



新疆天业节水灌溉股份有限公司  
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\*

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

(Stock Code: 840)

INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

**SUMMARY**

- Revenue for the six months ended 30th June, 2011 was approximately RMB439,761,000, an increase of approximately 59.31% from RMB276,046,000 for the corresponding period in the previous year.
- Profit for the six months ended 30th June, 2011 was approximately RMB15,900,000, an increase of approximately 476.71% from the corresponding period in the previous year, the profit attributable to owners of the Company was approximately RMB16,439,000, an increase of approximately 398.15% from the corresponding period in the previous year.
- Basic earnings per share for the six months ended 30th June, 2011 was approximately RMB0.032 (for the corresponding period in 2010: approximately RMB0.006).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2011.

\* For identification purpose only

## FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

The board of directors (the “Board”) of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2011, together with the comparative figures for the corresponding period in 2010. These unaudited interim financial statements have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|   | Notes | For the six months ended<br>30th June, |                                |
|---|-------|--|--------------------------------|
|   |       | 2011<br>RMB'000<br>(unaudited)         | 2010<br>RMB'000<br>(unaudited) |
| Revenue   | 3     | 439,761                                | 276,046                        |
| Cost of sales   |       | <u>(393,845)</u>                       | <u>(252,980)</u>               |
| Gross profit  |       | 45,916                                 | 23,066                         |
| Other income  |       | 302                                    | 1,061                          |
| Distribution costs                                      |       | (15,344)                               | (10,351)                       |
| Administrative expenses                                 |       | (9,853)                                | (6,834)                        |
| Other expenses  |       | —                                      | (223)                          |
| Finance costs   |       | <u>(2,216)</u>                         | <u>(2,309)</u>                 |
| Profit before taxation                                  | 5     | 18,805                                 | 4,410                          |
| Income tax expenses                                     | 6     | <u>(2,905)</u>                         | <u>(1,653)</u>                 |
| PROFIT AND TOTAL COMPREHENSIVE<br>INCOME FOR THE PERIOD |       | <u>15,900</u>                          | <u>2,757</u>                   |
| Total comprehensive income/(loss)<br>attributable to:   |       |  |                                |
| Owners of the Company                                   |       | 16,439                                 | 3,300                          |
| Non-controlling interests                               |       | <u>(539)</u>                           | <u>(543)</u>                   |
|   |       | <u>15,900</u>                          | <u>2,757</u>                   |
| Dividends   | 7     | <u>—</u>                               | <u>—</u>                       |
| Earnings per share — basic                              | 8     | <u>RMB0.032</u>                        | <u>RMB0.006</u>                |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |    | As at<br><b>30th June,<br/>2011</b><br><i>RMB'000</i><br><b>(unaudited)</b> | As at<br>31st December,<br>2010<br><i>RMB'000</i><br>(audited) |
|--|----|---|--|
| Non-current assets   |    |   |  |
| Property, plant and equipment                                    | 9  | 205,054   | 216,133  |
| Prepaid lease payments   |    | 13,197  | 13,346   |
| Deposit paid for acquisition of property,<br>plant and equipment |    | 1,900   | —  |
| Goodwill   |    | 98  | 98   |
|  |    | <b>220,249</b>  | 229,577  |
| Current assets   |    |   |  |
| Inventories  |    | 542,964   | 468,635  |
| Trade and bills receivables                                      | 10 | 60,447  | 102,575  |
| Prepayments, deposits and other receivables                      | 11 | 100,665   | 95,581   |
| Bank balances and cash   |    | 131,682   | 125,801  |
|  |    | <b>835,758</b>  | 792,592  |
| Current liabilities  |    |   |  |
| Trade payables   | 12 | 94,308  | 93,763   |
| Accruals and other payables                                      | 13 | 166,473   | 140,405  |
| Tax payables   |    | 1,198   | 5,895  |
| Short-term bank borrowings                                       |    | 80,000  | 80,000   |
| Derivative financial liabilities                                 |    | —   | 2,124  |
|  |    | <b>341,979</b>  | 322,187  |
| Net current assets   |    | <b>493,779</b>  | 470,405  |
| Total assets less current liabilities                            |    | <b>714,028</b>  | 699,982  |
| Capital and reserves   |    |   |  |
| Share capital  |    | 519,522   | 519,522  |
| Reserves   |    | 179,600   | 163,161  |
| Equity attributable to owners of the Company                     |    | <b>699,122</b>  | 682,683  |
| Non-controlling interests  |    | 14,906  | 17,299   |
|  |    | <b>714,028</b>  | 699,982  |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June, 2011*

|   | Share<br>capital | Share<br>premium | Statutory<br>reserve fund | Other<br>reserve | Retained<br>earnings | Attributable<br>to owners<br>of the<br>Company | Non-<br>controlling<br>interests | Total<br>equity |
|---|------------------|------------------|---------------------------|------------------|----------------------|--|----------------------------------|-----------------|
|   | <i>RMB'000</i>   | <i>RMB'000</i>   | <i>RMB'000</i>            | <i>RMB'000</i>   | <i>RMB'000</i>       | <i>RMB'000</i>                                 | <i>RMB'000</i>                   | <i>RMB'000</i>  |
|   | (unaudited)      | (unaudited)      | (unaudited)               | (unaudited)      | (unaudited)          | (unaudited)                                    | (unaudited)                      | (unaudited)     |
| At 1st January, 2010                                  | 519,522          | 10,296           | 24,294                    | 137              | 111,283              | 665,532  | 18,532                           | 684,064         |
| Total comprehensive income/(loss)<br>for the period   | —                | —                | —                         | —                | 3,300                | 3,300  | (543)                            | 2,757           |
| At 30th June, 2010                                    | <u>519,522</u>   | <u>10,296</u>    | <u>24,294</u>             | <u>137</u>       | <u>114,583</u>       | <u>668,832</u>                                 | <u>17,989</u>                    | <u>686,821</u>  |
| At 1st January, 2011                                  | 519,522          | 10,296           | 26,530                    | 137              | 126,198              | 682,683  | 17,299                           | 699,982         |
| Total comprehensive income/(loss) for<br>the period   | —                | —                | —                         | —                | 16,439               | 16,439   | (539)                            | 15,900          |
| Acquisition of additional interest in a<br>subsidiary | —                | —                | —                         | —                | —                    | —  | (1,854)                          | (1,854)         |
| At 30th June, 2011                                    | <u>519,522</u>   | <u>10,296</u>    | <u>26,530</u>             | <u>137</u>       | <u>142,637</u>       | <u>699,122</u>                                 | <u>14,906</u>                    | <u>714,028</u>  |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2011

|   | 2011<br><i>RMB'000</i><br><b>(unaudited)</b> | 2010<br><i>RMB'000</i><br>(unaudited) |
|---|--|---------------------------------------|
| Net cash from operating activities        | <b>15,313</b>                                | 122,613                               |
| Net cash used in investing activities     | <b>(7,216)</b>                               | (3,086)                               |
| Net cash used in financing activities     | <b>(2,216)</b>                               | (92,309)                              |
|   | <hr/>  | <hr/>                                 |
| Net increase in cash and cash equivalents | <b>5,881</b>                                 | 27,218                                |
| Cash and cash equivalents at 1st January  | <b>125,801</b>                               | 43,894                                |
|   | <hr/>  | <hr/>                                 |
| Cash and cash equivalents at 30th June    | <b>131,682</b>                               | 71,112                                |
|   | <hr/> <hr/>                                  | <hr/> <hr/>                           |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2011*

## 1. GENERAL

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 People's Republic of China (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 liability company established in the PRC, is the holding company of Tianye Company and 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.

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

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

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosures required by the Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standards ("HKASs") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are initially measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements were in consistent with those applied to the annual financial statements of the Group for the year ended 31st December, 2010.

During the period, the Group has applied, for the first time, a number of new or revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations ("INTs") (hereinafter collectively referred to as "New HKFRSs") issued by the HKICPA, which are effective for the Group's accounting periods beginning on 1st January, 2011. 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.

### 3. REVENUE

Revenue 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 period, and is analysed as follows:

|                                | For the six months ended<br>30th June, |                |
|--------------------------------|--|----------------|
|                                | 2011                                   | 2010           |
|                                | RMB'000                                | RMB'000        |
| Drip films and drip assemblies | 282,480                                | 189,801        |
| PVC/PE pipelines               | 157,281                                | 86,245         |
|                                | <u>439,761</u>                         | <u>276,046</u> |

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

### 4. BUSINESS AND GEOGRAPHICAL SEGMENT

During the period, 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.

### 5. PROFIT BEFORE TAXATION

|  | For the six months ended<br>30th June, |         |
|--|--|---------|
|  | 2011                                   | 2010    |
|  | RMB'000                                | RMB'000 |
| Profit before taxation has been arrived at after charging: |  |         |
| Finance costs  |  |         |
| Interest on bank loans wholly repayable within five years  | 2,216                                  | 2,309   |
| Depreciation   | 12,240                                 | 12,753  |
| and after crediting:                                       |  |         |
| Bank interest income                                       | 272                                    | 105     |

### 6. INCOME TAX EXPENSES

|            | For the six months ended<br>30th June, |         |
|------------|--|---------|
|            | 2011                                   | 2010    |
|            | RMB'000                                | RMB'000 |
| Income tax | 2,905                                  | 1,653   |

Pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax ("EIT") ranged from 10% to 25%.

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

## 7. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2011 (for the corresponding period in 2010: nil).

## 8. EARNINGS PER SHARE — BASIC

The calculations of basic earnings per share for the six months ended 30th June, 2011 are based on the profit attributable to the owners of the Company of approximately RMB16,439,000 (for the corresponding period in 2010: approximately RMB3,300,000) and the weight average number of 519,521,560 (for the corresponding period in 2010: 519,521,560) ordinary shares in issue during the period.

No diluted earnings per share has been presented for the two periods ended 30th June, 2010 and 2011 as there was no dilutive share outstanding during both periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB1,339,000 (for the corresponding period in 2010: approximately RMB3,191,000) on the purchase of the property, plant and equipment.

## 10. TRADE AND BILLS 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 bills receivables of the Group were trade and bills receivables (less impairment) with the following aging analysis:

|                             | <b>As at<br/>30th June,<br/>2011<br/>RMB'000</b> | As at<br>31st December,<br>2010<br>RMB'000 |
|-----------------------------|--|--|
| Aged:                       |  |  |
| Within 1 year               | <b>58,328</b>                                    | 79,604                                     |
| 1–2 years                   | <b>2,119</b>                                     | 22,971                                     |
| Trade and bills receivables | <b><u>60,447</u></b>                             | <u>102,575</u>                             |

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

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                   | <b>As at<br/>30th June,<br/>2011<br/>RMB'000</b> | As at<br>31st December,<br>2010<br>RMB'000 |
|-----------------------------------|--|--|
| Other receivables and prepayments | <b>33,131</b>                                    | 40,422                                     |
| Prepayments to suppliers          | <b>43,808</b>                                    | 41,213                                     |
| Value added tax                   | <b>23,726</b>                                    | 13,946                                     |
|                                   | <b><u>100,665</u></b>                            | <u>95,581</u>                              |

All balances aged within one year from the respective reporting date.



## 12. TRADE PAYABLES

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

|              | As at<br>30th June,<br>2011<br><i>RMB'000</i> | As at<br>31st December,<br>2010<br><i>RMB'000</i> |
|--------------|---|---|
| Aged:        |   |   |
| 0–180 days   | 88,554  | 49,043  |
| 181–365 days | 2,589   | 25,271  |
| 1–2 years    | 2,958   | 13,706  |
| Over 2 years | 207   | 5,743   |
|              | <u>94,308</u>                                 | <u>93,763</u>                                     |

## 13. ACCRUALS AND OTHER PAYABLES

|   | As at<br>30th June,<br>2011<br><i>RMB'000</i> | As at<br>31st December,<br>2010<br><i>RMB'000</i> |
|---|---|---|
| Other payables and accruals                     | 40,921  | 61,453  |
| Deposits and prepayment received from customers | 125,552                                       | 78,952  |
|   | <u>166,473</u>                                | <u>140,405</u>                                    |

All of these balances aged within one year from the respective balance sheet dates.

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

## 14. CAPITAL COMMITMENTS

|  | As at<br>30th June,<br>2011<br><i>RMB'000</i> | As at<br>31st December,<br>2010<br><i>RMB'000</i> |
|--|---|---|
| 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 | <u>—</u>                                      | <u>—</u>  |

## 15. RELATED PARTY TRANSACTIONS

### (a) Transactions

During the period, the Group had the following significant transactions with Tianye Holdings Group:

| Nature of transaction/business | For the six months ended      |                 |
|--------------------------------|-------------------------------|-----------------|
|                                | 30th June,<br>2011<br>RMB'000 | 2010<br>RMB'000 |
| Sales of finished goods        | 977                           | 28              |
| Purchase of raw materials      | 54,340                        | 29,558          |
| Rentals of premises            | 732                           | 732             |

### (b) Corporate guarantee

At the balance sheet dates, the Group's banking facilities were secured by the corporate guarantee given by the following company:

|                       | As at<br>30th June,<br>2011<br>RMB'000 | As at<br>31st December,<br>2010<br>RMB'000 |
|-----------------------|--|--|
| Tianye Holdings Group | 80,000                                 | 80,000                                     |

### (c) Compensation to key management personnel

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

|                                | For the six months ended      |                 |
|--------------------------------|-------------------------------|-----------------|
|                                | 30th June,<br>2011<br>RMB'000 | 2010<br>RMB'000 |
| Directors and supervisors      | 436                           | 391             |
| Other key management personnel | 661                           | 431             |
| Total                          | 1,097                         | 822             |

## 16. MAJOR 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.

The Group 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 or not the counterparty is a State-controlled Entities.

Material transactions/balances with other State-controlled Entities are as follows:

### (a) Material transactions

|   | For the six months ended |                |
|---|--------------------------|----------------|
|   | 30th June,               |                |
|   | 2011                     | 2010           |
|   | <i>RMB'000</i>           | <i>RMB'000</i> |
| Nature of transaction                     |                          |                |
| Sales of goods                            | 126,333                  | 146,183        |
| Purchase of raw materials                 | 109,121                  | 71,015         |
| Purchase of property, plant and equipment | 1,339                    | 3,048          |
| Interest expenses                         | 2,216                    | 2,309          |
|   | <u>2,216</u>             | <u>2,309</u>   |

### (b) Material balances

|                             | As at          | As at          |
|-----------------------------|----------------|----------------|
|                             | 30th June,     | 31st December, |
|                             | 2011           | 2010           |
|                             | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank balances               | 131,682        | 125,801        |
| Trade and other receivables | 45,900         | 29,115         |
| Trade and other payables    | 51,550         | 901            |
| Bank borrowings             | 80,000         | 80,000         |
|                             | <u>80,000</u>  | <u>80,000</u>  |

Except as disclosed above, the directors are of the opinion that transactions with other State-controlled Entities are not significant to the Group’s operations.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review**

For the six months ended 30th June, 2011, the unaudited revenue of the Group was approximately RMB439,761,000, representing an increase of approximately 59.31% from approximately RMB276,046,000 for the corresponding period in the previous year. The increase in turnover is mainly attributable to increased investment by China government for the construction of farmland water conservancy facility as well as increase in customer demand for agricultural water-saving irrigation products.

#### *Gross Profit*

For the six months ended 30th June, 2011, the unaudited gross profit was approximately RMB45,916,000, with gross profit margin of approximately 10.44%, while the unaudited gross profit and gross profit margin for the corresponding period in the previous year were approximately RMB23,066,000 and approximately 8.36% respectively, representing an increase of 2.08% in gross profit margin. This was mainly due to increase in selling prices of products and thus increased gross profit.

#### *Operating Costs and Expenses*

Distribution costs for the six months ended 30th June, 2011 and the corresponding period in the previous year was approximately RMB15,344,000 and approximately RMB10,351,000 respectively, representing an increase of approximately RMB4,993,000 or approximately 48.24%. The increase corresponded to the increase in turnover. Certain sales related expenses including transportation expense, staff salary and sales commission expense increased when compared to corresponding period in the previous year.

Administrative expenses for the six months ended 30th June, 2011 and the corresponding period in the previous year was approximately RMB9,853,000 and approximately RMB6,834,000 respectively, representing an increase of approximately RMB3,019,000 or approximately 44.18%, which was mainly due to increase in entertainment expense, research and development expense and consultant fee as compared to the corresponding period in the previous year.

Finance costs for the six months ended 30th June, 2011 and the corresponding period in the previous year was approximately RMB2,216,000 and approximately RMB2,309,000 respectively, a decrease of approximately RMB93,000 or approximately 4.03%, which was mainly resulted from the decrease of average loan amount as compared to the corresponding period in the previous year.

For the six months ended 30th June, 2011, the Group recorded approximately RMB16,439,000 for the unaudited profit attributable to owners of the Company, representing an increase of approximately RMB13,139,000 or approximately 398.15% from approximately RMB3,300,000 for the corresponding period in the previous year. This was mainly attributable to the increase in product demand of the Group driven by increased investment by China government for construction of farmland water conservancy facility.

### **Prospects**

At the beginning of the year, the Group achieved outstanding results by implementing nearly ten thousand acres of Tianye water-saving irrigation system in Mainland China. Comparing to farmlands without water-saving irrigation systems, the drip irrigation system of the Group substantially enhances

the growth of crops, water conservancy, fertilizer conservancy and reduces labor force. The operation of our drip irrigation systems has clear advantages over water-saving irrigation systems of other manufacturers as to reliability and stability. Meanwhile, the provision of a water saving and crop yield enhancing design, the one-stop installation services, the usage guidance services and training to the customers by the Group are well received by the customers. The successful implementation of the project lays a solid foundation for the Group to undertake further large scale promotion campaign in Mainland China.

The working conference of the Central Government on water conservancy in July this year further emphasizes the importance and urgency of accelerating the reforms and development of water conservancy . The meeting also arranged more funding resources for agricultural water conservancy, which benefit our market expansion in Mainland China. Our Directors believe that with the Group's successful experiences in promoting agricultural water-saving drip irrigation technology for more than a decade and our high reputation among customers, together with the Central Government's acceleration in the development of water resources, a large scale promotion and use of Tianye drip irrigation system in the country is set to become a trend.

### **Liquidity, financial resources and capital structure**

During the period, the Group raised funding principally from cash generated from its business operations and banking facilities. The short-term borrowings of the Group were approximately RMB80,000,000 as at 31st December, 2010 and as at 30th June, 2011, which were used principally for the daily operations of the Group. All bank borrowings of the Group as at 30th June, 2011 are at floating interest rates by reference to rate of the People's Bank of China minus 10% per annum. The Group's exposure to interest rate risk is minimal as all bank borrowings are denominated in RMB. The borrowings of the Group are due within one year.

As at 30th June, 2011, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 11.20% (as at 31st December, 2010: approximately 11.42%). Cash and cash equivalents increased from approximately RMB125,801,000 as at 31st December, 2010 to approximately RMB131,682,000 as at 30th June, 2011. Most bank deposits of the Group are deposited in the bank in RMB for short-term deposit.

### **Contingent Liabilities**

As at 30th June, 2011, the Group had no significant contingent liabilities.

### **Foreign currency exposure**

As confirmed by the directors of the Company ("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 basically denominated in Renminbi. 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 operations.

### **Employee and salary policies**

The Directors consider 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 30th June, 2011, the Group had 1,025 full-time 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 staff, whereby the Group is required to make monthly contributions to these schemes. The Company 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 Company in connection with these retirement benefit plans were approximately RMB4,009,000 for the six months ended 30th June, 2011.

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. The accrued benefits are all vested to the employees. The expenses arising from the provident fund of the Company for the six months ended 30th June, 2011 were HK\$6,000.

## **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 staff members shall make contribution to a housing pension for the establishment of a housing pension scheme. Both the housing pensions contributed by each staff member and by their respective units are vested to the staff members. The percentage of the housing pension contributed by the staff members and their units shall not be less than 5% of the average monthly wages of such staff members of the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

## **Future plan for material investment**

As at 30th June, 2011, the Group had no material investment plan.

## **Material acquisitions and disposals**

Save as disclosed herein, for the six months ended 30th June, 2011, the Group had no material acquisitions nor disposals of subsidiaries and associated companies.

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

As at 30th June, 2011, the interests and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the required standard of dealings by Directors pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

| Name of Directors/Supervisors      | Name of companies/<br>associated corporations                        | Capacity         | Number and class<br>of securities<br>(Note 1) | Approximate<br>percentage of<br>shareholding |
|------------------------------------|--|------------------|---|--|
| Shi Xiang Shen ( <i>Director</i> ) | Xinjiang Tianye Company Limited ("Tianye Company") ( <i>Note 2</i> ) | Beneficial owner | 34,864 domestic Shares (L)                    | 0.008%                                       |

### Notes:

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 438,592,000 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 30th June, 2011.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

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

### (A) Substantial Shareholders

As at 30th June, 2011, 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 Directors, Supervisors or chief executives) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

| Name   | Capacity of interests held         | Number of the domestic Shares of the Company held<br><i>(Note 1)</i> | Approximate percentage of the total issued domestic Shares of the Company | Approximate percentage of the total issued share capital of the Company<br><i>(Note 2)</i> |
|--|------------------------------------|--|---|--|
| Tianye Company<br><i>(Notes 3 and 5)</i>   | Beneficial owner                   | 202,164,995(L)   | 63.75%  | 38.91%   |
| Xinjiang Tianye (Group) Limited<br>("Tianye Holdings")<br><i>(Notes 4 and 5)</i> | Beneficial owner                   | 111,721,926(L)   | 35.23%  | 21.51%   |
|  | Interest in controlled corporation | 202,164,995(L)   | 63.75%  | 38.91%   |

*Notes:*

- "L" denotes the person's/entity's long positions in the Shares.
- 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).
- The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issue.
- 202,164,995 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.
- References are made to the joint announcements dated 9th May 2011, and 16th June, 2011 and the composite offer and response document dated 26th May, 2011 both jointly issued by the Company, Tianye Holdings and Long Thrive Holdings Limited ("Long Thrive"). Tianye Holdings, Ms. Chow Yuk Lan ("Ms. Chow") and Long Thrive entered into an agreement dated 21st April 2011 to form a consortium, pursuant to which Ms. Chow and Long Thrive became parties acting in concert with Tianye Holdings and made a mandatory unconditional cash offer for all the H Shares not already owned by Tianye Holdings and Long Thrive in accordance with the Takeovers Code in about May 2011 ("H Share Offer"), and constitutes an agreement under section 317 of the SFO. Immediately upon close of the H Share Offer, Tianye Holdings, Long Thrive and parties acting in concert with them held an aggregate of 330,361,921 Shares (comprising 202,164,995 domestic Shares held by Tianye Company, 111,721,926 domestic Shares held by Tianye Holdings and 16,475,000 H Shares transferred to Long Thrive under the H Share Offer), representing approximately 63.59% of the entire issued share capital of the Company as at 30th June 2011.



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

As at 30th June, 2011, save for the persons or entities disclosed in sub-section (A) above, the following persons or entities (other than Directors, Supervisors 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                        | Capacity                           | Number of H Shares of the Company held<br>(Note 1) | Approximate percentage of the total issued H Shares of the Company | Approximate percentage of the total issued share capital of the Company<br>(Note 2) |
|---|------------------------------------|--|--|---|
| Long Thrive Holdings<br>(Notes 3 and 6)     | Beneficial owner                   | 16,475,000(L)                                      | 8.13%  | 3.17%   |
| Ms Chow (Notes 4 and 6)                     | Interest in controlled corporation | 16,745,000(L)                                      | 8.13%  | 3.17%   |
| Kan Wing Nin ("Mr. Kan")<br>(Notes 5 and 6) | Interest of spouse                 | 16,475,000(L)                                      | 8.13%  | 3.17%   |

*Notes:*

1. The letter "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 Long Thrive were equivalent to approximately 8.13% of the total H Shares in issue of the Company.
4. Long Thrive directly held 16,475,000 H Shares in the Company. Long Thrive is wholly owned by Ms. Chow. By virtue of the SFO, Ms. Chow is deemed to be interested in the 16,475,000 H Shares held by Long Thrive.
5. Mr. Kan is the spouse of Ms. Chow. By virtue of SFO, Mr. Kan is deemed to be interested in the 16,475,000 H Shares held by Long Thrive.
6. References are made to the joint announcements dated 9th May 2011, and 16th June, 2011 and the composite offer and response document dated 26th May, 2011 both jointly issued by the Company, Tianye Holdings and Long Thrive. Tianye Holdings, Ms. Chow and Long Thrive entered into an agreement dated 21st April 2011 to form a consortium, pursuant to which Ms. Chow and Long Thrive became parties acting in concert with Tianye Holdings and made a mandatory unconditional cash offer for all the H Shares not already owned by Tianye Holdings and Long Thrive in accordance with the Takeovers Code in about May 2011 ("H Share Offer"), and constitutes an agreement under section 317 of the SFO. Immediately upon close of the H Share Offer, Tianye Holdings, Long Thrive and parties acting in concert with them held an aggregate of 330,361,921 Shares (comprising 202,164,995 domestic Shares held by Tianye Company, 111,721,926 domestic Shares held by Tianye Holdings and 16,475,000 H Shares transferred to Long Thrive under the H Share Offer), representing approximately 63.59% of the entire issued share capital of the Company as at 30th June 2011.

Save as disclosed above, as at 30th June, 2011, the Directors, Supervisors and chief executives of the Company were not aware of any persons (other than the Directors, Supervisors and chief executives of the Company) who had an interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS**

For the six months ended 30th June, 2011, the Directors are not aware of any business or interests 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.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters, including reviewing the unaudited interim financial accounts.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved and further instill confidence of shareholders and the public in the Group. Throughout the six months ended 30th June, 2011, the Group has complied with the requirements of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the code of conduct for securities transactions by Directors of the Company. Following specific enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard under the Model Code for the six months ended 30th June, 2011.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, SALE OF REDEMPTION OF SHARES**

The Company and/or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities for the six months ended 30th June, 2011.

By order of the Board  
**Xinjiang Tianye Water Saving Irrigation System Company Limited\***  
**Hou Guo Jun**  
*Chairman*

Xinjiang, the PRC, 29th July, 2011

\* *For identification purpose only*