



**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, 2012**

**SUMMARY**

- Revenue for the six months ended 30th June, 2012 was approximately RMB404,079,000, a decrease of approximately 8.1% from RMB439,761,000 for the corresponding period in the previous year.
- Profit for the six months ended 30th June, 2012 was approximately RMB7,042,000, a decrease of approximately 55.7% from the corresponding period in the previous year, the profit attributable to owners of the Company was approximately RMB7,092,000, a decrease of approximately 56.9% from the corresponding period in the previous year.
- Basic earnings per share for the six months ended 30th June, 2012 was approximately RMB0.014 (for the corresponding period in 2011: approximately RMB0.032).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2012.

\* For identification purpose only

## FOR THE SIX MONTHS ENDED 30TH JUNE, 2012

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, 2012, together with the comparative figures for the corresponding period in 2011. These unaudited interim financial statements have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended	
		30th June,	
	Note	2012	2011
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	404,079	439,761
Cost of sales		<u>(366,139)</u>	<u>(393,845)</u>
Gross profit		37,940	45,916
Other income		489	302
Distribution costs		(16,323)	(15,344)
Administrative expenses		(9,424)	(9,853)
Finance costs		<u>(3,916)</u>	<u>(2,216)</u>
Profit before taxation	5	8,766	18,805
Income tax expenses	6	<u>(1,724)</u>	<u>(2,905)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>7,042</u>	<u>15,900</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		7,092	16,439
Non-controlling interests		<u>(50)</u>	<u>(539)</u>
		<u>7,042</u>	<u>15,900</u>
Dividends	7	<u>—</u>	<u>—</u>
Earnings per share — basic	8	<u>RMB0.014</u>	<u>RMB0.032</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30th June, 2012 <i>RMB'000</i> (unaudited)	As at 31st December, 2011 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	9	218,366	218,327
Prepaid lease payments		12,894	13,048
Deposit paid for acquisition of property, plant and equipment		1,200	—
Goodwill		98	98
		<b>232,558</b>	231,473
Current assets			
Inventories		596,426	614,982
Trade and bills receivables	10	74,663	39,952
Prepayments, deposits and other receivables	11	86,295	155,800
Bank balances and cash		103,925	61,391
		<b>861,309</b>	872,125
Current liabilities			
Trade payables	12	163,237	132,986
Accruals and other payables	13	158,462	134,453
Tax payables		404	1,437
Short-term bank borrowings		50,000	120,000
		<b>372,103</b>	388,876
Net current assets		<b>489,206</b>	483,249
Total assets less current liabilities		<b>721,764</b>	714,722
Capital and reserves			
Share capital		519,522	519,522
Reserves		187,075	179,983
Equity attributable to owners of the Company		<b>706,597</b>	699,505
Non-controlling interests		15,167	15,217
		<b>721,764</b>	714,722

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June, 2012*

	Share capital	Share premium	Statutory reserve fund	Other reserve	Retained earnings	Attributable to owners of the Company	Non- controlling interests	Total 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, 2011	519,522	10,296	26,530	137	126,198	682,683	17,299	699,982
Total comprehensive income/(loss) for the period	—	—	—	—	16,439	16,439	(539)	15,900
Acquisition of additional interest in a 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>
At 1st January, 2012	519,522	10,296	26,559	137	142,991	699,505	15,217	714,722
Total comprehensive income/(loss) for the period	—	—	—	—	7,092	7,092	(50)	7,042
At 30th June, 2012	<u>519,522</u>	<u>10,296</u>	<u>26,559</u>	<u>137</u>	<u>150,083</u>	<u>706,597</u>	<u>15,167</u>	<u>721,764</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2012

	<b>2012</b> <i>RMB'000</i> <b>(unaudited)</b>	2011 <i>RMB'000</i> (unaudited)
Net cash from operating activities	<b>128,976</b>	15,313
Net cash used in investing activities	<b>(12,526)</b>	(7,216)
Net cash used in financing activities	<b>(73,916)</b>	(2,216)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>42,534</b>	5,881
Cash and cash equivalents at 1st January	<b>61,391</b>	125,801
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	<b>103,925</b>	131,682
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# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2012*

## 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, 2011.

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, 2012. 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 30th June,	
	2012	2011
	RMB'000	RMB'000
Drip films and drip assemblies	302,562	282,480
PVC/PE pipelines	101,517	157,281
	<u>404,079</u>	<u>439,761</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 30th June,	
	2012	2011
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Finance costs		
Interest on bank loans wholly repayable within five years	3,916	2,216
Depreciation	11,504	12,240
and after crediting:		
Bank interest income	<u>217</u>	<u>272</u>

### 6. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2012	2011
	RMB'000	RMB'000
Income tax	<u>1,724</u>	<u>2,905</u>

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, 2012 (for the corresponding period in 2011: nil).

## 8. EARNINGS PER SHARE — BASIC

The calculations of basic earnings per share for the six months ended 30th June, 2012 are based on the profit attributable to the owners of the Company of approximately RMB7,092,000 (for the corresponding period in 2011: approximately RMB16,439,000) and the weight average number of 519,521,560 (for the corresponding period in 2011: 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, 2011 and 2012 as there was no dilutive share outstanding during both periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB12,743,000 (for the corresponding period in 2011: approximately RMB1,339,000) 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 30th June, 2012 RMB'000</b>	<b>As at 31st December, 2011 RMB'000</b>
Aged:		
Within 1 year	72,338	25,997
1–2 years	<u>2,325</u>	<u>13,955</u>
Trade and bills receivables	<u><b>74,663</b></u>	<u><b>39,952</b></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 30th June, 2012 RMB'000</b>	<b>As at 31st December, 2011 RMB'000</b>
Other receivables and prepayments	20,968	53,001
Prepayments to suppliers	54,148	94,986
Value added tax	<u>11,179</u>	<u>7,813</u>
	<u><b>86,295</b></u>	<u><b>155,800</b></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 30th June, 2012 <i>RMB'000</i>	As at 31st December, 2011 <i>RMB'000</i>
Aged:		
0–180 days	156,566	61,181
181–365 days	3,969	31,526
1–2 years	2,344	36,445
Over 2 years	358	3,834
	<u>163,237</u>	<u>132,986</u>

## 13. ACCRUALS AND OTHER PAYABLES

	As at 30th June, 2012 <i>RMB'000</i>	As at 31st December, 2011 <i>RMB'000</i>
Other payables and accruals	41,722	76,437
Deposits and prepayment received from customers	116,740	58,016
	<u>158,462</u>	<u>134,453</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 30th June, 2012 <i>RMB'000</i>	As at 31st December, 2011 <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>12,520</u>	<u>12,600</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,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of finished goods	621	977
Purchase of raw materials	30,869	54,340
Rentals of premises	732	732
	<u>732</u>	<u>732</u>

### (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	As at
	30th June,	31st December,
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Tianye Holdings Group	<u>50,000</u>	<u>120,000</u>

### (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,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Directors and supervisors	811	436
Other key management personnel	755	661
Total	<u>1,566</u>	<u>1,097</u>

**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**

	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2012</b>	2011
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
Nature of transaction		
Sales of goods	<b>145,782</b>	126,333
Purchase of raw materials	<b>101,626</b>	109,121
Purchase of property, plant and equipment	<b>980</b>	1,339
Interest expenses	<b>3,916</b>	2,216
	<b><u>3,916</u></b>	<u>2,216</u>

**(b) Material balances**

	<b>As at</b>	As at
	<b>30th June,</b>	31st December,
	<b>2012</b>	2011
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
Bank balances	<b>103,925</b>	61,391
Trade and other receivables	<b>51,240</b>	10,954
Trade and other payables	<b>49,781</b>	1,365
Bank borrowings	<b>50,000</b>	120,000
	<b><u>50,000</u></b>	<u>120,000</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, 2012, the unaudited revenue of the Group was approximately RMB404,079,000, representing a decrease of approximately 8.1% from approximately RMB439,761,000 for the corresponding period in the previous year. The decrease in turnover is mainly attributable to decrease in selling price of products.

#### *Gross Profit*

For the six months ended 30th June, 2012, the unaudited gross profit was approximately RMB37,940,000, with gross profit margin of approximately 9.4%, while the unaudited gross profit and gross profit margin for the corresponding period in the previous year were approximately RMB45,916,000 and approximately 10.4% respectively, representing a decrease of 1.0% in gross profit margin. This was mainly due to decrease in selling prices of products and thus reduced gross profit.

#### *Operating Costs and Expenses*

Distribution costs for the six months ended 30th June, 2012 and the corresponding period in the previous year was approximately RMB16,323,000 and approximately RMB15,344,000 respectively, representing an increase of approximately RMB979,000 or approximately 6.4%. Certain expenses including transportation expense and staff salary increased when compared to corresponding period in the previous year.

Administrative expenses for the six months ended 30th June, 2012 and the corresponding period in the previous year was approximately RMB9,424,000 and approximately RMB9,853,000 respectively, representing a decrease of approximately RMB429,000 or approximately 4.4%, which was mainly due decrease in research and development expense as compared to the corresponding period in the previous year.

Finance costs for the six months ended 30th June, 2012 and the corresponding period in the previous year was approximately RMB3,916,000 and approximately RMB2,216,000 respectively, an increase of approximately RMB1,700,000 or approximately 76.7%, which was mainly resulted from the increase of average loan amount and interest rate as compared to the corresponding period in the previous year.

For the six months ended 30th June, 2012, the Group recorded approximately RMB7,092,000 for the unaudited profit attributable to owners of the Company, representing a decrease of approximately RMB9,347,000 or approximately 56.9% from approximately RMB16,439,000 for the corresponding period in the previous year. This was mainly attributable to the decrease in product price and general increase in operating costs.

### Prospect

The Company's profit is lower than expected as industry competition and labour cost increased. The Directors believe that the Group will be able to achieve higher profit in a more competitive market by consolidating our presence in Xianjiang market and focusing in our expansion into emerging markets in Northeastern China.

## **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 RMB120,000,000 and RMB50,000,000 as at 31st December, 2011 and as at 30th June, 2012 respectively, which were used principally for the daily operations of the Group. All bank borrowings of the Group as at 30th June, 2012 are at fixed interest rate of 6.888% 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, 2012, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 6.93% (as at 31st December, 2011: approximately 16.79%). Cash and cash equivalents increased from approximately RMB61,391,000 as at 31st December, 2011 to approximately RMB103,925,000 as at 30th June, 2012. Most bank deposits of the Group are deposited in the bank in RMB for short-term deposit.

## **Contingent Liabilities**

As at 30th June, 2012, 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, 2012, the Group had 989 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 RMB5,579,000 for the six months ended 30th June, 2012.

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, 2012 were HK\$6,250.

## **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, 2012, the Group had no material investment plan.

## **Material acquisitions and disposals**

Save as disclosed herein, for the six months ended 30th June, 2012, 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, 2012, 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/ associated corporations	Capacity	Number and class of securities (Note 1)	Approximate percentage of 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, 2012.

## 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, 2012, 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 <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 <i>(Note 2)</i>
Tianye Company <i>(Notes 3)</i>	Beneficial owner	202,164,995(L)	63.75%	38.91%
Xinjiang Tianye (Group) Limited ("Tianye Holdings") <i>(Notes 4)</i>	Beneficial owner Interest in controlled corporation	111,721,926(L) 202,164,995(L)	35.23% 63.75%	21.51% 38.91%

*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 Shares 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. 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.



**(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, 2012, 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 (Note 1)	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Long Thrive Holdings (Note 3)	Beneficial owner	15,967,000(L)	7.89%	3.07%
Tang Hongjian ("Mr. Tang") (Note 4)	Interest in controlled corporation	15,967,000(L)	7.89%	3.07%
Liu Zhonghui ("Ms. Liu") (Note 5)	Interest of spouse	15,967,000(L)	7.89%	3.07%

*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 7.89% of the total H Shares in issue of the Company.
4. Long Thrive directly held 15,967,000 H Shares in the Company. Long Thrive is wholly owned by Mr. Tang. By virtue of the SFO, Mr. Tang is deemed to be interested in the 15,967,000 H Shares held by Long Thrive.
5. Ms. Liu is the spouse of Mr. Tang. By virtue of SFO, Ms. Liu is deemed to be interested in the 15,967,000 H Shares held by Long Thrive.

Save as disclosed above, as at 30th June, 2012, 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, 2012, 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, 2012, 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, 2012.

## **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, 2012.

By order of the Board  
**Xinjiang Tianye Water Saving Irrigation System Company Limited\***  
**Yin Xiu Fa**  
*Chairman*

Xinjiang, the PRC, 10th August, 2012

\* *For identification purpose only*