



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, 2010

SUMMARY

- Revenue for the six months ended 30th June, 2010 was approximately RMB276,046,000, an increase of approximately 18.58% from RMB232,795,000 for the corresponding period in the previous year.
- Profit for the six months ended 30th June, 2010 was approximately RMB2,757,000, an increase of approximately 426.15% from the corresponding period in the previous year, the profit attributable to owners of the Company was approximately RMB3,300,000, an increase of approximately 159.03% from the corresponding period in the previous year.
- Basic earnings per share for the six months ended 30th June, 2010 was approximately RMB0.006 (for the corresponding period in 2009: approximately RMB0.003).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2010.

* For identification purpose only

FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

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, 2010, together with the comparative figures for the corresponding period in 2009. 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,	
		2010	2009
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	276,046	232,795
Cost of sales		<u>(252,980)</u>	<u>(211,468)</u>
Gross profit		23,066	21,327
Other income		1,061	1,284
Distribution costs		(10,351)	(9,534)
Administrative expenses		(6,834)	(7,013)
Other expenses		(223)	(12)
Finance costs		<u>(2,309)</u>	<u>(4,972)</u>
Profit before taxation	5	4,410	1,080
Income tax expenses	6	<u>(1,653)</u>	<u>(556)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>2,757</u>	<u>524</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		3,300	1,274
Minority interests		<u>(543)</u>	<u>(750)</u>
		<u>2,757</u>	<u>524</u>
Dividends	7	<u>—</u>	<u>—</u>
Earnings per share — basic	8	<u>RMB0.006</u>	<u>RMB0.003</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30th June, 2010 <i>RMB'000</i> (unaudited)	As at 31st December, 2009 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	9	232,782	246,033
Prepaid lease payments		13,097	13,315
Deposit paid for acquisition of property, plant and equipment		3,796	107
Goodwill		<u>98</u>	<u>98</u>
		<u>249,773</u>	<u>259,553</u>
Current assets			
Inventories		440,402	443,796
Trade and other receivables	10	139,626	220,067
Bills receivable	11	4,600	69
Prepaid lease payments		381	329
Tax refundable		—	858
Deposit in a non-banking financial institution		6,250	2,216
Bank balances and cash		<u>71,112</u>	<u>43,894</u>
		<u>662,371</u>	<u>711,229</u>
Current liabilities			
Trade and other payables	12	197,287	168,056
Tax payables		436	1,054
Short-term bank borrowings		27,000	117,000
Derivative financial liabilities		<u>—</u>	<u>8</u>
		<u>224,723</u>	<u>286,118</u>
Net current assets		<u>437,648</u>	<u>425,111</u>
Total assets less current and liabilities		<u>687,421</u>	<u>684,664</u>
Capital and reserves			
Share capital		519,522	519,522
Reserves		<u>149,310</u>	<u>146,010</u>
Equity attributable to owners of the Company		668,832	665,532
Minority interests		<u>17,989</u>	<u>18,532</u>
Total equity		<u>686,821</u>	<u>684,064</u>
Non-current liability			
Deferred income		<u>600</u>	<u>600</u>
		<u>687,421</u>	<u>684,664</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2010

	Share capital	Share premium	Statutory reserve fund	Other reserve	Retained earnings	Attributable to owners of the Company	Minority 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, 2009	519,522	10,296	23,042	—	106,056	658,916	21,771	680,687
Total comprehensive income/(loss) for the period	—	—	—	—	1,274	1,274	(750)	524
Capital contribution from minority shareholder of a subsidiary	—	—	—	—	—	—	6,000	6,000
At 30th June, 2009	<u>519,522</u>	<u>10,296</u>	<u>23,042</u>	<u>—</u>	<u>107,330</u>	<u>660,190</u>	<u>27,021</u>	<u>687,211</u>
At 1st January, 2010	519,522	10,296	24,294	137	111,283	665,532	18,532	684,064
Total comprehensive income/ (loss) 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>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2010

	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	122,613	72,799
Net cash used in investing activities	(3,086)	(34,834)
Net cash used in financing activities	(92,309)	(88,972)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	27,218	(51,007)
Cash and cash equivalents at 1st January	43,894	147,822
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	71,112	96,815
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2010

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 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 financial statements were in consistent with those applied to the annual financial statements of the Group for the year ended 31st December, 2009.

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, 2010. 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,	
	2010	2009
	RMB'000	RMB'000
Drip films and drip assemblies	189,801	129,304
PVC/PE pipelines	<u>86,245</u>	<u>103,491</u>
	<u>276,046</u>	<u>232,795</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,	
	2010	2009
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Finance costs		
Interest on bank loans wholly repayable within five years	2,309	4,972
Depreciation	12,753	17,466
and after crediting:		
Bank interest income	<u>105</u>	<u>331</u>

6. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2010	2009
	RMB'000	RMB'000
Income tax	<u>1,653</u>	<u>556</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, 2010 (for the corresponding period in 2009: nil).

8. EARNINGS PER SHARE — BASIC

The calculations of basic earnings per share for the six months ended 30th June, 2010 are based on the profit attributable to the owners of the Company of approximately RMB3,300,000 (for the corresponding period in 2009: approximately RMB1,274,000) and the weight average number of 519,521,560 (for the corresponding period in 2009: 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, 2009 and 2010 as there was no dilutive share outstanding during both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB3,191,000 (for the corresponding period in 2009: approximately RMB36,072,000) on the purchase of the property, plant and equipment.

10. 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:

	As at 30th June, 2010 <i>RMB'000</i>	As at 31st December, 2009 <i>RMB'000</i>
Aged:		
Within 1 year	66,216	128,139
1–2 years	<u>3,421</u>	<u>19,011</u>
Trade receivables	69,637	147,150
Other receivables and prepayments	25,206	38,391
Prepayments to suppliers	<u>44,783</u>	<u>34,526</u>
	<u>139,626</u>	<u>220,067</u>

Pursuant to a contract entered into between the Company and Tianye Holdings in March 2009, prepayments to suppliers of the Group as at 31st December, 2009 include prepayments paid to Tianye Holdings Group of approximately RMB441,000 (30th June, 2010: Nil) for sourcing and supply of raw materials. All balances aged within one year from the respective balance sheet dates.

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

11. BILLS RECEIVABLE

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

12. TRADE AND OTHER PAYABLES

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

	As at 30th June, 2010 <i>RMB'000</i>	As at 31st December, 2009 <i>RMB'000</i>
Aged:		
0–180 days	92,386	68,330
181–365 days	1,347	21,955
1–2 years	4,145	12,104
Over 2 years	<u>158</u>	<u>1,150</u>
	98,036	103,539
Other payables and accruals	11,377	27,055
Deposits and prepayments received from customers	<u>87,874</u>	<u>37,462</u>
	<u><u>197,287</u></u>	<u><u>168,056</u></u>

As at 31st December, 2009, trade payables of the Group include trade payables of approximately RMB5,047,000 to Tianye Holdings Group (30th June, 2010: Nil).

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.

13. CAPITAL COMMITMENTS

	As at 30th June, 2010 <i>RMB'000</i>	As at 31st December, 2009 <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>689</u></u>	<u><u>793</u></u>

14. RELATED PARTY TRANSACTIONS

(a) Transactions

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

	For the six months ended	
	30th June,	2009
	2010	2009
	RMB'000	RMB'000
Nature of transaction/business		
Sales of finished goods	28	641
Purchase of raw materials	29,558	31,525
Rentals of premises	732	736
	<u>732</u>	<u>736</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,
	2010	2009
	RMB'000	RMB'000
Tianye Holdings Group	<u>25,000</u>	<u>115,000</u>

(c) Balances

Details of the balances of related parties are set out on the unaudited condensed consolidated statement of financial position and notes 10 and 12.

(d) 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,	2009
	2010	2009
	RMB'000	RMB'000
Directors and supervisors	391	380
Other key management personnel	431	345
Total	<u>822</u>	<u>725</u>

15. 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.

Apart from the transactions with Tianye Holdings Group disclosed in note 14 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 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,	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Nature of transaction		
Sales of goods	146,183	178,222
Purchase of raw materials	71,015	64,485
Purchase of property, plant and equipment	3,048	8,772
Interest expenses	<u>2,309</u>	<u>4,972</u>

(b) Material balances

	As at	As at
	30th June,	31st December,
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances	71,112	57,676
Trade and other receivables	139,626	125,012
Trade and other payables	197,287	4,148
Bank borrowings	<u>27,000</u>	<u>117,000</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, 2010, the unaudited revenue of the Group was approximately RMB276,046,000, representing an increase of approximately 18.58% from approximately RMB232,795,000 for the corresponding period in the previous year. The increase in turnover is mainly attributable to the recovery of economic growth across the globe that are positively improving the development of the agriculture and rural areas in the PRC, resulting in an increase in demand for the Group's products.

Gross Profit

For the six months ended 30th June, 2010, the unaudited gross profit was approximately RMB23,066,000, with gross profit margin of approximately 8.36%, while the unaudited gross profit and gross profit margin for the corresponding period in the previous year were approximately RMB21,327,000 and approximately 9.16% respectively, representing a decrease of 0.80% in gross profit margin. This was mainly due to increase in raw material prices and thus reduced gross profit.

Operating Costs and Expenses

Distribution costs for the six months ended 30th June, 2010 and the corresponding period in the previous year was approximately RMB10,351,000 and approximately RMB9,534,000 respectively, representing an increase of approximately RMB817,000 or approximately 8.57%. The increase corresponded to the increase in turnover. Certain sales related expenses including sales commission and entertainment expense experienced increase when compared to corresponding period in the previous year.

Administrative expenses for the six months ended 30th June, 2010 and the corresponding period in the previous year was approximately RMB6,834,000 and approximately RMB7,013,000 respectively, representing a drop of approximately RMB179,000 or approximately 2.55%, which was mainly due to a decrease in general operating expenses as compared to the corresponding period in the previous year.

Finance costs for the six months ended 30th June, 2010 and the corresponding period in the previous year was approximately RMB2,309,000 and approximately RMB4,972,000 respectively, a decrease of approximately RMB2,663,000 or approximately 53.60%, 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, 2010, the Group recorded approximately RMB3,300,000 for the unaudited profit attributable to owners of the Company, representing an increase of approximately RMB2,026,000 or approximately 159.03% from approximately RMB1,274,000 for the corresponding period in the previous year. This was mainly attributable to the increase in product demand of the Group driven by recovery of local market.

Prospects

The Group maintained a continued growth in sales for the six months ended 30 June 2010 and profitability of the Group effectively restored. Directors of the Group believed that along with the increased investment by China government for the construction of farmland water conservancy facility, proactive application of drip irrigation technology by the farmers and

their increasing awareness for product quality, the Group by virtue of good reputation on product quality and advanced product technology, is able to overcome unfavorable factors such as increasing competition in the industry, and to maintain the Group's prominent position in agricultural water-saving equipment market in 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 decreased from approximately RMB117,000,000 as at 31st December, 2009 to approximately RMB27,000,000 as at 30th June, 2010, which were used principally for the daily operations of the Group. All bank borrowings of the Group as at 30th June 2010 are at fixed rate of 5.31% 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, 2010, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 3.93% (as at 31st December, 2009: approximately 17.10%). Cash and cash equivalents increased from approximately RMB43,894,000 as at 31st December, 2009 to approximately RMB71,112,000 as at 30th June, 2010. Most bank deposits of the Group are deposited in the bank in RMB for short-term deposit.

Contingent Liabilities

As at 30th June, 2010, 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, 2010, 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 RMB3,833,000 for the period ended 30th June, 2010.

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 period ended 30th June, 2010 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, 2010, the Group had no material investment plan.

Material acquisitions and disposals

Save as disclosed herein, for the six months ended 30th June, 2010, 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, 2010, the interests of the Directors, supervisors (the "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 Issuers (the "Model Code") under Appendix 10 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 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, 2010.

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, 2010, 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 <i>(Note 1)</i>	Approximate percentage of the total issued share capital of the Company <i>(Note 2)</i>
Tianye Company	Corporate	Beneficial owner	202,164,995(L)	38.91% <i>(Note 3)</i>
Xinjiang Tianye (Group) Limited ("Tianye Holdings") <i>(Note 4)</i>	Corporate	Interest in controlled corporation	202,164,995(L)	38.91%
Guo Shu Qing <i>(Note 5)</i>	Personal	Beneficial owner	61,386,798(L)	11.82%
Wang Xiao Xian <i>(Note 6)</i>	Personal	Beneficial owner	50,335,128(L)	9.69%

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. 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 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 30th June, 2010, save for the persons or entities disclosed in sub-section (A) above, 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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

For the six months period ended 30th June, 2010, 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 period ended 30th June, 2010, the Group has complied with the requirements of the “Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors of the Company. Following specific enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard under the Model Code for the six months period ended 30th June, 2010.

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, 2010.

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

Xinjiang, the PRC, 18th August, 2010

* *For identification purpose only*