



# 新疆天業節水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION  
SYSTEM COMPANY LIMITED\*

Stock Code: 840

**ANNUAL REPORT 2008**

\* for identification purposes only



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# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Guo Qing Ren (*Chairman*)  
Mr. Shi Xiang Shen  
Mr. Li Shuang Quan (*Chief Executive Officer*)  
Mr. Zhu Jia Ji

### Independent non-executive Directors

Mr. He Lin Wang  
Mr. Xia Jun Min  
Mr. Gu Lie Feng  
Mr. Mak King Sau

## SUPERVISORS

Ms. Ni Mei Lan  
Mr. He Jie  
Mr. Huang Jun Lin

## QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan

## COMPANY SECRETARY

Ms. Chow Yuk Lan

## COMPLIANCE OFFICER

Mr. Shi Xiang Shen

## AUDIT COMMITTEE

Mr. He Lin Wang  
Mr. Xia Jun Min  
Mr. Gu Lie Feng

## COMPLIANCE COMMITTEE

Mr. Shi Xiang Shen  
Mr. He Lin Wang  
Mr. Gu Lie Feng  
Mr. Xia Jun Min

## REMUNERATION COMMITTEE

Mr. Shi Xiang Shen  
Mr. He Lin Wang  
Mr. Xia Jun Min  
Mr. Gu Lie Feng

## NOMINATION COMMITTEE

Mr. He Lin Wang  
Mr. Guo Qing Ren  
Mr. Shi Xiang Shen  
Mr. Xia Jun Min  
Mr. Gu Lie Feng

## COMPLIANCE ADVISER

KGI Capital Asia Limited  
(effective from 24th January, 2008)  
27th Floor  
ICBC Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

# Corporate Information

## AUDITORS

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

## HONG KONG LEGAL ADVISER

Li & Partners  
22th Floor, Worldwide House  
19 Des Voeux Road Central  
Hong Kong

## REGISTERED OFFICE

No. 36, Bei San Dong Road  
Shihezi Economic and  
Technological Development Zone  
Shihezi  
Xinjiang  
People's Republic of China ("PRC")

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

21/F, New World Tower 1  
18 Queen's Road Central  
Central  
Hong Kong

## HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

China Construction Bank  
No. 62-5-6 Dong Liu Road  
Shihezi  
Xinjiang  
PRC

Bank of China  
No. 253-1415 Bei Si Road  
Shihezi  
Xinjiang  
PRC

Agricultural Bank of China  
No. 6 Dong Jiu Road  
Shihezi  
Xinjiang  
PRC

Industrial and Commercial Bank of China  
No. 8 Dong Jiu Road  
Bei Si Road  
Shihezi  
Xinjiang  
PRC

Bank of Communications  
No. 429 Xinhua Nan Road  
Urumqi  
Xinjiang  
PRC

## STOCK CODE

0840

## WEBSITE

<http://www.tianyejieshui.com.cn>

# Chairman's Statement



Dear Shareholders,

On behalf of the board of Directors (the "Board"), I hereby announce the report of Xinjiang Tianye Water Saving Irrigation System Company Limited together with its subsidiaries (the "Group") for the year ended 31st December, 2008.

## **BUSINESS REVIEW**

In 2008, the Group was affected by the large volatility of economic conditions which caused fall in prices of the major products of the Company and directly affected the annual operating results of the Group.

- Turnover for the year ended 31st December, 2008 was approximately RMB664,248,000, an increase of approximately 7.80% from 2007;
- Profit for the year ended 31st December, 2008 was approximately RMB6,109,000, a decrease of approximately 91.29% from 2007, the profit attributable to equity holders of the Company was RMB6,694,000, a decrease of approximately 90.48% from 2007;
- Basic earnings per share for the year was approximately RMB1.2 cents (2007: approximately RMB13.5 cents);

# Chairman's Statement

## PROSPECTS

Looking to 2009, the factors which will adversely affect the operations of the Group include the continual widespread of international financial crisis and the evident slowing down of economic growth across the globe that are negatively affecting the PRC economy and harming the development of the agriculture and rural areas in the PRC. The various proactive stimulation packages implemented by the PRC government aiming at supporting long term economic growth have created advantageous conditions for the Group to overcome the difficult situation. Therefore, the Group will lean upon the policies announced by the PRC government in respect of promoting water conservancy construction in agriculture, maintain its stringent cost control policy, enlarge customer bases and accelerate the development of the applications of the Company's products so as to secure booming results to reward our shareholders.

## APPRECIATION

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

Yours sincerely,

**Guo Qing Ren**

*Chairman of the Board*

Xinjiang, PRC

16th March, 2009





# 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. Fluctuation in raw materials prices lead to an increase in the costs of the Group's products, 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 continue to place great emphasis on its after-sales services to its customers and will widen its customer bases by expanding its sales and distribution network.



# Management Discussion and Analysis

## RESULTS OF OPERATIONS

### Turnover

For the year ended 31st December 2008, the turnover of the Group was approximately RMB664,248,000, an increase of approximately 7.80% from approximately RMB616,172,000 for the year ended 31st December 2007.

The following table summaries the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2008 by products or services:

Category	For the year ended 31st December, 2008		For the year ended 31st December, 2007		Year-on-year percentage change
	Turnover RMB'000	% to total turnover %	Turnover RMB'000	% to total turnover %	
Drip films and drip assemblies	442,218	66.57	401,514	65.16	10.14
PVC/PE pipelines	219,998	33.12	212,188	34.44	3.68
Provision of installation services	2,032	0.31	2,470	0.40	(17.73)
<b>Total</b>	<b>664,248</b>	<b>100.00</b>	616,172	100.00	

The change in turnover for the year ended 31st December, 2008 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, 2008, sales of drip films and drip assemblies increased by approximately 10.14% to approximately RMB442,218,000, while sales of PVC/PE pipelines increased by approximately 3.68% to approximately RMB219,998,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 35,127 tonnes for the year ended 31st December, 2007 to approximately 36,247 tonnes for the year ended 31st December, 2008, while the sales volume of PVC pipelines increased from approximately 31,955 tonnes for the year ended 31st December, 2007 to approximately 32,835 tonnes for the year ended 31st December, 2008. 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 RMB2,470,000 to approximately RMB2,032,000 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 17.73% for the year under review.



# Management Discussion and Analysis

## Cost of sales

For the year ended 31st December, 2008, cost of sales of the Group was approximately RMB611,519,000, with an increase of approximately 23.07% from approximately RMB496,881,000 for the year ended 31st December, 2007. Costs of sales for the year ended 31st December, 2008 comprised direct materials costs of approximately RMB532,076,000, direct labour costs of approximately RMB17,471,000 and production overhead of approximately RMB61,972,000, which accounted for approximately 87.01%, 2.86% and 10.13%, respectively, of total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2007 comprised direct materials of approximately RMB428,360,000, direct labour costs 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 2007.

## Gross profit

The Group realised a gross profit of approximately RMB52,729,000 for the year ended 31st December, 2008, with a decrease of approximately RMB66,562,000 from approximately RMB119,291,000 for the year ended 31st December, 2007. The Group's gross profit margin decreased from approximately 19.36% for the year ended 31st December, 2007 to approximately 7.94% for the year ended 31st December, 2008. 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 and hence the costs of mix formulas were increased during the year, besides, selling price of PVC pipelines decreased when compared with last year which dragged down the overall gross profit margin for 2008.

## Other operating income

Other operating income consists primarily of bank interest income, reversal of impairment for inventories and waiver of long outstanding trade payables. Such income had slightly increased from approximately RMB4,360,000 for the year ended 31st December, 2007 to approximately RMB4,784,000 for the year ended 31st December, 2008.

## Distribution costs

Distribution costs were approximately RMB22,294,000 for the year ended 31st December, 2008, representing an increase of approximately 13.86%. The amount accounted for approximately 3.36% of the total turnover for the year ended 31st December, 2008, is slightly higher than its share of total turnover of approximately 3.18% in the previous year. Distribution costs mainly comprised transportation costs, salaries, sales commission, entertainment and after-sales service expenses, etc. For the year ended 31st December, 2008, transportation costs and salaries expenses decreased by approximately 8.58% and 22.67% to approximately RMB6,100,000 and RMB3,675,000 respectively while sales commission, entertainment and after-sales service expenses increased by approximately 18.56%, 183.70% and 152.23% to approximately RMB2,159,000, RMB2,088,000 and RMB2,487,000, respectively. Other expenses increased by approximately 25.41% to approximately RMB5,785,000.

# Management Discussion and Analysis

## Administrative expenses

Administrative expenses decreased by approximately 28.68% to approximately RMB16,916,000 for the year ended 31st December, 2008. The amount accounted for approximately 2.55% of total turnover for the year ended 31st December, 2008, is less than its share of total turnover of approximately 3.85% in the previous year. For the year ended 31st December, 2008, salary costs decreased by 10.97% to approximately RMB6,332,000, impairment for trade receivables decreased by approximately 71.76% to approximately RMB1,097,000 and listing fees decreased by 100% to nil. Other expenses decreased by approximately 10.82% to approximately RMB9,487,000.

## Profit from operations

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2008 was approximately RMB17,100,000, representing a decrease of approximately 78.52% from approximately RMB79,611,000 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 12.92% and 2.57% respectively for the years ended 31st December, 2007 and 2008.

## Finance costs

Finance costs for the year ended 31st December, 2008 amounted to approximately RMB10,568,000, representing an increase of 62.14% 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 decreased by approximately 90.48%, from approximately RMB70,287,000 for the year ended 31st December, 2007 to approximately RMB6,694,000 for the year ended 31st December, 2008. For the two years ended 31st December, 2007 and 2008, the Group's net profit margin was approximately 11.41% and 1.01%, respectively.

## INDEBTEDNESS

### Borrowings

As at 31st December, 2008, the Group had outstanding bank loans of RMB189,000,000, which will be due within a year at fixed interest rates ranging from 5.31% to 7.47% per annum.

For the outstanding bank loans of RMB189,000,000 as at 31st December, 2008, Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") and its subsidiary had granted guarantees to banks for securing loans of RMB175,000,000 at an interest rate of 5.58% to 7.47% per annum. The guarantees for the loans will be released on or before 22nd December 2009.

# Management Discussion and Analysis

## Commitments

As at 31st December, 2008, the Group had contracted but not provided for capital commitments of RMB7,615,000.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2008 were approximately 2.39 and 1.15, respectively, representing a decrease of 0.18 and 0.05 respectively when compared to 31st December, 2007. This is primarily due to approximately 6.26% decrease in inventories, approximately 21.74% decrease in trade and other receivables as at 31st December, 2008 and approximately 61.74% increase in bank balances and cash and approximately 68.74% increase in bills receivable during the year under review. The decrease in liquidity ratios was mainly due to the decrease in production volume and product selling prices as compare to 2007 and therefore the related inventories and trade and other receivables have decreased.

### 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, 2008, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB56,552,000 (2007: approximately RMB66,374,000), which were in line with the expansion plans of the Group.

### Capital structure

For the year ended 31st December, 2008, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 27.77% (2007: approximately 23.78%). 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, 2008.



# Management Discussion and Analysis

## 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, 2008, 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 Renminbi ("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, 2008, the Group had 973 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 RMB3,478,000 for the year ended 31st December, 2008.

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.

# Management Discussion and Analysis

## 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, 2008, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## MATERIAL INVESTMENTS

Akesu Tianye Water Saving Company Limited (“Akesu Tianye”) was established by the Company under the laws of the People’s Republic of China with limited liability on 15th August, 2008 with an operating period of 20 years. The registered capital of Akesu Tianye was RMB40,000,000 and is a wholly owned subsidiary of the Company. Akesu Tianye has not yet commenced its business as at 31st December, 2008.

Other than disclosed above, for the year ended 31st December, 2008, the Group had no material investments.

## DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Friday, 17th April, 2009 to Friday, 8th May, 2009 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the AGM and the Class Meetings, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company’s H Share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Thursday, 16th April, 2009.

# Corporate Governance Report

The Board of Directors (the “**Board**”) is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2008.

## CORPORATE GOVERNANCE PRACTICES

The Group believes that the application of rigorous corporate governance practices can lead to the improvement in its accountability and transparency of the Group and, thus, further instill confidence of its shareholders and the public. Throughout the financial year ended 31st December, 2008, the Group has complied with the provisions in the “Code on Corporate Governance Practices” (the “**Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

## THE BOARD

### Composition

The Board comprises eight directors (the “**Director(s)**”), including four executive Directors and four independent non-executive Directors, as at 31st December, 2008. The Board members have no financials, business, family or other material/relevant relationships with each other. Members of the Board is composed of experts with various expertise and professional background in different industries, who have worked for the government agencies in the PRC, public listed companies or other entities. All Directors give sufficient time and attention to the affairs of the Group. The particulars of each Director are set out in the section of Directors, Supervisors and Senior Management on pages 22 to 25.

The presence of four independent non-executive Directors is considered by the Board to be a reasonable balance between executive and independent non-executive Directors, and the Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of the Group and its shareholders. The Group has appointed four independent non-executive Directors, all of whom possess appropriate professional qualifications and two of whom possess appropriate professional qualifications or accounting or related financial management expertise.

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, which has been verified. None of the independent non-executive Directors has served the Group for more than nine years.

All independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors.



# Corporate Governance Report

## Board Meetings

The Board is principally responsible for formulating and reviewing the overall strategies and the fundamental systems of the Group, and approving major transactions and other material operational and financial matters, as well as annual budget and interim and annual results. The Board shall meet, at least, twice a year and an extraordinary meeting may be held as required. The full Board met in person and met eight times for the financial year ended 31st December, 2008. At least 14 days' notices of all meetings of the Board ("**Board Meetings**") were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion at the Board Meetings. The company secretary (the "**Company Secretary**") assisted the Chairman in preparing the agenda for the Board Meetings, and ensured that the Board procedures and all applicable rules and regulations were observed. The finalised agenda and accompanying board papers were then sent to all directors at least three days prior to each proposed Board Meeting.

The following is the attendance records of the Board Meetings by each Director:

<b>Attendants</b>	<b>Number of Board Meetings</b>	
	<b>Attended/Total</b>	<b>Percentage</b>
<b>Executive Directors</b>		
Guo Qing Ren ( <i>Chairman</i> )	8/8	100%
Shi Xiang Shen	8/8	100%
Li Shuang Quan ( <i>Chief Executive Officer</i> )	8/8	100%
Zhu Jia Ji	8/8	100%
<b>Independent Non-executive Directors</b>		
He Lin Wang	8/8	100%
Gu Lie Feng	8/8	100%
Xia Jun Min	8/8	100%
Mak King Sau	6/8	75%

During the Board Meetings, the Directors discussed and formulated the overall strategies of the Group, monitored financial performances and discussed the annual and interim results, set next year's budgets, as well as discussed and decided other significant matters. Execution of daily operational matters of the Group is delegated to the management.

The Company Secretary recorded the proceedings of each Board Meeting in detail by keeping detailed minutes. Draft and finalised minutes of Board Meetings were circulated to all Directors for their comments and records respectively at any reasonable time as soon as practicable after each meeting. All minutes are open for inspection at any reasonable time on request by any Director.

# Corporate Governance Report

All Directors have access to relevant and timely information at all times as the Chairman will ensure that the management will supply the Board and its Committees with all relevant information in a timely manner. They may make further enquiries if in their opinions it is appropriate or necessary to request for further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible for providing Directors with board papers and related materials to ensure all applicable laws and rules are fully complied with. If it is considered to be necessary and appropriate by the Directors, they may retain independent professional advisors at the Group's expense.

In case that a conflict of interest may arise on a matter to be considered by the Board which involves a substantial shareholder or a Director, such matter will be discussed through an actual Board Meeting and will not be dealt with by written resolutions. Independent non-executive Directors who do not have any conflict of interest on the matter will be present at such meetings and to deal with such conflicting issue.

The Board Committees (the "**Committees**"), including the Remuneration Committee, the Nomination Committee, the Audit Committee and the Compliance Committee have all adopted the applicable principles, procedures and arrangements used in Board Meetings.

## Chairman and Chief Executive Officer of the Group

The Chairman of the Group is Mr. Guo Qing Ren and the Chief Executive Officer of the Group is Mr. Li Shuang Quan. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the daily operations of the Group.

The Chairman is responsible for leading the Board and ensuring the Board works effectively, through which the Chairman will ensure that good corporate governance practices and procedures are established and followed, and that all Directors receive all relevant information in a timely manner. Each Director should be properly notified the matters in question prior to each Board Meeting.

The Chairman will also encourage all Directors, including the independent non-executive Directors, to actively participate in all Board Meetings and the committee meetings.

## Training and Support for Directors

For every Director, the Group provides various briefings and trainings to develop and refresh the Directors' knowledge and skills. The Group will also continuously update all Directors on latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure the compliance with these rules and regulations by the Directors.

# Corporate Governance Report

## 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 made by the Company, all Directors have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2008.

## REMUNERATION COMMITTEE

The Chairman of the Remuneration Committee is Mr. Shi Xiang Shen, an executive Director of the Company and other members include Mr. He Lin Wang, Mr. Xia Jun Min and Mr. Gu Lie Feng, all being the independent non-executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive Directors and senior management of the Group, and reviewing the Company’s bonus structure, provident fund and other compensation-related issues. The Remuneration Committee will consult with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also have access to professional advice if considered necessary by the Remuneration Committee. The Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

For the year ended 31st December, 2008, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

<b>Attendants</b>	<b>Number of Meetings</b>	
	<b>Attended/Total</b>	<b>Percentage</b>
Shi Xiang Shen	1/1	100%
He Lin Wang	1/1	100%
Xia Jun Min	1/1	100%
Gu Lie Feng	1/1	100%

For the year ended 31st December, 2008, the Remuneration Committee reviewed matters relating to remuneration for the Directors and senior management, and discussed the remuneration policy of the Group.



# Corporate Governance Report

## NOMINATION COMMITTEE AND APPOINTMENT OF DIRECTORS

### Nomination Committee

The Chairman of the Nomination Committee is Mr. He Lin Wang, an independent non-executive Director of the Company, and other members include Mr. Guo Qing Ren, Mr. Shi Xiang Shen, both being the executive Directors of the Company, Mr. Xia Jun Min and Mr. Gu Lie Feng, both being the independent non-executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of Directors and Board succession. It also develops selection procedures of candidates for nomination, reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee, and review and approval of such nomination by the Board. The Nomination Committee will evaluate potential candidates by considering factors such as professional expertise, relevant experience, personal ethics and integrity.

For the year ended 31st December, 2008, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
He Lin Wang	1/1	100%
Guo Qing Ren	1/1	100%
Shi Xiang Shen	1/1	100%
Xia Jun Min	1/1	100%
Gu Lie Feng	1/1	100%

For the year ended 31st December, 2008, the Nomination Committee discussed and reviewed the Board composition as well as other related matters.

# Corporate Governance Report

## Terms of Appointment and Re-election

All independent non-executive Directors are appointed for a specific term of three years. All Directors, including the executive and independent non-executive Directors, would retire from office by rotation and are subject to re-election at the following annual general meeting once every three years.

## AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and other financial disclosures. The management provides all relevant information to the Board enabling the Board to make an informed view of financial and other data.

The Chairman of the Audit Committee is Mr. He Lin Wang, and the other members are Mr. Xia Jun Min and Mr. Gu Lie Feng, all being the independent non-executive Directors of the Company.

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports and the auditors' report present a true and fair assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Company Secretary keeps the minutes of all Audit Committee meetings. In line with practices consistent with the Board Meetings and other committee meetings, draft and finalised minutes of Audit Committee meetings are circulated to all members of the Audit Committee as soon as practicable after each meeting. For the year ended 31st December, 2008, the Audit Committee held two meetings. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
He Lin Wang	2/2	100%
Xia Jun Min	2/2	100%
Gu Lie Feng	2/2	100%

During the year ended 31st December, 2008, the Audit Committee reviewed the final and interim results of the Group, and discussed and approved financial and other reports for the year. The Audit Committee also reviewed and discussed the Group's internal audit plans and arrangements for the upcoming year.

# Corporate Governance Report

The level of fees in respect of audit and non-audit services provided by external auditors to the Company for the year ended 31st December, 2008 is as follows:

	2008 RMB'000	2007 RMB'000
Audit Service		
– SHINEWING (HK) CPA Limited	650	880
Non-audit services		
– SHINEWING (HK) CPA Limited (Note)	–	1,500

Note: The amounts represented the professional fees for the Company's listing on Main Board of the Stock Exchange and an internal control review during the year ended 31st December, 2007. Such expenses were included in listing expenses as disclosed in note 10 to the consolidated financial statements.

## COMPLIANCE COMMITTEE

The Chairman of the Compliance Committee is Mr. Shi Xiang Shen, an executive Director of the Company, and other members include Mr. He Lin Wang, Mr. Gu Lie Feng and Mr. Xia Jun Min, all being the independent non-executive Directors of the Company.

The duties of the Compliance Committee include supervising the Company's effective implementation of various management measures of the Company and reviewing the Company's disclosure policies to ensure its compliance with the Listing Rules and the requirements of other regulatory authorities and making recommendations and giving opinions to the Board in this regard.

For the year ended 31st December, 2008, the Compliance Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
Shi Xiang Shen	1/1	100%
He Lin Wang	1/1	100%
Gu Lie Feng	1/1	100%
Xia Jun Min	1/1	100%

# Corporate Governance Report

For the year ended 31st December, 2008, the Compliance Committee discussed and reviewed the Company's disclosure policies as well as other related matters.

## INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31st December, 2008, the Board has, through the Audit Committee with the assistance of the internal audit manager ("**Internal Audit Manager**"), conducted a review on the Group's internal control systems, including without limitation to financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems of the Group are effective and there is no non-compliance, impropriety, fraud or other deficiencies that suggest material deficiency in the effectiveness of internal control systems of the Group.

The Board assesses the effectiveness of the internal controls by considering reviews conducted by the Audit Committee, senior management and internal auditors. The Internal Audit Manager follows a risk-and-control-based approach. An audit plan would be formulated in a risk-weighted manner so that priorities and appropriate audit frequency could be given to areas with higher risks. The Internal Audit Manager performs regular financial and operational reviews on the Group. Summaries of major audit findings and possible control weaknesses, if any, are reviewed by the Audit Committee. The Internal Audit Manager monitors the follow-up actions agreed upon in response to the recommendations made by the Audit Committee.

## DELEGATION BY THE BOARD

The Board is responsible for decision in relation to the overall strategic planning and development of the Group's business. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management. The Board has given clear directions as to the powers of management, and periodically reviews all delegations to management to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

# Corporate Governance Report

All Committees, namely the Remuneration Committee, the Nomination Committee, the Audit Committee and the Compliance Committee, have their specific terms of reference clearly defining the powers and responsibilities of the respective Committees. All Committees are required by their terms of reference to report to the Board in relation to their decisions, review findings or recommendations, and, in certain specific situations, to seek the Board's approval before taking any actions.

## RELATIONS WITH SHAREHOLDERS

The Group is committed to maintaining the highest level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. This commitment to fair disclosure and comprehensive and transparent reporting of the Group's activities can be reflected in many aspects.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The annual general meeting ("**AGM**") of the Company provides an excellent opportunity for the Board to meet and communicate with the shareholders. All Directors make a special effort to attend the AGM so that they may answer any questions from the shareholders of the Company.

The Chairman is also actively involved in organising the AGM and personally chairs it, as to ensure that shareholders' views are delivered to the Board. Members of the Remuneration Committee, the Nomination Committee, the Audit Committee and the Compliance Committee, also attend the AGM to answer questions that shareholders may raise. A separate resolution is proposed by the Chairman in respect of each separate issue at the AGM.

The proceedings of the AGM are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. A circular in respect of the AGM, which is circulated to all shareholders at least 45 days prior to the AGM, sets out details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the Chairman again explains the procedures for demanding and conducting a poll. The Chairman indicates (except those where a poll is required) at the meeting the level of proxies lodged on each resolution, and the balance for and against such resolution.

The Company also communicates with its shareholders through its annual and interim reports. All such reports can also be accessed via the Company's website. The Directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.

## INVESTOR RELATIONSHIPS

To strengthen its relationship with investors, the Group meets with analysts, accommodates visiting funds and investors, and participates in conferences and presentations.



# Directors, Supervisors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Guo Qing Ren (郭慶人)**, aged 66, is the Chairman and a founder of the Group. Mr. Guo obtained a bachelor's degree from Xinjiang Technology College with a major in Geological Metal and Non-metal Mining and Exploration in 1964. He obtained a senior economist qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1993. He has been a director of Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") since 1996 and has been the chairman of Tianye Holdings since 6th June, 2007. He has been the chairman (until 30th June, 2007) and a director of Tianye Company since 1997. He has been a Director since he joined the Group in 1999. The research and development project of One-off Recycled Plastic Dripline Products undertaken by Mr. Guo was awarded the First Prize of Technology Improvement of the Eighth Agricultural Division and Shihezi City in 1999. In 2000, the water-saving irrigation pipelines project primarily developed by Mr. Guo was awarded the Innovative Technology Prize of the Autonomous Region. Mr. Guo joined the Group in 1999 and is responsible for overseeing all strategic planning of the Group as well as responsible for the overall management of the Group's operations. He is also responsible for the design and development of new products of the Group.

**Mr. Shi Xiang Shen (師祥參)**, aged 64, is an executive Director. Mr. Shi graduated from Beijing Economic Correspondence University with a major in Economic Management in 1989. He obtained a senior accountant qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. He had worked as chief accountant in No. 141 Unit of No. 8 Division of Agricultural Construction of Xinjiang Production and Construction Regiment ("**XPCR**") for more than 10 years until 1995. Mr. Shi had been employed as the chief accountant of Tianye Holdings and was a director of Tianye Company from 1997 to August 2005. He has become a Director since he joined the Group in 2000 and is responsible for the Group's financial management and capital operation, and assisting the Chairman in overall strategic planning and management and business development of the Group.

**Mr. Li Shuang Quan (李雙全)**, aged 44, is an executive Director and Chief Executive Officer of the Company. Mr. Li graduated from Nanjing Glass Fiber Research and Design Vocational University with a major in Silicate Technology in 1988. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2001. In 1998, he was recognized as the "Sixth Session Outstanding Calibre of the Agricultural No. 8 Division" in 1998. Mr. Li was also recognized as the "Tenth Session Outstanding Calibre of the Agricultural No. 8 Division" in 2003. He had worked as manager of technology and research and development department and was later promoted to factory director in Shihezi Plastic Factory for more than 10 years until 1996. He was a director of Tianye Company from April 2001 to June 2007 and was granted the special subsidies by the State Council of the PRC in 2004. He joined the Group in 1999 and has been a Director since 2002, a deputy general manager of the Company since 2003 and the Chief Executive Officer of the Company since May 2007. Mr. Li is responsible for the management of technology and research and development of the Group. He has extensive experience in the development, manufacture and sales of the products of the Group and the management of the Group.

# Directors, Supervisors and Senior Management

**Mr. Zhu Jia Ji (朱嘉冀)**, aged 45, is an executive Director and deputy general manager of the Group. Mr. Zhu graduated from Agricultural and Machinery School of Shihezi, Xinjiang. He obtained an engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2002. He has been a deputy sales manager of the Company since he joined the Group in December 1999. He is also the Chairman of Kuitun Tiantun and Hami Tianye, both are subsidiaries of the Company. Mr. Zhu was appointed as an executive Director on 10th May, 2007 and was appointed as a director of Tianye Company on 30th June, 2007.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. He Lin Wang (何林望)**, aged 67, is an independent non-executive Director of the Company. Mr. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部). He had held the position of the chief engineer of Shihezi Water Conservation Bureau (石河子市水利局) and a director of the Xinjiang Agricultural Engineering Society. Mr. He has more than 10 years of experience in agricultural engineering industry. He has been an independent non-executive Director since he joined the Group in April 2005.

**Mr. Xia Jun Min (夏軍民)**, aged 38, is an independent non-executive Director of the Company. He graduated from Xinjiang Finance and Economic College majoring in Accounting in 1995 and obtained a bachelor's degree from the Central Communist Party Institution with a major in Politics and Law in 1998. He has obtained qualifications as a registered accountant and a registered assets valuer in the PRC. He is presently a deputy president of Xinjiang Fangxia Assets Valuation Company Limited, a president and a chief accountant of Xinjiang Fangxia Certified Public Accountants Company Limited. Mr. Xia has extensive experience in auditing, accounting and financial management. He has been an independent non-executive Director since he joined the Group in April 2005.

**Mr. Gu Lie Feng (顧烈峰)**, aged 69, is an independent non-executive Director of the Company. Mr. Gu attained university level and graduated from Water Conservancy Engineering Department of Tsinghua University in 1965. Mr. Gu obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 1991. He had been appointed as chief commander of XPCR Water Conservation Bureau since August 1995 and was retired in August 2000. Mr. Gu has more than 20 years experience in agriculture industry. Since he joined the Group in April 2005, he has been an independent non-executive Director.

**Mr. Mak King Sau (麥敬修)**, aged 34, is an independent non-executive Director of the Company. Mr. Mak has more than 10 years of experience in corporate finance and private equity fund investment industry. He was an associate director of an investment bank in Hong Kong. He had served as the chief investment officer in a Hong Kong listed company. Mr. Mak also worked for a private equity fund. He is a member of American Institute Certified Public Accountant, and graduated from Boston University with a bachelor degree in business administration in 1995 and from the University of London with a master degree in financial and management in 1997. He has been an independent non-executive Director of the Group since October 2007.

# Directors, Supervisors and Senior Management

## SUPERVISORS

**Ms. Ni Mei Lan (倪美蘭)**, aged 49, is a supervisor and the Chairman of Supervisory Committee. Ms. Ni graduated from Urumqi Vocational University with a major in Economic Management in 1995. Ms. Ni obtained an assistant economist qualification certificate issued by Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2000. She joined the Group in 2001 and has been a deputy general manager of the Company since 2003 and until 10th May, 2007. Ms. Ni was appointed as a supervisor on 10th May, 2007.

**Mr. He Jie (何傑)**, aged 63, is a supervisor. Mr. He graduated from Tianjin Light Industry College in 1968 with a major in Plastic Modeling and Processing. He obtained a senior engineer qualification as approved by the Office of Professional Technical Staff of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區專業技術人員職稱辦公室) in 1992. He has been a supervisor since he joined the Group in April 2005.

**Mr. Huang Jun Lin (黃俊林)**, aged 69, is a supervisor. Mr. Huang graduated from Xinjiang University in 1990 with a major in political theory. He is a senior administrator (高級政工師), and an outstanding caliber in Shihezi. He has been a supervisor since he joined the Group in April 2005.

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Ms. Chow Yuk Lan (周玉蘭)**, aged 34, is the financial Controller, company secretary, qualified accountant and one of the authorised representatives of the Company. She is responsible for the financial reporting procedures and internal control of the Group and secretarial affairs of the Company. Ms. Chow has obtained her bachelor degree in accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chow worked for an international accounting firm for six years and she has over ten years of experience in the fields of professional accounting services, taxation, company secretarial and financial management. She joined the Company in November 2008.

## COMPLIANCE OFFICER

**Mr. Shi Xiang Shen**, is an executive Director, assumes responsibility for acting as the Group's compliance officer, including advising on and assisting the Board in implementing procedures to ensure that the Group complies with the Listing Rules and other relevant laws and regulations applicable to the Group.

# Directors, Supervisors and Senior Management

## SENIOR MANAGEMENT

**Mr. Chen Jun (陳俊)**, aged 45, graduated from the Central Communist Party Institution (中共中央黨校學院) with a major in Economic Management. Mr. Chen was awarded a Qualification Certificate for Engineering by the Ministry of Agriculture of the People's Republic of China in September 2005. He joined the Group in 2001 and has been a deputy general manager of the Company since October 2008.

**Mr. Wang Zhenhai (王振海)**, aged 40, graduated from Shihezi Workers' University (石河子職工大學) with a major in Economic Management in 2003. He joined the Group in 2004 and has been a deputy general manager of the Company since 2007.

**Mr. Xiong Xin Yi (熊新義)**, aged 37, graduated from Xinjiang Finance and Economic College with a major in Economic Management and had passed the legal examinations of Xinjiang University. Mr. Xiong obtained an industrial economist qualification certificate issued by the Ministry of Personnel of the PRC in November 1997. He joined the Group in January 2003 and has been the secretary to the Board since 2005.

# Report of the Directors

The directors of the Company (the “**Directors**”) present their annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

## PRINCIPAL ACTIVITIES

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 is also engaged in the provision of installation services of water saving irrigation system for its customers. Details of the principal activities of its subsidiaries are set out in note 26 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 40.

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2008.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB47,296,000 on acquiring new plants and machines. Details of the above and of other movements in the property, plant and equipment of the Group for the year are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company’s reserves available for distribution to Shareholders is the lower of its accumulated profits as stated in the statutory financial statements in the PRC and the financial statements prepared under Hong Kong Financial Reporting Standards (the “**HKFRSs**”). As at 31st December, 2008, the Company’s reserves available for distribution to shareholders represent its accumulated profits of approximately RMB99,505,000 prepared in accordance with HKFRSs (2007: accumulated profits of approximately RMB107,456,000 prepared in accordance with HKFRSs).



# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2008, sales to the largest customer and the five largest customers of the Group accounted for approximately 8% and 34% of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 31% and 60% respectively of the total purchases of the Group. Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY TRANSACTIONS", at no time during the year did a Director, a Supervisor, their associates or any shareholders of the Company ("**Shareholders**") (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company ("**Shares**")) have an interest in any of the five largest customers or suppliers of the Group.

## DIRECTORS AND SUPERVISORS

The Directors and supervisors (the "**Supervisors**") of the Company during the year and up to the date of this report are:

### Executive Directors:

Mr. Guo Qing Ren (*Chairman*)  
Mr. Shi Xiang Shen  
Mr. Li Shuang Quan (*Chief Executive Officer*)  
Mr. Zhu Jia Ji

### Independent non-executive Directors:

Mr. He Lin Wang  
Mr. Gu Lie Feng  
Mr. Xia Jun Min  
Mr. Mak King Sau

### Supervisors

Ms. Ni Mei Lan  
Mr. He Jie  
Mr. Huang Jun Lin

Pursuant to the articles of association of the Company, all Directors and Supervisors are appointed for a term of three years and are eligible for re-election upon expiry of term.

# Report of the Directors

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a fixed term of three years or until the expiry of the current session of the board of Directors subject to renewal upon approval by the Shareholders for one or more consecutive terms of three years.

In accordance with the provisions of the articles of association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the PRC Company Law, the term of office of the Supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, none of the Directors' and Supervisors' terms of office expires, and save as disclosed herein, all of the Directors and Supervisors continue in office.

Other than as disclosed above, none of the Directors and Supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), and the Company considered that the independent non-executive Directors to be independent.

# Report of the Directors

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2008, the interests of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (the "SFO") had applied to the Supervisors) or chief executives of the Company, including their respective associates, in the Shares and/or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules, were as follows:

Name of Directors/ Supervisors	Name of companies/ associated corporations	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Guo Qing Ren ( <i>Director</i> )	Xinjiang Tianye Company Limited ("Tianye Company") (Note 2)	Beneficial owner	46,080 domestic Shares (L)	0.011%
Shi Xiang Shen ( <i>Director</i> )	Tianye Company	Beneficial owner	34,864 domestic Shares (L)	0.008%
Huang Jun Lin ( <i>Supervisor</i> )	Tianye Company	Beneficial owner	53,248 domestic Shares (L)	0.012%

Note:

1. The letter "L" represents the Directors' and Supervisors' long positions in such securities.
2. Tianye Company is a company established in the PRC with limited liability on 9th June, 1997, and 248,832,000 A shares of which are listed in the Shanghai Stock Exchange.

Other than as disclosed above, none of the Directors, Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation as at 31st December, 2008.

# Report of the Directors

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executives of the Company, including their respective associates, to acquire benefits by means of acquisition of Shares in, or debt securities (including debentures) of, the Company or any other related corporations.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY TRANSACTIONS", no contract of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

### (A) Substantial Shareholders

As at 31st December, 2008, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following persons or entities (other than a Director, Supervisor or chief executives) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

Name	Type/nature of interest	Capacity	Number of the domestic Shares of the Company held (Note 1)	Approximate percentage of the total issued share capital of the Company (Note 2)
Tianye Company	Corporate	Beneficial owner	202,164,995 (L)	38.91% (Note 3)
Xinjiang Tianye (Group) Limited ("Tianye Holdings") (Note 4)	Corporate	Interest in controlled corporation	202,164,995 (L)	38.91%
Guo Shu Qing (Note 5)	Personal	Beneficial owner	61,386,798 (L)	11.82%
Wang Xiao Xian (Note 6)	Personal	Beneficial owner	50,335,128 (L)	9.69%

# Report of the Directors

Notes:

1. "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Share of 519,521,560 Shares (including domestic Shares and H Shares).
3. The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issue.
4. The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.
5. The domestic Shares held by Guo Shu Qing were equivalent to approximately 19.36% of the total domestic Shares in issue.
6. The domestic Shares were held by Wang Xiao Xian were equivalent to approximately 15.87% of the total domestic Shares in issue.

## (B) Other persons who are required to disclose their interests pursuant to Division 2 and 3 of Part XV of the SFO

As at 31st December, 2008, save for the persons or entities disclosed in sub-section (A) above, the following persons or entities (other than a Director, Supervisor or chief executives of the Company) had notified the Company of relevant interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO:

Name of shareholders	Type of interest	Capacity	Approximate percentage of	
			Number of H Shares of the Company held (Note 1)	the total issued share capital of the Company (Note 2)
Julius Baer Multipartner SICAV, Luxembourg	Corporate	Investment manager	18,514,000 (L)	3.56% (Note 3)



# Report of the Directors

Note:

1. "L" denotes the person's/entity's long positions in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
3. The H Shares held by Julius Baer Multipartner SICAV, Luxembourg were equivalent to approximately 9.15% of the total H Shares in issue.

Save as disclosed above, as at 31st December, 2008, the Company was not aware of any persons (other than the Directors, the Supervisors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company.

## CONNECTED AND RELATED PARTY TRANSACTIONS

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors, and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms or on terms no less favorable than terms available to or from independent third parties, and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Details of the continuing connected transactions during the year are included in note 32 to the consolidated financial statements. Save as the above, the Group also entered into following connected transactions agreements on 7th February, 2006:

- purchase agreement with Tianye Holdings (a substantial Shareholder of the Company), pursuant to which the Group agreed to purchase spare parts and used materials, including but not limited to diamond-shaped wheels and used drip films, from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those spare parts and used materials will be agreed from time to time between the parties concerned by reference to the prevailing market prices at the relevant time;
- master purchase agreement with Tianye Company (a substantial Shareholder of the Company), pursuant to which the Group agreed to purchase raw materials, including but not limited to PVC resins, contracting films, internal films and stabilisers, from Tianye Company and/or its subsidiaries and/or its controlled corporations from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those raw materials will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

# Report of the Directors

- sale agreement with Tianye Holdings (a substantial Shareholder of the Company), pursuant to which Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;
- master sale agreement with Tianye Company (a substantial Shareholder of the Company), pursuant to which Tianye Company and/or its subsidiaries and/or its controlled corporations agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 1st January, 2006 to 31st December, 2008, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;
- leases in respect of the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第三層) and the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94-22號) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB1,455,820 per annum (including property management fee);
- lease in respect of the office premises located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB3,500 per annum (including property management fee); and
- lease in respect of the office premises located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三社區94-2號) with Tianye Company (a substantial Shareholder of the Company), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB4,320 per annum (including property management fee).

The above connected transactions agreements and their proposed annual caps were approved by an ordinary resolution of a general meeting of the Company held on 7th February, 2006. The details of these transactions were disclosed in the prospectus dated 21st February, 2006, the introduction document dated 30th August, 2007 and the announcement dated 25th April, 2008.

# Report of the Directors

In respect of each of the related party transactions as listed in note 32 to the consolidated financial statements, which are also connected transactions, and the transaction contemplated under each of the above connected transactions agreements, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules.

Note: The term “controlled corporations” of Tianye Company mentioned above under the paragraph headed “Connected and Related Party Transactions” of this report refers to those corporations owned by Tianye Company as to 30% or more but less than 50% of their equity interests.

## DIRECTORS’ AND SUPERVISORS’ INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2008, 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.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and Supervisors are decided by the Remuneration Committee, having regard to the Company’s operating results, individual performance and comparable market statistics.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on page 13 of the annual report.

## 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 would oblige the Company to offer new Shares on a pro-rata basis to 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.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

# Report of the Directors

## POST BALANCE SHEET EVENT

The Group had no significant event occurring after the balance sheet date and up to the date of this report.

## AUDITORS

The consolidated financial statements for the year have been audited by SHINEWING (HK) CPA Limited. A resolution will be submitted in the forthcoming annual general meeting to re-appoint the auditors, SHINEWING (HK) CPA Limited as the auditors of the Group.

By Order of the Board

**Mr. Guo Qing Ren**

*Chairman*

Xinjiang, PRC

16th March, 2009

# Report of the Supervisory Committee

To: All Shareholders

During the year ended 31st December, 2008, the Supervisory Committee (the “**Supervisory Committee**” or the “**Supervisors**”) of the Xinjiang Tianye Water Saving Irrigation System Company Limited (the “**Company**”), in compliance with the provisions of the Company Law of the People’s Republic of China (the “**PRC**”), the relevant laws and regulations of Hong Kong and the articles of association of the Company (the “**Articles of Association**”), has conducted its work adhering to the fiduciary principle, and has taken up an active role to work faithfully and diligently to safeguard the interests of the shareholders (the “**Shareholders**”) and the benefits of the staff of the Company.

In 2008, the Supervisors reviewed the operations of the Company and major issues, attended the meetings of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, provided reasonable recommendation and advice to the Board and effectively monitored the members of the Board and senior management of the Company in performing their duties.

The Supervisory Committee is of the view that:

1. the Company’s operation in the year 2008 complied with the relevant laws and regulations of the state and local governments of the PRC and the provisions of the Articles of Association;
2. the Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles of Association, and had not conducted any activities which were against the interests of the Company, and acted faithfully in exercising their authorities;
3. the connected transactions of the Company, which have fully complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;
4. The Supervisory Committee’s role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the financial statements and accounts of the Company. The Supervisory Committee believes that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly, and that no improper disclosures were identified; and
5. The Supervisory Committee has verified the financial information such as the financial statements and reports of results to be submitted to the forthcoming general meeting of shareholders by the Board, and is satisfied with the Report of the Directors and the audited financial statements. The Supervisory Committee believes that the audited financial statements for the year ended 31st December, 2008 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.



# Report of the Supervisory Committee

The Supervisory Committee is of the view that although the year 2008 financial result of the Group was adversely affected by the financial crisis, along with the recovery of the PRC economy and the expanded market demand for water saving irrigation equipment, the Supervisory Committee still remain optimistic about the development prospects of the Group and would like to extend its appreciation to all shareholders of the Company, the Directors and members of staff for their strong support to the Supervisory Committee's work.

By order of the Supervisory Committee

**Ni Mei Lan**

*Chairman*

Xinjiang, the PRC  
16th March, 2009

# Independent Auditor's Report



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

## **TO THE SHAREHOLDERS OF XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED**

*(incorporated in The People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Xinjiang Tianye Water Saving Irrigation System Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 84, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

#### **Ip Yu Chak**

*Practising Certificate Number: P04798*

Hong Kong

16th March, 2009

# Consolidated Income Statement

For the year ended 31st December, 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	7	664,248	616,172
Cost of sales		(611,519)	(496,881)
Gross profit		52,729	119,291
Other operating income		4,784	4,360
Distribution costs		(22,294)	(19,581)
Administrative expenses		(16,916)	(23,717)
Other operating expenses		(1,203)	(742)
Profit from operations		17,100	79,611
Finance costs	9	(10,568)	(6,518)
Profit before taxation	10	6,532	73,093
Taxation	12	(423)	(2,939)
Profit for the year		6,109	70,154
Profit attributable to:			
Equity holders of the Company		6,694	70,287
Minority interests		(585)	(133)
		6,109	70,154
Dividends	13	18,703	18,703
Earnings per share — basic	14	RMB1.2 cents	RMB13.5 cents

# Consolidated Balance Sheet

As at 31st December, 2008

	Notes	2008 RMB'000	2007 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	214,024	197,369
Prepaid lease payments	16	13,200	8,028
Deposit paid for acquisition of property, plant and equipment	17	5,900	—
Goodwill	18	98	98
		<b>233,222</b>	205,495
<b>Current assets</b>			
Inventories	19	400,038	426,775
Trade and other receivables	20	214,207	273,702
Bills receivable	21	7,340	4,350
Prepaid lease payments	16	316	179
Tax refundable		442	2,021
Bank balances and cash	22	147,822	91,394
		<b>770,165</b>	798,421
<b>Current liabilities</b>			
Trade and other payables	23	103,700	145,100
Bills payable	21	30,000	—
Short-term bank borrowings	24	189,000	165,000
		<b>322,700</b>	310,100
<b>Net current assets</b>		<b>447,465</b>	488,321
<b>Net assets</b>		<b>680,687</b>	693,816
<b>Capital and reserves</b>			
Share capital	27	519,522	519,522
Reserves	28	139,394	151,403
<b>Equity attributable to equity holders of the Company</b>		<b>658,916</b>	670,925
Minority interests		21,771	22,891
<b>Total equity</b>		<b>680,687</b>	693,816

The consolidated financial statements on pages 40 to 84 were approved and authorised for issue by the Board of Directors on 16th March, 2009 and are signed on its behalf by:

Mr. Guo Qing Ren  
Director

Mr. Shi Xiang Shen  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Share capital	Share premium	Statutory reserve fund	Accumulated profits	Attributable to equity holders of the Company	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1st January, 2008	519,522	10,296	21,875	119,232	670,925	22,891	693,816
Profit for the year and total recognised income for the year	—	—	—	6,694	6,694	(585)	6,109
Dividends paid to equity holders of the Company	—	—	—	(18,703)	(18,703)	—	(18,703)
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	(535)	(535)
Transfer	—	—	1,167	(1,167)	—	—	—
At 31st December, 2008	519,522	10,296	23,042	106,056	658,916	21,771	680,687

# Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	2008 RMB'000	2007 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	6,532	73,093
Adjustments for:		
Interest expenses	10,568	6,518
Amortisation of prepaid lease payments	179	179
Depreciation of property, plant and equipment	27,620	23,513
Listing expenses paid	—	3,031
Write-down for inventories	1,899	2,299
Government grants	—	(900)
Reversal of impairment for inventories	(1,695)	—
Gain arising from sale of equity investments	—	(750)
Impairment loss recognised on trade receivables	1,097	3,535
Waiver of long outstanding trade payables	(1,193)	—
Bank interest income	(1,506)	(935)
Operating cash flow before movements in working capital	43,501	109,583
Decrease (increase) in inventories	26,533	(161,351)
Decrease (increase) in trade and other receivables	58,398	(113,896)
(Increase) decrease in bills receivable	(2,990)	23,127
(Decrease) increase in trade and other payables	(40,207)	56,942
Increase in bills payable	30,000	—
Cash generated from (used in) operations	115,235	(85,595)
Tax refunded	3,000	3,111
Tax paid	(1,844)	(3,756)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>116,391</b>	<b>(86,240)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(45,164)	(66,374)
Increase in deposit paid for acquisition for property, plant and equipment	(5,900)	—
Additions of prepaid lease payments	(5,488)	—
Proceeds on disposal of property, plant and equipment	3,021	—
Interest received	1,506	935
Proceeds on disposal of equity investments	—	10,494
Purchases of equity investments	—	(9,744)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(52,025)</b>	<b>(64,689)</b>



# Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
Bank loans raised	264,000	165,000
Repayment of bank loans	(240,000)	(55,500)
Dividends paid to equity holders of the Company	(18,703)	(18,703)
Interest paid	(12,700)	(6,518)
Dividends paid to a minority shareholder of a subsidiary	(535)	(333)
Capital contributions from minority shareholders of subsidiaries	—	7,470
Listing expenses paid	—	(3,031)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<b>(7,938)</b>	88,385
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>56,428</b>	(62,544)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	<b>91,394</b>	153,938
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash	<b>147,822</b>	91,394

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 1. GENERAL

新疆天業節水灌溉股份有限公司 Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”) on 27th December, 1999. On 28th February, 2006, the Company’s H Shares were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and were withdrawn from the GEM on 23rd January, 2008. On 24th January, 2008, the Company’s H Shares are listed on the Main Board of the Stock Exchange.

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 holding company of the Company.

The Company and its subsidiaries are engaged in the design, manufacture, installation and sale of irrigation system and equipment. Details of its subsidiaries are set out in note 26.

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 to as the “Tianye Holdings Group”.

The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporation information” of the Company’s annual report.

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”)

In the current year, the Group has applied the following amendments and interpretations (“INTs”) (herein collectively referred to as “New HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective for the Group’s financial year beginning 1st January, 2008.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — INT 12	Service Concession Arrangements
HK(IFRIC) — INT 14	Hong Kong Accounting Standard (“HKAS”) 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective for the accounting period beginning on 1st January, 2008.

HKFRSs (Amendments)	Improvement to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
HKAS 39 (Amendments)	Eligible hedged item <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 7	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments <sup>2</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) — Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>
HK(IFRIC) — Int 17	Distribution of non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) — Int 18	Transfers of Assets from Customers <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2009.

<sup>4</sup> Effective for annual periods beginning on or after 1st July, 2008.

<sup>5</sup> Effective for annual periods beginning on or after 1st October, 2008.

<sup>6</sup> Effective for transfer of assets from customers received on or after 1st July 2009.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary. The directors of the Company has commenced considering the potential impact of other new or revised standards, amendments or interpretations, but is not yet in a position to determine whether these new or revised standards, amendments or interpretations would have a significant impact on how its results of operations and financial position are prepared and presented.

## 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 the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### 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 (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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Goodwill

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

Goodwill arising on the acquisition of a business 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 business recognised at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is 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 financial 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 first, 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 statement. An impairment loss recognised for goodwill is not reversed in subsequent consolidated periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivables and represents amounts receivable from goods sold and services provided 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.

Installation service income is recognised when services are provided.

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.

### 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. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight-line basis.

### 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 exchanges 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year 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 year 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 directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

### Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered services entitling them to contribution. 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.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 year. Taxable profit differs from profit as reported in the consolidated 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 tax 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 amounts of assets and liabilities in the consolidated 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 profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences 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.

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 which it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. 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.

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 year in which the item is derecognised.

### Prepaid lease payments

Prepaid lease payments, which represents up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight-line basis.

### 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of tangible assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as an income immediately.

### 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 consolidated balance sheet when a group entity becomes 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. The 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.

#### *Financial assets*

The Group's financial assets are classified as loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchase or sales are purchase or sales of financial that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below:

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date.

Impairment loss for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year, as well as observable changes in national or local economic conditions that correlate with default on receivables. The impairment loss 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credit to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *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 Group's financial liabilities are mainly other financial liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

#### *Other financial liabilities*

Other financial liabilities including trade and other payables, bills payable and short-term bank borrowings are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

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

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are recognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

### Impairment 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.

### Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

### 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 tax provisions in the year in which such determination is made.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 5. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	2008 RMB'000	2007 RMB'000
<b>Financial assets</b>		
Loans and receivable (including bank balances and cash)	340,302	329,505
<b>Financial liabilities</b>		
At amortised cost	302,924	271,743

### b. Financial risk management objectives and policies

The Group's principal financial instruments for the Group's operations comprise short-term bank borrowings and bank balances and cash. The Group has various other financial instruments such as trade and other receivables, bills receivable and trade and other payables and bills payable which arise directly from its operations.

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

#### Credit risk

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 31st December, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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.

As at 31st December, 2008, the Group has certain concentration of credit risk as 31% (2007: 33%) of the total trade and other receivables and bills receivable were due from the Group's largest customer.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, 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.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 5. FINANCIAL INSTRUMENTS (Continued)

### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of short-term bank borrowings. As at 31st December, 2007 and 2008, the other financial liabilities including trade and other payables, bills payable and short-term bank borrowings of the Group are all due for settlement contractually within one year.

### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings (see note 24 for details of these bank borrowings). The Group's exposure to interest rate risk is minimal as most of the bank borrowings are at fixed interest rate.

The Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank borrowings (see note 24 for details of these bank borrowings).

The Group currently does not have any interest rate hedging policy.

The Group's cash flow interest rate risk is mainly sensitive to the fluctuation of rate of the People's Bank of China arising from the Group's RMB borrowings.

### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rate of non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2008 would result in net changes by approximately RMB8,000. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

### Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cashflows. The management considers the Group is not exposed to significant foreign currency risk as majority of its operations and transactions are in the PRC with their functional currency of RMB.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the short-term bank borrowings as disclosed in note 24, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 27, reserves and accumulated profits as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new borrowings or repayment of existing borrowings. The Group's approach to capital management remains unchanged throughout both years. The Group has no covenant with banks for the banking facilities granted.

## 7. 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:

	2008 RMB'000	2007 RMB'000
Drip films and drip assemblies	442,218	401,514
PVC/PE pipelines	219,998	212,188
Provision of installation service	2,032	2,470
	<b>664,248</b>	616,172

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.

## 8. BUSINESS AND GEOGRAPHICAL SEGMENT

During the year, the sole principal activity of the Group was the design, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interests paid on bank borrowings wholly repayable within one year	12,700	6,518
Less: Amount capitalised in construction in progress	(2,132)	—
	<b>10,568</b>	6,518

Borrowing costs capitalised during the year arose on a bank loan and are calculated at the interest rate of 7.47% (2007: Nil) per annum to expenditure on qualifying assets.

## 10. PROFIT BEFORE TAXATION

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' and supervisors' emoluments		
— salaries and allowances	28,448	30,228
— retirement benefit scheme contributions	3,478	2,738
Total staff costs	<b>31,926</b>	32,966
Auditor's remuneration	650	880
Amortisation of prepaid lease payments	179	179
Depreciation of property, plant and equipment	27,620	23,513
Write-down for inventories (included in cost of sales)	1,899	2,299
Impairment loss recognised on trade receivables	1,097	3,535
Listing expenses	—	3,031
Research and development expenditure	112	—
and after crediting:		
Bank interest income	1,506	935
Waiver of long outstanding trade payables	1,193	—
Reversal of impairment for inventories	1,695	—
Gain arising from sale of equity investments	—	750
Government grants	—	900

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

### (a) Emoluments of directors and supervisors

	2008 RMB'000	2007 RMB'000
Directors and supervisors		
– fee	144	103
– salaries and other benefits	529	510
– retirement benefit scheme contributions	223	44
<b>Total emoluments</b>	<b>896</b>	<b>657</b>

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

	2008 RMB'000	2007 RMB'000
<b>Name of executive directors:</b>		
Mr. Guo Qing Ren (Note 1)	–	–
Mr. Shi Xiang Shen (Note 2)	100	100
Mr. Huang Yao Xin (Note 3) (resigned on 10th May, 2007)	–	42
Mr. Li Shuang Quan (Note 4)	272	144
Mr. Zhu Jia Ji (Note 5) (appointed on 10th May, 2007)	243	118
<b>Total emoluments</b>	<b>615</b>	<b>404</b>
<b>Name of independent non-executive directors:</b>		
Mr. He Lin Wang (Note 6)	30	30
Mr. Xia Jun Min (Note 6)	30	30
Mr. Gu Lie Feng (Note 6)	30	30
Mr. Mak King Sau (Note 6) (appointed on 15th October, 2007)	54	13
<b>Total emoluments</b>	<b>144</b>	<b>103</b>
<b>Name of supervisors:</b>		
Mr. Xia Yue Xing (Note 3) (resigned on 10th May, 2007)	–	28
Mr. He Jie (Note 7)	30	30
Mr. Huang Jun Lin (Note 7)	30	30
Ms. Ni Mei Lam (Note 8) (appointed on 10th May, 2007)	77	62
<b>Total emoluments</b>	<b>137</b>	<b>150</b>
<b>Total</b>	<b>896</b>	<b>657</b>

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

### (a) Emoluments of directors and supervisors (Continued)

Notes:

1. The salary and retirement benefit of Mr. Guo Qing Ren were paid by Tianye Company. The Group was 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 for the year ended 31st December, 2007 included retirement benefit scheme contribution amounted to approximately RMB8,000.
4. The amount include retirement benefit scheme contributions for the year ended 31st December, 2008 amounted to approximately RMB67,000 (2007: RMB11,000).
5. The amount include retirement benefit for the year ended 31st December, 2008 amounted to approximately RMB67,000 (2007: RMB9,000).
6. The independent non-executive directors entitle their respective retirement benefits from the respective organisations or companies which they are serving. Therefore, they do not entitle any retirement benefits of the Group.
7. Mr. He Jie and Mr. Huang Jun Lin are the independent supervisors of the Group and they received retirement benefits from their respective organisation or companies which they are serving. Therefore, they do not entitle any retirement benefit of the Group.
8. The amount include retirement benefit scheme contributions for the years ended 31st December, 2008 amounted to approximately RMB8,000 (2006: Nil).

None of the directors or supervisors waived any emoluments during both years.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES (Continued)

### (b) Employee's emoluments

Of the five individuals with the highest emoluments in the Group, there are three directors and one supervisor for the year ended 31st December, 2007 and 2008 whose emoluments are included in Note 11(a). The emoluments of the remaining one (2007: one) individual were as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	539	600
Retirement benefit scheme contributions	11	12
	<b>550</b>	612

The emolument of the individual was within the following band:

	2008 RMB'000	2007 RMB'000
Nil to RMB882,000 (equivalent to Nil to HK\$1,000,000)	1	1

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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 12. TAXATION

During each of the two years ended 31st December, 2008, 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 [2001] No. 202 (“Notice No. 202”) (財稅[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	2008	2007
The Company	(i)	<b>Exempted</b>	Exempted
石河子天業物資回收有限責任公司 (“Tianye Recycling”)		<b>25%</b>	33%
甘肅省張掖市天業節水器材有限公司 (“Gansu Tianye”)	(ii)	<b>15%</b>	Exempted
石河子開發區天業節水工程安裝有限責任公司 (“Tianye Installation”)		<b>25%</b>	33%
新疆阿拉爾天農節水灌溉有限責任公司 (“Alaer Tiannong”)	(iii)	<b>15%</b>	15%
哈密天業紅星節水灌溉有限責任公司 (“Hami Tianye”)	(iv)	<b>15%</b>	15%
肇慶天業塑膠製品有限公司 (“Zhaoqing Tianye”)		<b>25%</b>	33%
奎屯天屯節水有限責任公司 (“Kuitun Tiantun”)		<b>25%</b>	33%
哈密惠民回收有限責任公司 (“Hami Huimin”)		<b>25%</b>	33%
新疆天瑞節水器材有限公司 (“Tianrui”)		<b>25%</b>	33%
北京天業潤華節水灌溉技術有限公司 (“Beijing Tianye”)		<b>25%</b>	33%
阿克蘇天業節水有限公司 (“Akesu Tianye”)		<b>25%</b>	N/A



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 12. TAXATION (Continued)

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 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 ended 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 tax rate of 15% from January 2007 to March 2007 and exempted from EIT during the period from April 2007 to December 2007;

Pursuant to “Approval Notice of the State Council Concerning the Implementation of Transitional Preferential policies for the Enterprise Income Tax”, Gan Qu Kuo Shui Fi Zi [2007] No. 039 (國發[2007]39號)《國務院關於實施企業所得稅過渡優惠政策的通知》, Gansu Tianye should be qualified as the Foreign Investment Enterprise with a reduced EIT tax rate at 15% on the basis that it generates income from encouraged project in accordance with Notice 202.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 12. TAXATION (Continued)

Notes: (Continued)

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

Pursuant to “Approval Application Document [2008] No. 76 issued by the State Administration of Taxation of the Alaer Region (阿拉爾國稅務辦[2008]76號批文) issued on 9th May, 2008. Alaer Tiannong was granted a reduced EIT tax rate of 15% from 1st January, 2008 to 31st December, 2010.

- (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.

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 [2007] No. 527 (哈國稅辦[2007]527號《哈密地區國家稅務局關於減征哈密天業紅星節水灌溉有限責任公司減征企業所得稅的批覆》) issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局) on 14th December, 2007, Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1st January, 2008 to 31st December, 2010.

The EIT for the two years ended 31st December, 2008 is calculated at the EIT rates applicable to each of the entities comprising the Group as shown above.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 issued by the Tenth National People’s Congress. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate for the current period. The New Law provided a five-year transition period from 1st January, 2008 for those subsidiaries which were established before the promulgation date of the New Law and which are entitled to a preferential lower tax rate under the effective tax laws or regulations and hence the 25% tax rate will only be applicable to certain subsidiaries after the expiry of tax holidays and concessions.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 12. TAXATION (Continued)

	2008 RMB'000	2007 RMB'000
Tax charge comprises:		
Charge for the year	289	1,327
Under-provision of tax in previous years	134	1,612
	<b>423</b>	2,939

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 RMB'000	2007 RMB'000
Profit before taxation	6,532	73,093
Tax at the statutory EIT rate of 25% (2007: 33%)	1,633	24,120
Tax effect on income not taxable for tax purposes	(422)	(323)
Tax effect on expenses not deductible for tax purposes	209	1,118
Reduction of income tax in respect of the tax benefit on locally purchased machinery (Note)	—	(1,043)
Tax effect on tax losses not recognised	1,747	—
Effect of tax exemption and reduction granted to the Group	(2,878)	(22,545)
Under-provision of tax in previous years	134	1,612
Tax charge for the year	<b>423</b>	2,939

Note: The amount for the year ended 31st December, 2007 represented an additional deduction when calculating the income tax provision for machinery purchased locally in accordance with the relevant PRC tax regulations and approval of the local tax authority.

At the balance sheet date, the Group had unrecognised tax losses of approximately RMB6,988,000 (2007: Nil) available to offset against future profit. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams. Such unrecognised tax losses will be carried forward for five years from respective dates of origination.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 13. DIVIDENDS

A final dividend for the two years ended 31st December, 2007 of RMB0.036 per share, amounting to RMB18,702,776 in each year in aggregate, has been declared and paid to the shareholders of the Company during the two years ended 31st December, 2008 respectively.

No dividend was proposed by the Directors of the Company in respect of the year ended 31st December, 2008, nor has any dividend been proposed since the balance sheet date.

## 14. 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 RMB6,694,000 (2007: RMB70,287,000) and on the weighted average number of 519,521,560 (2007: 519,521,560) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there was no dilutive events existed during both the two years ended 31st December, 2008.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Construction in progress</b>	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>COST</b>						
At 1st January, 2007	13,094	18,663	214,431	2,707	1,529	250,424
Additions	62,496	450	2,665	165	598	66,374
Transfer	(5,346)	606	4,740	—	—	—
At 31st December, 2007 and 1st January, 2008	70,244	19,719	221,836	2,872	2,127	316,798
Additions	38,051	16	6,672	402	2,155	47,296
Disposals	—	(11)	(6,774)	—	(4)	(6,789)
Transfer	(40,634)	8,996	30,327	—	1,311	—
At 31st December, 2008	67,661	28,720	252,061	3,274	5,589	357,305
<b>ACCUMULATED DEPRECIATION</b>						
At 1st January, 2007	—	2,796	91,105	1,723	292	95,916
Provided for the year	—	783	22,213	385	132	23,513
At 31st December, 2007 and 1st January, 2008	—	3,579	113,318	2,108	424	119,429
Provided for the year	—	853	26,347	146	274	27,620
Elimination on disposal for the year	—	(2)	(3,766)	—	—	(3,768)
At 31st December, 2008	—	4,430	135,899	2,254	698	143,281
<b>NET CARRYING VALUE</b>						
At 31st December, 2008	67,661	24,290	116,162	1,020	4,891	214,024
At 31st December, 2007	70,244	16,140	108,518	764	1,703	197,369

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following annual rates are used for the depreciation of property, plant and equipment on a straight line basis 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 31st December, 2008, an interest expense of approximately RMB2,132,000 (2007: Nil) was capitalised in construction in progress.

At 31st December, 2007, buildings, plant and machinery of the Group with an aggregate net carrying value of approximately RMB65,055,000 were pledged to secure bank borrowings of approximately RMB30,000,000 granted to the Group. The pledged assets has been released due to the repayment of bank borrowings during the year ended 31st December, 2008, details of which are set out in note 24.

## 16. PREPAID LEASE PAYMENTS

	RMB'000
<b>COST</b>	
At 1st January, 2007, 31st December, 2007 and 1st January, 2008	8,452
Additions	5,488
At 31st December, 2008	13,940
<b>ACCUMULATED AMORTISATION</b>	
At 1st January, 2007	66
Provided for the year	179
At 31st December, 2007 and 1st January, 2008	245
Provided for the year	179
At 31st December, 2008	424
<b>NET CARRYING AMOUNT</b>	
At 31st December, 2008	13,516
At 31st December, 2007	8,207

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 16. PREPAID LEASE PAYMENTS (CONTINUED)

The Group's prepaid lease payment comprise of medium-term land use rights in the PRC and are amortised over the terms of the respective land use rights on a straight-line basis.

Analysed for reporting purposes as:

	2008 RMB'000	2007 RMB'000
Current assets	316	179
Non-current assets	13,200	8,028
	<b>13,516</b>	8,207

At 31st December, 2008, legal title to land use rights with carrying amounts of RMB5,488,000 (2007:Nil) has not been granted by the relevant government authorities. The Group is in the process to obtain the land use rights certificate and in the opinion of the directors of the company, the formal title to these land use rights will be granted to the Group in due course.

## 17. DEPOSIT PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposit was paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities and machineries that are under construction.

## 18. GOODWILL

	RMB'000
COST	
At 1st January, 2007, 31st December 2007 and 31st December, 2008	98

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 19. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	222,503	223,266
Finished goods	177,535	203,509
	<b>400,038</b>	426,775

At 31st December, 2008, the Group did not have finished goods that were carried at net realisable value (2007: RMB3,342,000).

During the year, certain impaired inventories were sold at gross profit. As a result, a reversal of write-down of inventories of approximately HK\$1,695,000 (2007: Nil) has been recognised and included in consolidated income statement for the year ended 31st December, 2008.

## 20. 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:

	2008 RMB'000	2007 RMB'000
Aged:		
Within 1 year	148,842	194,244
1–1.5 years	11,128	7,453
Trade receivables	159,970	201,697
Other receivables and prepayments	25,170	32,064
Prepayments to suppliers	29,067	39,941
	<b>214,207</b>	273,702



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 20. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the impairment for trade receivables:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	9,950	6,415
Amounts written off as uncollectible	(2,933)	—
Impairment loss recognised on trade receivables	1,097	3,535
Balance at end of the year	8,114	9,950

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB11,128,000 (2007: RMB7,453,000) which are past due at the respective 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 related 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 as they 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 Holdings Group in November 2004, prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of approximately RMB5,064,000 (2007: RMB667,000), 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 due to their short-term of maturities.

## 21. BILLS RECEIVABLE AND PAYABLE

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 22. BANK BALANCES AND CASH

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

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

## 23. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2008 RMB'000	2007 RMB'000
Aged:		
0–180 days	59,742	87,635
181–365 days	5,821	2,831
1–2 years	511	427
Over 2 years	2,137	3,846
	68,211	94,739
Other payables and accruals	15,713	12,004
Deposits and prepayments received from customers	19,776	38,357
	103,700	145,100

As at 31st December, 2008, deposits and prepayments received from customers of the Group include deposits and prepayments from Tianye Holdings Group of approximately RMB597,000 (2007: RMB105,000). All of these balances aged within one year from the respective balance sheet dates.

As at 31st December, 2008, other payables and accruals of the Group include a rental payable to Tianye Company of approximately RMB728,000 (2007: Nil).

The Directors of the Company consider that the carrying amounts of trade and other payables approximate their fair values due to their short-term of maturities.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 24. SHORT-TERM BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank borrowings are analysed as follows:		
Secured	—	30,000
Unsecured	189,000	135,000
	<b>189,000</b>	165,000

At 31st December, 2008 and 2007, certain bank borrowings of the Group were guaranteed by Tianye Holdings Group, details of which are set out in note 32(b).

The Group's bank borrowings of RMB139,000,000 as at 31st December, 2008 are at fixed interest rates ranging from 5.31% to 7.47% per annum during the year.

The Group's bank borrowing of RMB50,000,000 as at 31st December, 2008 carries interest at the rate of the People's Bank of China minus 5% per annum during the year.

All unsecured bank loans of RMB135,000,000 as at 31st December, 2007 were at fixed interest rates ranging from 6.12% to 7.655% per annum during the year.

The Group's bank loan of RMB30,000,000 as at 31st December, 2007 was at fixed interest rate at 6.12% per annum during the year and secured by charged over the buildings, plant and machinery of the Company with an aggregate net carrying value of approximately RMB65,055,000 as at 31st December, 2007.

The above bank borrowings are all contracted for a term of one year and denominated in RMB. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 25. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date is as follows:

	2008 RMB'000	2007 RMB'000
Non-current assets		
Property, plant and equipment	162,229	152,975
Prepaid lease payments	7,222	7,377
Deposit paid for acquisition of property, plant and equipment	5,900	—
Investments in subsidiaries (Note 26)	105,795	65,795
	<b>281,146</b>	226,147
Current assets		
Inventories	316,924	372,843
Trade and other receivables	181,003	241,816
Bills receivable	7,340	4,300
Prepaid lease payments	155	155
Amounts due from subsidiaries	55,562	46,817
Tax refundable	—	2,021
Bank balances and cash	109,946	50,447
	<b>670,930</b>	718,399
Current liabilities		
Trade and other payables	61,842	117,948
Bills payable	30,000	—
Amounts due to subsidiaries	33,504	2,977
Short-term bank borrowings	175,000	165,000
	<b>300,346</b>	285,925
Net current assets	<b>370,584</b>	432,474
Net assets	<b>651,730</b>	658,621
Capital and reserves		
Share capital	519,522	519,522
Reserves	132,208	139,099
Total equity	<b>651,730</b>	658,621

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 26. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Unlisted investments, at cost	<b>105,795</b>	65,795

At 31st December, 2008, the Company has the following subsidiaries:

<b>Name of subsidiary</b>	<b>Date and place of establishment/ operation</b>	<b>Corporate nature</b>	<b>Registered and paid up capital</b>	<b>Equity interest</b>	<b>Principal activities</b>
<b>Directly held by the Company</b>					
Tianye Recycling	25th December, 2002 The PRC	Limited liability company	RMB2,500,000	98%	Recycling of used materials
Gansu Tianye	4th April, 2002 The PRC	Limited liability company	RMB11,050,000	90%	Trading of PVC pipes
Tianye Installation	22th December, 2003 The PRC	Limited liability company	RMB10,000,000	95%	Installation of irrigation system
Alaer Tiannong	6th August, 2002 The PRC	Limited liability company	RMB10,000,000	51%	Manufacture and sale of irrigation system and equipment
Hami Tianye	15th October, 2003 The PRC	Limited liability company	RMB19,000,000	60%	Manufacture and sale of irrigation system and equipment
Zhaoqing Tianye	5th September, 2006 The PRC	Limited liability company	RMB3,000,000	80%	Recycling of used materials
Kuitun Tiantun	4th September, 2006 The PRC	Limited liability company	RMB12,000,000	80%	Manufacture and sale of irrigation system and equipment
Tianrui (note (i))	6th August, 2007 The PRC	Limited liability company	RMB20,000,000	70%	Manufacture and sale of irrigation system and equipment

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 26. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Date and place of establishment/ operation	Corporate nature	Registered and paid up capital	Equity interest	Principal activities
<b>Directly held by the Company (Continued)</b>					
Beijing Tianye (note (ii))	13th September, 2007 The PRC	Limited liability company	RMB3,000,000	51%	Trading of drip films
Akesu Tianye (note (iv))	15th August, 2008 The PRC	Limited liability company	RMB40,000,000	100%	Not yet commenced business
<b>Indirectly held by the Company</b>					
Hami Huimin (note (iii))	20th March, 2007 The PRC	Limited liability company	RMB500,000	100%	Recycling of used materials

Notes:

- (i) Tianrui was established under the laws of the PRC with limited liability on 6th August, 2007 with an operating period of 20 years. The registered capital of Tianrui was RMB20,000,000 which is owned as to 70% by the Company and 30% by Xinjiang Corps No. 13 Agricultural Division Assets Operation Company. Pursuant to the verification report issued by 新疆阿勒泰金城有限責任會計師事務所 dated 31st July, 2007, the registered capital has been fully paid up as to RMB14,000,000 by the Company and RMB6,000,000 by Xinjiang Corps No. 13 Agricultural Division Assets Operation Company, respectively in July 2007.
- (ii) Beijing Tianye was established under the laws of the PRC with limited liability on 13th September, 2007 with an operating period of 20 years. The registered capital of Beijing Tianye was RMB3,000,000 which is owned as to 51% by the Company and 49% by Runhua Rural Water Resources Industrial Development Corporation. Pursuant to the verification report issued by 北京華泰會計師事務所有限公司 dated 2nd April, 2007, the registered capital has been fully paid up as to RMB1,530,000 by the Company and RMB1,470,000 by Runhua Rural Water Resources Industrial Development Corporation, respectively in March 2007.
- (iii) Hami Huimin was established under the laws of the PRC with limited liability on 20th March, 2007 with an operating period of 10 years. The initial registered capital of Hami Huimin was RMB100,000 and wholly owned by Hami Tianye. Pursuant to a verification report dated 6th March, 2007, the initial registered capital of RMB100,000 has been fully paid up by Hami Tianye as of 6th March, 2007. On 19th June, 2007, Hami Tianye increased the amount of the registered capital of Hami Huimin to RMB500,000. Pursuant to the capital verification report issued by Hami branch of Xinjiang Ruixxin Limited Liability Certified Public Accountants (新疆瑞新有限責任會計師事務所哈密分所) dated 19th June, 2007, the said increased amount of the registered capital of Hami Huimin was fully paid up by Hami Tianye as of 19th June, 2007.
- (iv) Akesu Tianye was established under the laws of the PRC with limited liability on 15th August, 2008 with an operating period of 20 years. The registered capital was RMB40,000,000 and is a wholly owned subsidiary of the Company. Pursuant to the capital verification report issued by 新疆華瑞有限責任會計師事務所 dated 22nd August, 2008, the total registered capital of RMB40,000,000 was fully paid by Akesu Tianye as of 22nd August, 2008.

None of the subsidiaries had issued any debt securities at 31st December, 2007 and 2008.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 27. SHARE CAPITAL

	No. of shares	Amount
Registered shares of RMB1.00 each	('000)	RMB'000
<b>Registered, issued and fully paid:</b>		
At 1st January, 2007, 31st December, 2007 and 31st December, 2008		
— Domestic Shares	317,122	317,122
— H Shares	202,400	202,400
	519,522	519,522

## 28. RESERVES

- (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 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:

- set-off against prior years' losses;
- transfer to statutory reserve fund; and
- distribution of dividends.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 29. CAPITAL COMMITMENTS

	2008 RMB'000	2007 RMB'000
Capital expenditure of the Group in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>7,615</b>	11,176

## 30. 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 Company's subsidiaries in the PRC are members of state-managed retirement benefit schemes (the "Schemes") operated by the PRC government. During the year ended 31st December, 2008, the Group is required to contribute 20% (2007: 23%) 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.

## 31. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases during the year:

	2008 RMB'000	2007 RMB'000
Plant and machinery	—	280
Premises	<b>2,032</b>	1,745
	<b>2,032</b>	2,025



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 31. OPERATING LEASE ARRANGEMENTS (Continued)

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

	2008 RMB'000	2007 RMB'000
Within one year	1,764	1,307
In second to fifth year inclusive	2,506	911
	<b>4,270</b>	2,218

Operating lease payments represent rentals payable by the Group 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.

## 32. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had entered into the following significant transactions with Tianye Holdings Group 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:

Nature of transactions/business	Notes	2008 RMB'000	2007 RMB'000
Sales of finished goods	(i)	5,369	14,050
Purchase of raw materials	(i)	56,688	58,148
Sales of property, plant and equipment	(i)	1,206	—
Purchases of property, plant and equipment	(i)	9,488	2,510
Rentals of plant and machinery	(ii)	—	280
Rentals of premises	(iii)	1,464	1,464
Sharing of expenses	(iv)	2,126	—

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 assets and the percentage mark up ranging from 41% to 49%.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 32. RELATED PARTY TRANSACTIONS (Continued)

### (a) (Continued)

- (iii) Pursuant to an agreement entered into by the Company and Tianye Company in 2002 which expires on 31st 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 agreement was terminated effective from 1st January, 2006 and replaced by a new rental agreement for use of certain buildings and the land for a period up to 30th June, 2008. The rental agreement was further extended on 1st July, 2008 to a period up to 30th June, 2011.
- (iv) Pursuant to a sharing agreement entered into by the Company and Tianye Company during the year, Tianye Company is obliged to pay certain administration expenses based on a cost basis for the year ended 31st December, 2008.
- (v) A trademark licence agreement dated 1st 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 1st June, 2003 to 1st June, 2006 at nil consideration. On 25th May, 2006, the trademark licence agreement has been renewed for a period from 1st June, 2006 to 13th February, 2011 at nil consideration.

### (b) Corporate guarantees

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

	2008 RMB'000	2007 RMB'000
To the extent to:	<u>175,000</u>	<u>65,000</u>

All guarantees as at 31st December, 2008 provided by Tianye Holdings Group will be released on or before 22nd December, 2009.

- (c) Details of the balances with related parties are set out on the consolidated balance sheet and notes 20 and 23 respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 32. RELATED PARTY TRANSACTIONS (Continued)

### (d) Compensation to key management personnel

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

	2008 RMB'000	2007 RMB'000
Short term benefit	1,278	1,213
Post-employment benefits	236	56
Total	1,514	1,269

Details of the remuneration paid to the directors and supervisors are set out in note 11. The remuneration to the key management personnel is determined by the remuneration committee having the regard to the performance of individuals and market trends.

## 33. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC

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 32 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

	2008 RMB'000	2007 RMB'000
Nature of transactions		
Sales of goods	385,642	466,422
Purchase of raw material	177,460	209,664
Interest expenses	12,633	6,409

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2008

## 33. MATERIAL TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTERPRISES IN THE PRC (Continued)

### (b) Material balances

	2008	2007
	RMB'000	RMB'000
Bank balances	139,755	89,231
Trade and other receivables	109,870	12,784
Trade and other payables	4,352	17,559
Bank borrowings	189,000	165,000

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.

## 34. GOVERNMENT GRANTS

During the year ended 31st December, 2003, the Group received government grants of RMB900,000 which were designated for the development of two specific water efficient irrigation system projects. All conditions in respect of such government grants had been fulfilled and such government grants were recognised as income during the year ended 31st December, 2007 accordingly.

During the year ended 31st December, 2008, the Group did not receive any government grants.

## 35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

## Five Years Financial Summary

The table below summarises the audited results, assets and liabilities of the Group for the year ended 31st December, 2008, 2007, 2006, 2005 and 2004. Such information is compiled based on the Hong Kong Financial Reporting Standards.

### RESULTS

	<b>2008</b>	2007	2006	2005	2004
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<b>664,248</b>	616,172	461,809	376,251	389,183
Profit Attributable to Shareholders of the Company	<b>6,694</b>	70,287	62,497	52,658	42,432

### ASSETS AND LIABILITIES

	<b>2008</b>	2007	2006	2005	2004
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	<b>1,003,387</b>	1,003,916	779,786	541,743	557,074
Total Liabilities	<b>322,700</b>	310,100	144,558	150,718	183,528
Minority Interests	<b>(21,771)</b>	(22,891)	(15,887)	(12,017)	(12,313)
Equity Attributable to Equity holders of the Company	<b>658,916</b>	670,925	619,341	379,008	361,233

## Property Interests Held by The Group in the PRC

<b>Commercial Property</b>	<b>Lease term</b>	<b>Percentage of interests attributable to the Group</b>	<b>Floor Area (sq.m.)</b>
1. A parcel of land and various buildings erected thereon, West of Qing Song Nan Road and North of Sheng Li Boulevard, Alaer Shi, Xinjiang Uygur Autonomous Region, the PRC	Long	51%	3,207.54
2. A parcel of land and various buildings and structures erected thereon, No. 1 Hong Guang Road, Hami Shi, Xinjiang Uygur Autonomous Region, the PRC	Medium	60%	4,600.86
3. A parcel of land and various buildings and structures erected thereon, District No. 81, Shihezi Economic and Technological Development Zone, Xinjiang Uygur Autonomous Region, the PRC	Long	100%	4,491.8