating income		4,360	6,983
Distribution costs		(19,581)	(22,965)
Administrative expenses		(23,717)	(15,525)
Other operating expenses		<u>(742)</u>	<u>(631)</u>
Profit from operations		79,611	63,070
Finance costs	6	<u>(6,518)</u>	<u>(3,840)</u>
Profit before taxation	7	73,093	59,230
Taxation	9	<u>(2,939)</u>	<u>824</u>
Profit for the year		<u><u>70,154</u></u>	<u><u>60,054</u></u>
Profit attributable to:			
Equity holders of the Company		70,287	62,497
Minority interests		<u>(133)</u>	<u>(2,443)</u>
		<u><u>70,154</u></u>	<u><u>60,054</u></u>
Dividends	10	<u><u>18,703</u></u>	<u><u>34,860</u></u>
Earnings per share — basic	11	<u><u>RMB0.14</u></u>	<u><u>RMB0.13</u></u>

Consolidated Balance Sheet

As at 31st December, 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		197,369	154,508
Prepaid lease payments		8,207	8,386
Goodwill		98	98
		<u>205,674</u>	<u>162,992</u>
Current assets			
Inventories		426,775	267,723
Trade and other receivables	12	273,702	163,341
Bills receivable	13	4,350	27,477
Tax refundable		2,021	4,315
Bank balances and cash		91,394	153,938
		<u>798,242</u>	<u>616,794</u>
Current liabilities			
Trade and other payables	14	145,100	88,158
Short-term bank borrowings		165,000	55,500
		<u>310,100</u>	<u>143,658</u>
Net current assets		<u>488,142</u>	<u>473,136</u>
Total assets less current liabilities		693,816	636,128
Non-current liability			
Government grants		—	900
Net assets		<u>693,816</u>	<u>635,228</u>
Capital and reserves			
Share capital		519,522	519,522
Reserves		151,403	99,819
Equity attributable to equity holders of the Company		670,925	619,341
Minority interests		22,891	15,887
Total equity		<u>693,816</u>	<u>635,228</u>

Consolidated Statement Of Changes In Equity

For the year ended 31st December, 2007

	Share capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Accumulated profits RMB'000	Equity attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1st 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 31st December, 2006 and 1st January, 2007	519,522	10,296	14,695	—	74,828	619,341	15,887	635,228
Profit for the year and total recognised income for the year	—	—	—	—	70,287	70,287	(133)	70,154
Dividends paid to equity holders of the Company	—	—	—	—	(18,703)	(18,703)	—	(18,703)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	(333)	(333)
Capital contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	7,470	7,470
Transfer	—	—	7,180	—	(7,180)	—	—	—
At 31st December, 2007	519,522	10,296	21,875	—	119,232	670,925	22,891	693,816

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

1. GENERAL

The Company formerly known as 新疆石河子天業節水器具開發有限公司 and 新疆石河子市綠洲節水灌溉有限公司, was established as a limited liability company in the People's Republic of China (the "PRC") on 27th December, 1999. Pursuant to an approval granted by the relevant PRC authorities on 18th December, 2003, the Company restructured its capital and was converted into a joint stock limited liability company. On 28th February 2006, the Company's H Shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and were withdrawn from the Growth Enterprise Market on 23rd January 2008. On 24th January, 2008, the Company's H Shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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 Tianye Company and is the ultimate holding company of the Company.

The Company and its subsidiaries are engaged in the development, manufacture, installation and sale of irrigation system and equipment.

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

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new or revised Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("INTs") (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2007. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The HKICPA has also issued the following New HKFRSs that are not yet effective. In the opinion of the Directors, the Group has considered the following standards and interpretations but does not expect they will have a material effect on the results and financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
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
HK(IFRIC)-INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

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

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

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

⁴ Effective for annual periods beginning on or after 1st July, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are initially measured at fair value. The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance (Cap. 32).

Basis of consolidation

The consolidated financial statements incorporate 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 year are included in the consolidated income statement 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 the original business combination 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.

4. 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 year, and is analysed as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Drip films and drip assemblies	401,514	301,148
PVC/PE pipelines	212,188	157,602
Provision of installation service	2,470	3,059
	<u>616,172</u>	<u>461,809</u>

Note: According to the sales mix of the Group, drip assemblies are usually sold as auxiliary products of drip films. Therefore, drip films and drip assemblies are classified under the same category.

5. BUSINESS AND GEOGRAPHICAL SEGMENT

During the year, 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.

6. FINANCE COSTS

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

7. PROFIT BEFORE TAXATION

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' and supervisors' emoluments		
— salaries and allowances	30,228	25,662
— retirement benefit scheme contributions	2,738	2,426
Total staff costs	<u>32,966</u>	<u>28,088</u>
Auditors' remuneration	880	580
Amortisation of prepaid lease payments	179	38
Depreciation of property, plant and equipment	23,513	22,910
Write-down for inventories	2,299	—
Impairment for trade receivables	3,535	52
Loss on disposal of property, plant and equipment	—	770
and after crediting:		
Bank interest income	935	2,209
Gain arising from sale of equity investments	<u>750</u>	<u>2,500</u>

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Emoluments of Directors and supervisors

	2007 RMB'000	2006 RMB'000
Directors and supervisors		
— fee	—	—
— salaries and other benefits	613	453
— bonuses (<i>Note</i>)	—	40
— retirement benefit scheme contributions	44	57
	<u>657</u>	<u>550</u>
Total emoluments	<u>657</u>	<u>550</u>

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

Details of emoluments of Directors and supervisors for the year are analysed as follows:

	2007 RMB'000	2006 RMB'000
Name of executive Directors:		
Mr. Guo Qing Ren (<i>Note 1</i>)	—	—
Mr. Shi Xiang Shen (<i>Note 2</i>)	100	100
Mr. Huang Yao Xin (<i>Note 3</i>) (resigned on 10th May, 2007)	42	119
Mr. Li Shuang Quan (<i>Note 4</i>)	144	119
Mr. Zhu Jia Ji (<i>Note 5</i>) (appointed on 10th May, 2007)	118	—
	<u>404</u>	<u>338</u>
Total emoluments	<u>404</u>	<u>338</u>
Name of independent non-executive Directors:		
Mr. He Lin Wang (<i>Note 6</i>)	30	27
Mr. Xia Jun Min (<i>Note 6</i>)	30	27
Mr. Gu Lie Feng (<i>Note 6</i>)	30	27
Mr. Mak King Sau (<i>Note 6</i>) (appointed on 15th October, 2007)	13	—
	<u>103</u>	<u>81</u>
Total emoluments	<u>103</u>	<u>81</u>
Name of supervisors:		
Mr. Xia Yue Xing (<i>Note 3</i>) (resigned on 10th May, 2007)	28	77
Mr. He Jie	30	27
Mr. Huang Jun Lin	30	27
Ms. Ni Mei Lam (<i>Note 7</i>) (appointed on 10th May, 2007)	62	—
	<u>150</u>	<u>131</u>
Total emoluments	<u>150</u>	<u>131</u>
Total	<u>657</u>	<u>550</u>

Notes:

1. 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.
2. 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.
3. The amount include retirement benefit scheme contributions for the year ended 31st December, 2007 amounted to approximately RMB8,000 (2006: RMB19,000).
4. The amount include retirement benefit scheme contributions for the year ended 31st December, 2007 amounted to approximately RMB11,000 (2006: RMB19,000).
5. The amount include retirement benefit for the year ended 31st December, 2007 amounted to approximately RMB9,000 (2006: Nil).
6. 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.
7. The amount include retirement benefit scheme contributions for the years ended 31st December, 2007 amounted to approximately RMB8,000 (2006: Nil).

None of the Directors or supervisors waived any emoluments during the year (2006: Nil).

(b) Employee's emoluments

For the year ended 31st December, 2007, the five highest paid individuals include two Directors, one supervisor and two employees (2006: three Directors and two employees).

The emoluments of the five highest paid individuals during the year were as follows:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	915	880
Bonuses	—	20
Retirement benefit scheme contributions	48	57
	<u>963</u>	<u>957</u>

During both years, no emoluments were paid by the Group to the five highest paid individuals, Directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During both years, the emoluments of each of the five highest paid individuals were below HK\$1,000,000 (equivalent to approximately RMB943,000; 2006: equivalent to approximately RMB1,020,000).

9. TAXATION

During each of the two years ended 31st December, 2006 and 31st December, 2007, 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:

Name of entity	Notes	2007	2006
The Company	(i)	Exempted	15%
石河子天業物資回收有限責任公司 (“Tianye Recycling”)		33%	33%
甘肅省張掖市天業節水器材有限公司 (“Gansu Tianye”)	(ii)	Exempted	15%
石河子開發區天業節水工程安裝有限責任公司 (“Tianye Installation”)		33%	33%
新疆阿拉爾天農節水灌溉有限責任公司 (“Alaer Tiannong”)	(iii)	15%	33%
哈密天業紅星節水灌溉有限責任公司 (“Hami Tianye”)	(iv)	15%	15%
肇慶天業塑膠製品有限公司 (“Zhaoqing Tianye”)		33%	33%
奎屯天屯節水有限責任公司 (“Kuitun Tiantun”)		33%	33%
哈密惠民回收有限責任公司 (“Hami Huimin”)		33%	N/A
新疆天瑞節水器材有限公司 (“Tianrui”)		33%	N/A
北京天業潤華節水灌溉技術有限公司 (“Beijing Tianye”)		33%	N/A

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 Xinjiang 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 31st December, 2010;

Pursuant to “Approval Notice of Exemption Notice from EIT regarding Xinjiang Tianye Water Saving Irrigation System Company Limited”, Kai Guo Shui Ban [2006] No. 72 (開國稅辦[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 Technology Development Zone, Shuhezi (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 31st December, 2008 and was granted a 50% reduction in EIT for the period from 1st January, 2009 to 31st December, 2011;

- (ii) 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 1st January, 2002 to 31st December, 2010;

Pursuant to the “Provisional Regulations for Investments in the 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覆通知書》), Gansu Tianye was granted a reduced EIT rate of 15% from 1st January, 2007 to 31st March, 2007 and exempted from EIT during the period from 1st April, 2007 to 31st December, 2007;

- (iii) Pursuant to Approval Application Document [2007] No. 122 issued by the State Administration of Taxation of the Alaer Region (阿拉爾國家稅務局[2007]122號批文) approved on 29th September, 2007, Alaer Tiannong was granted a reduced EIT tax rate of 15% for the year ended 31st December, 2007; and

- (iv) 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 28th January, 2005, Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1st January, 2004 to 31st December, 2007.

The EIT for the year ended 31st December, 2007 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 16th March, 2007, the PRC Corporate Income Tax Law (“the New Corporate Income Tax Law”) was approved and will become effective on 1st 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%. The tax rate of certain subsidiaries will change from 33% to 25% from 1st January, 2008. The Company and certain subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Corporate Income Tax Law.

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

	2007 <i>RMB’000</i>	2006 <i>RMB’000</i>
Tax charge (credit) comprises:		
Charge for the year	1,327	591
Under-provision (over-provision) of tax in previous years	<u>1,612</u>	<u>(1,415)</u>
	<u>2,939</u>	<u>(824)</u>

10. DIVIDENDS

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

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

A final dividend of RMB0.036 per share has been proposed by the directors of the Company in respect of the year ended 31st December, 2007 and is subjected to the approval of shareholders in general meeting.

11. EARNINGS PER SHARE — BASIC

The calculations of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately RMB70,287,000 (2006: RMB62,497,000) and on the weighted average number of 519,521,560 (2006: 485,623,477) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the two years ended 31st December, 2007 and 2006 as there was no dilutive shares outstanding during both years.

12. 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 impairment) with the following aging analysis:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Aged:		
Within 1 year	194,244	105,725
1–1.5 years	<u>7,453</u>	<u>5,612</u>
Trade receivables	201,697	111,337
Other receivables and prepayments	32,064	26,944
Prepayments to suppliers	<u>39,941</u>	<u>25,060</u>
	<u><u>273,702</u></u>	<u><u>163,341</u></u>

Movement in the impairment for trade receivables:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Balance at beginning of the year	6,415	6,363
Increased in impairment recognised in profit or loss	<u>3,535</u>	<u>52</u>
Balance at end of the year	<u><u>9,950</u></u>	<u><u>6,415</u></u>

Included in the Group's trade receivable balance are debtors with carrying amount of RMB7,453,000 at 31st December, 2007 (2006: RMB5,612,000), which are past due at the balance sheet date for which the Group has not provided impairment loss. Receivables that were past due but not impaired were all aged over one year but within 1.5 years and relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Pursuant to a contract entered into between the Company and Tianye Company in November 2004, prepayments to suppliers of the Group as at 31st December, 2007 include prepayments paid to Tianye Holdings Group of approximately RMB667,000 (2006: RMB1,273,000) 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.

13. BILLS RECEIVABLE

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.

14. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Aged:		
0–180 days	87,635	11,147
181–365 days	2,831	31,693
1–2 years	427	2,324
Over 2 years	3,846	1,419
	94,739	46,583
Other payables and accruals	12,004	11,360
Deposits and prepayments received from customers	38,357	30,215
	<u>145,100</u>	<u>88,158</u>

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

As at 31st December, 2007, deposits and prepayments received from customers include deposits and prepayments of RMB105,000 (2006: Nil) from Tianye Holdings Group. All of these balances aged within one year from the respective balance sheet dates.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As a pioneer in providing one-stop solutions for water saving irrigation system in the PRC, the Group is principally engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system. The Group is also engaged in the provision of installation services of water saving irrigation system for its customers. Drip irrigation system plays a significant role in water conservation. It is a slow water delivery system in which every drop of water can be applied to the soil surface near the root of plant. The burden of deciding the timing of irrigation and the required amount of water can be relieved from the properly designed automatic drip irrigation system. The potential and importance of water saving irrigation system have been recognised by both the PRC Government and producers of agricultural products in the PRC.

The drip films sold by the Group can be categorised into three types, including (i) single-sided labyrinth-style drip films; (ii) embedded-style drip films; and (iii) heavy flow compensatory-style drip films.

Along with the opportunities and challenges, the Group may face certain risks involved in its business. The high oil price, as well as the continuous upward trend in the price of downstream plastic raw materials would lead to an increase in the cost of the Group's product, thus lowering their competitiveness. In the short term, the Group relies on its key management and personnel. The Group also relies on the stable business relationships with certain major customers. In view of these, the Group will continue to maintain good relationships with its staff and will continue to provide training to its staff. Moreover, the Group will place great emphasis on its after-sales services to its customers and will widen its customer base by expanding its sales and distribution network.

Results of Operations

Turnover

For the year ended 31st December, 2007, the turnover of the Group was approximately RMB616,172,000, an increase of approximately 33.43% from approximately RMB461,809,000 for the year ended 31st December, 2006.

The following table summaries the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2007 by products or services:

Category	For the year ended 31st December, 2007		For the year ended 31st December, 2006		Year- on year Percentage change %
	Turnover RMB'000	% to total turnover %	Turnover RMB'000	% to total turnover %	
Drip films and drip assemblies	401,514	65.16	301,148	65.21	33.33
PVC/PE pipelines	212,188	34.44	157,602	34.13	34.64
Provision of installation services	2,470	0.40	3,059	0.66	-19.25
Total	<u>616,172</u>	<u>100.00</u>	<u>461,809</u>	<u>100.00</u>	

The change in turnover for the year ended 31st December, 2007 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2007, sales of drip films and drip assemblies increased by approximately 33.33% to approximately RMB401,514,000, while sales of PVC/PE pipelines increased by approximately 34.64% to approximately RMB212,188,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 25,913 tonnes for the year ended 31st December, 2006 to approximately 35,127 tonnes for the year ended 31st December, 2007, while the sales volume of PVC pipelines increased from approximately 24,389 tonnes for the year ended 31st December, 2006 to approximately 31,955 tonnes for the year ended 31st December, 2007. The increase in the sales volume of the Group's products was mainly attributable to the growth in demand for water saving irrigation system in the PRC. On the contrary, the decrease in the provision of installation services from approximately RMB3,059,000 to approximately RMB2,470,000 was mainly due to the fact that some of the Company's customers installed water saving irrigation system by themselves; hence, the Group's income generated by the provision of installation services had decreased. As a result, the turnover in provision of installation services decreased by approximately 19.25% for the period under review.

Cost of sales

For the year ended 31st December, 2007, cost of sales of the Group was approximately RMB496,881,000, with an increase of approximately 35.54% from approximately RMB366,601,000 for the year ended 31st December, 2006. Costs of sales for the year ended 31st December, 2007 comprised direct materials of approximately RMB428,360,000, direct labors of approximately RMB12,220,000 and production overhead of approximately RMB56,301,000, which accounted for approximately 86.21%, 2.46% and 11.33%, respectively, of total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2006 comprised direct materials of approximately RMB309,274,000, direct labors

of approximately RMB10,187,000 and production overhead of approximately RMB47,140,000, which accounted for approximately 84.36%, 2.78% and 12.86%, respectively, of total costs of sales for 2006.

Gross profit

The Group realised a gross profit of approximately RMB119,291,000 for the year ended 31st December, 2007, with an increase of approximately RMB24,083,000 from approximately RMB95,208,000 for the year ended 31st December, 2006. The Group's gross profit margin decreased from approximately 20.62% for the year ended 31st December, 2006 to approximately 19.36% for the year ended 31st December, 2007. The decrease in gross profit margin was mainly due to the increase in costs of raw materials and recycle materials for the production of drip films driven by oil prices rise and hence the costs of mix formulas were increased during the year, which dragged down the overall gross profit margin for 2007.

Other operating income

Other operating income consists primarily of bank interest income and gain arising from sales of equity investments. Such income had decreased from approximately RMB6,983,000 for the year ended 31st December, 2006 to approximately RMB4,360,000 for the year ended 31st December, 2007. The decrease was mainly attributable to the decrease of gain arising from sales of equity investments and bank interest income for the year.

Distribution costs

Distribution costs was approximately RMB19,581,000 for the year ended 31st December, 2007, representing a decrease of approximately 14.74%. The amount accounted for approximately 3.18% of the total turnover for the year ended 31st December, 2007, less than its share of total turnover of approximately 4.97% for the corresponding period in the previous year. Distribution costs mainly comprised transportation costs, salaries and traveling expenses, etc. For the year ended 31st December, 2007, sales and transportation costs, salaries and traveling expenses decreased by approximately 10.57%, 11.20% and 32.05% to approximately RMB6,672,000, RMB5,873,000 and RMB653,000, respectively. Other expenses decreased by approximately 19.49% to approximately RMB6,383,000.

Administrative expenses

Administrative expenses increased by approximately 52.77% to approximately RMB23,717,000 for the year ended 31st December, 2007. The amount accounted for approximately 3.85% of total turnover for the year ended 31st December, 2007, more than its share of total turnover of approximately 3.36% for the corresponding period in the previous year. For the year ended 31st December, 2006, salary costs increased by 104.49% to approximately RMB7,112,000, impairment for trade receivables increased by approximately 6,698.08% to approximately RMB3,535,000 and listing fees increased by approximately 66.45% to approximately RMB3,031,000. Other expenses decreased by approximately 1.33% to approximately RMB10,039,000.

Profit from operations

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2007 was approximately RMB79,611,000, representing an increase of approximately 26.23% from approximately RMB63,070,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of profit from operations over the Group's turnover) were approximately 13.66% and 12.92% respectively for the years ended 31st December, 2006 and 2007.

Finance costs

Finance costs for the year ended 31st December, 2007 amounted to approximately RMB6,518,000, representing an increase of 69.74% as compared to the corresponding period in the previous year. Higher finance costs were mainly resulted from the increase of loans amount and lending rate.

Profit attributable to equity holders of the Company

As a result of the factors discussed above, the profit attributable to equity holders of the Company increased by approximately 12.46%, from approximately RMB62,497,000 for the year ended 31st December, 2006 to approximately RMB70,287,000 for the year ended 31st December, 2007. For the two years ended 31st December, 2006 and 2007, the Group's net profit margin was approximately 13.53% and 11.41%, respectively.

Indebtedness

Borrowings

As at 31st December, 2007, the Group had outstanding bank loans of RMB165,000,000, which will be due within a year at fixed interest rates ranging from 6.39% to 7.29% per annum.

For the outstanding bank loans of RMB165,000,000 as at 31st December, 2007, Tianye Company had granted guarantees to a bank for securing loans of RMB65,000,000 at an interest rate of 6.12% to 7.29% per annum. Of which, a loan amount of RMB30,000,000 has been settled on 22nd January, 2008, and the guarantees for the balances of the loans of RMB35,000,000 has also been released on 8th January, 2008.

Commitments

As at 31st December, 2007, the Group had contracted but not provided for capital commitments of RMB11,176,000.

Liquidity, financial resources and capital structure

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2007 were approximately 2.57 and 1.20, respectively, representing a decrease of 1.72 and 1.23, respectively when compared to 31st December, 2006. This is primarily due to approximately 59.41% increase in inventories, approximately 67.56% increase in trade and other receivables as at 31st December, 2007 and approximately 40.63% decrease in bank balances and cash and approximately 84.17% decrease in bills receivable during the year under review. The decrease in liquidity ratios was mainly due to the increase in production reserve associated with a larger scale of production as compare to 2006 and therefore the related inventories and trade and other receivables have increased.

Financial resources

The Group currently finances its operations mainly by internal generated funds, bank loans and cash on hand. The Directors are of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances, when necessary.

Capital expenditures

For the year ended 31st December, 2007, capital expenditures of the Group in respect of acquisition of property, plant and equipment and prepaid leasing premium amounted to approximately RMB66,374,000 (2006: approximately RMB26,526,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2007, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 23.78% (2006: 8.74%). This is primarily due to the increase in bank loans during the year. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2007.

Funding and treasury policies

The Directors confirm that the Group's funding and treasury policies are mainly based on its cash flow forecast and budgetary system to monitor and control the sources and applications of funds.

The objectives of the Group's funding and treasury policies are to prevent the unreasonable utilisation of funding, enhance the effectiveness on the utilisation of working capital, ensure the punctual repayment of the Group's liabilities upon the relevant maturity date and ensure liquidity of the working capital, so as to optimise the Group's net cash flow position.

Contingent liabilities

As at 31st December, 2007, the Group had no contingent liabilities.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are mainly carried out in the PRC, and all of the Group's receipts and payments in relation to the operations are denominated in Reminbi ("RMB"). In this respect, there is no significant currency mismatch in its operational cashflows and the Group is not exposed to any significant foreign currency exchange risk in its operation.

Employee and salary policies

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2007, the Group had 854 employees.

Retirement benefit scheme and other benefits

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staffs, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB2,738,000 for the year ended 31st December, 2007.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK\$1,000 in respect of each employee) on a monthly basis to the fund.

Housing pension scheme

According to the relevant requirement under "The Decision Regarding the Reinforcement of Reform on Housing Systems in Cities and Towns by the State Council" (《國務院關於深化城鎮住房制度改革的決定》), "The Notice Regarding the Further Reinforcement of Reform on Housing Systems and Acceleration of Housing Facilities in Cities and Towns by the State Council" (《國務院關於進一步深化城鎮住房制度改革加快住房建設的通知》) and "Housing Pension Administrative Rules" (《住房公積金管理條例》), all administrative and business units and their staffs shall make contribution to a housing pension for the establishment of a housing pension scheme. Both the housing pensions contributed by each staff and by their respective units are vested to the staffs. The percentage of the housing pension contributed by the staffs and their unit shall not be less than 5% of the average monthly wages of such staffs of the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

Material acquisitions or disposals of subsidiaries and associated companies

For the year ended 31st December, 2007, the Group had no material acquisitions nor disposals of subsidiaries and associated companies.

Material investments

For the year ended 31st December, 2007, the Group had no material investments.

PROSPECTS

Although more emphasis has been placed on the development and utilisation of water resources by the PRC government and the resources allocated to water conservancy construction in agriculture have been steadily increasing in recent years, China is still one of the countries with the lowest per capita resources. Therefore, the Directors of the Group expect the agricultural water saving irrigation equipment market will maintain the growth momentum. Looking forward, in order to maintain its competitiveness in the market and stable growth, the Group will continue to strictly control its costs, allocate more resources in new products research and development, and, when appropriate, expand into overseas markets, enlarge customer bases so as to secure booming results to shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved and further instill confidence of shareholders and the public in the Group. Throughout the financial year ended 31st December, 2007, the Group has complied with the requirements of the “Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors of the Company. Following specific enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard under the Model Code for the year ended 31st December, 2007.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the consolidated financial statements of the Group, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN COMPETING BUSINESS

For the year ended 31st December, 2007, the Directors are not aware of any business or interest of the Directors, the supervisors, the management shareholders of the Company and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of the PRC, which will oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year and the period from the listing of the Company up to the date of this announcement.

APPRECIATION

Finally, I would like to take this opportunity to thank the Group's shareholders and business partners for their support and encouragement for the Group during the past year. I would also like to thank our Directors and all staffs for the hard work and contribution to the Group.

By order of the Board
Xinjiang Tianye Water Saving Irrigation System Company Limited*
Guo Qing Ren
Chairman

Xinjiang, the PRC, 14th February, 2008

As at the date of this announcement, the Board comprises four executive Directors namely Guo Qing Ren, Shi Xiang She, Li Shuang Quan and Zhu Jia Ji, and four independent non-executive Directors namely He Liu Wang, Xia Jun Mian, Gu Lie Feng and Mak King Sau.

* *For identification purpose only*