# THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in any doubt** as to any aspect of the H Share Offer, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred all** your shares in Xinjiang Tianye Water Saving Irrigation System Company Limited, you should at once hand this Composite Document including the accompanying Form of Acceptance to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Composite Document should be read in conjunction with the Form of Acceptance, the contents of which form part of the terms of the H Share Offer contained therein.



**新疆天業(集團)有限公司**
**XINJIANG TIANYE (GROUP) LIMITED***
*(a state-owned enterprise established in the PRC)*

**LONG THRIVE HOLDINGS LIMITED**
**長茂控股有限公司**
*(a company incorporated in the BVI with limited liability)*

**新疆天業節水灌溉股份有限公司**
**XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED***
*(a joint stock limited company incorporated in the PRC)*

**(Stock Code: 840)**

## MANDATORY UNCONDITIONAL CASH OFFER BY

高銀(證券)有限公司
GOLDIN EQUITIES LIMITED

## ON BEHALF OF LONG THRIVE HOLDINGS LIMITED FOR ALL THE ISSUED H SHARES IN XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED* (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY XINJIANG TIANYE (GROUP) LIMITED*, LONG THRIVE HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH THEM)

**Financial adviser to Long Thrive Holdings Limited**

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

**Independent financial adviser to the Independent Board Committee**

寶橋 BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

A letter from Goldin Equities containing, among other things, details of the terms of the H Share Offer are set out on pages 5 to 12 of the Composite Document.

A letter from the Board is set out on pages 13 to 20 of the Composite Document.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the H Share Offer are set out on pages 21 to 22 of the Composite Document.

A letter from Bridge Partners containing its advice to the Independent Board Committee is set out on pages 23 to 36 of the Composite Document.

The procedures for acceptance of the H Share Offer and other related information are set out on pages 37 to 43 in Appendix I to the Composite Document and in the accompanying Form of Acceptance. Acceptances of the H Share Offer should be received by the Registrar by no later than 4:00 p.m. on Thursday, 16 June 2011 or such later time and/or date as Tianye Holdings and Long Thrive may decide and announce, with the consent of the Executive, in accordance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this document and/or, the Form of Acceptance to any jurisdiction outside Hong Kong, should read the details in this regard which are contained in the paragraph headed "8. Overseas Shareholders" in Appendix I "Further terms of the H Share Offer" on pages 37 to 43 of the Composite Document before taking any action. It is the responsibility of each Shareholder with a registered address in jurisdiction outside Hong Kong wishing to accept the H Share Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Shareholders with a registered address in jurisdiction outside Hong Kong are advised to seek professional advice on deciding whether to accept the H Share Offer.

* *For identification purposes only*

26 May 2011

# CONTENTS

*The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made in the event that there is any such change.*

| | *2011* |
|---|---|
| Despatch date of the Composite Document and commencement date of the H Share Offer *(Note 1)* | Thursday, 26 May 2011 |
| Latest time and date for acceptance of the H Share Offer *(Note 2)* | not later than 4:00 p.m. on Thursday, 16 June 2011 |
| Closing Date of the H Share Offer *(Note 2)* | Thursday, 16 June 2011 |
| Announcement in respect of the results of the H Share Offer, or as to whether the H Share Offer has been revised or extended, published on the Stock Exchange's website *(Note 2)* | not later than 7:00 p.m. on Thursday, 16 June 2011 |
| Latest date of posting of remittances in respect of valid acceptances received under the H Share Offer *(Note 3)* | Friday, 24 June 2011 |

*Notes:*

1. The H Share Offer is made on the date of posting of the Composite Document, and is capable of acceptance on and from that date until the Closing Date.

2. The H Share Offer, which is unconditional, will be closed on the Closing Date. Tianye Holdings and Long Thrive reserve their right to revise or extend the H Share Offer until such date as they may determine in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange website stating whether the H Share Offer has been revised, or extended or has expired by 7:00 p.m. on Thursday, 16 June 2011. In any event, where the H Share Offer is revised or extended, the H Share Offer will remain open for acceptance until further notice in accordance with the Takeovers Code. At least 14 days' notice in writing will be given, before the close of the H Share Offer, to those Independent Shareholders who have not accepted the H Share Offer and an announcement must be published.

3. Remittances in respect of the cash consideration payable for the H Shares tendered under the H Share Offer will be despatched to the accepting holders of the H Shares by ordinary post at their own risk as soon as possible, but in any event within 10 days of the date of receipt by the Registrar, of all the requisite documents from the Independent Shareholders accepting the H Share Offer to render the relevant acceptance under the H Share Offer complete and valid.

   Acceptances of the H Share Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of Withdrawal" in Appendix I to the Composite Document.

**All time and date references contained in the Composite Document refer to Hong Kong time and date.**

*In this Composite Document, the following expressions shall have the meanings set out below unless the context requires otherwise:*

| | |
|---|---|
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "BVI" | British Virgin Islands |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "Closing Date" | Thursday, 16 June 2011, being the closing date of the H Share Offer, which is 21 days after the date on which the Composite Document is posted, or if the H Share Offer is extended, any subsequent closing date of the H Share offer as extended and announced by Tianye Holdings and Long Thrive in accordance with the Takeovers Code |
| "Company" | 新疆天業節水灌溉股份有限公司 (Xinjiang Tianye Water Saving Irrigation System Company Limited*), a joint stock company incorporated in the PRC with limited liability on 18 December 2003, the H Shares of which are listed on the Main Board of the Stock Exchange |
| "Composite Document" | this composite offer and response document date 26 May 2011 and issued by the Company, Tianye Holdings and Long Thrive in relation to the H Share Offer |
| "CSDCC" | 中國證券登記結算有限責任公司 (China Securities Depositary and Clearing Corporation Limited*) or its delegated authority |
| "connected person(s)" | the meaning ascribed to it under the Listing Rules |
| "Directors" | the directors of the Company |
| "Domestic Shares" | domestic share(s) of nominal value of RMB1.00 each in the registered capital of the Company which are subscribed for in RMB |
| "Executive" | the Executive Director of the Corporate Finance Division of SFC or any of his delegates |
| "Form of Acceptance" | the accompanying form of acceptance in respect of the H Share Offer which accompanies the Composite Document |

| | |
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| "Goldin Equities" | Goldin Equities Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO which is making the H Share Offer on behalf of Long Thrive |
| "Goldin Financial" | Goldin Financial Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO, the financial adviser to Long Thrive |
| "Group" | the Company and its subsidiaries |
| "H Share Offer | the mandatory unconditional cash offer to be made by Goldin Equities on behalf of Long Thrive for all the H Shares not already owned or agreed to be acquired by Tianye Holdings, Long Thrive or parties acting in concert with them in accordance with the Takeovers Code |
| "H Shares" | the overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock of Exchange and subscribed for and traded in HK$ |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent committee of the Board, comprising all the independent non-executive Directors namely, Mr. He Lin Wang, Mr. Gu Lie Feng, Mr. Xia Jun Ming, Mr. Wang Yun and Mr. Mak King Sau, established for making recommendation to the Independent Shareholders in respect of the H Share Offer |
| "Independent Financial Adviser" or "Bridge Partners" | Bridge Partners Capital Limited, a licensed corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee in respect of the H Share Offer |
| "Independent Shareholders" | all Shareholders other than Tianye Holdings, Long Thrive and parties acting in concert with them and holders of the Domestic Shares |
| "Joint Announcement" | the joint announcement dated 9 May 2011 issued by the Company, Tianye Holdings and Long Thrive in relation to, among others, the H Share Offer |

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|---|---|
| "Last Trading Day" | 22 February 2011, being the last trading day immediately before the date of the announcement of the Company date 7 March 2011 regarding a possible offer |
| "Latest Practicable Date" | 23 May 2011, being the latest practicable date for the purpose of ascertaining certain information contained in the Composite Document |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Long Stop Date" | the date falling 90 calendar days after the date of the Share Transfer Agreements, or such other day as Tianye Holdings and the Vendors may agree |
| "Long Thrive" | Long Thrive Holdings Limited, a company incorporated in the BVI with limited liability |
| "Ms. Chow" | Chow Yuk Lan, the sole director and shareholder of Long Thrive and also the financial controller, company secretary, qualified accountant and one of the authorised representatives of the Company |
| "Mr. Guo" | Guo Shu Qing, a Shareholder holding 61,386,798 Domestic Shares |
| "Mr. Wang" | Wang Xiao Xian, a Shareholder holding 50,335,128 Domestic Shares |
| "Offer Period" | has the meaning ascribed to it under the Takeovers Code being the period from 7 March 2011, being the date of the announcement of the Company regarding a possible offer, and ending on the Closing Date |
| "PRC" | the People's Republic of China, and for the purpose of this Composite Document, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| "Registrar" | Tricor Investor Services Limited, the Company's Hong Kong H Share registrar in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong |
| "Relevant Period" | the period commencing 6 months prior to 7 March 2011, and ended with the Latest Practicable Date |
| "Remaining Domestic Shareholders" | the holders of Domestic Shares other than the Vendors |

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| "SAAC of No. 8 Division" | 新疆生產建設兵團農八師國有資產管理委員會 (State-owned Assets Administrative Commission of No. 8 Division*), a PRC government body which owns 100% of the registered capital of Tianye Holdings |
| "Sale Shares" | an aggregate of 111,721,926 Domestic Shares (as to 61,386,798 Domestic Shares personally and beneficially owned by Mr. Guo and 50,335,128 Domestic Shares personally and beneficially owned by Mr. Wang) acquired by Tianye Holdings pursuant to the terms and conditions of the Share Transfer Agreements |
| "SFC" | Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | Domestic Shares and/or H Shares |
| "Share Transfer Agreements" | the conditional sale and purchase agreements dated 21 April 2011 entered into between Tianye Holdings and the respective Vendors in relation to the sale and purchase of the Sale Shares |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Takeovers Code" | The Hong Kong Code on Takeovers and Mergers |
| "Tianye Company" | 新疆天業股份有限公司 (Xinjiang Tianye Company Limited*), a company established in the PRC with its shares listed on the Shanghai Stock Exchange |
| "Tianye Holdings" | 新疆天業(集團)有限公司 (Xinjiang Tianye (Group) Limited*), a state-owned enterprise and is wholly-owned by SAAC of No. 8 Division |
| "Vendors" | Mr. Guo and Mr. Wang |
| "%" | per cent. |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |

*For illustration purposes in this Composite Document, the amounts in RMB are translated to HK$ at the rate of RMB0.840 = HK$1.00. No representation is made that any amount in RMB has been or could be converted at the above rate or at any other rates.*

* *For identification purposes only*

高銀(證券)有限公司
GOLDIN EQUITIES LIMITED

23rd Floor
Two International Finance Centre
8 Finance Street
Central, Hong Kong

26 May 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
GOLDIN EQUITIES LIMITED
ON BEHALF OF
LONG THRIVE HOLDINGS LIMITED
FOR ALL THE ISSUED H SHARES IN
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
XINJIANG TIANYE (GROUP) LIMITED*,
LONG THRIVE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH THEM)**

## INTRODUCTION

On 9 May 2011, Tianye Holdings, Long Thrive and the Company jointly announced that on 21 April 2011 (after trading hours), Tianye Holdings has entered into the Share Transfer Agreements with the respective Vendors, pursuant to which Tianye Holdings has conditionally agreed to acquire from the respective Vendors an aggregate of 111,721,926 Domestic Shares, representing approximately 21.51% of the entire issued share capital of the Company as at the date of the Joint Announcement, for an aggregate consideration of RMB111,721,926.

The Share Transfer Agreements only take effect upon the obtaining of all consents and approvals of relevant government authorities of the PRC and such condition must be fulfilled and is incapable of being waived. The approvals by the Bureau of Commerce of Xinjiang Production & Construction Corps of the transfer of the Sale Shares from the respective Vendors to Tianye Holdings were granted on 25 April 2011. The condition of the Share Transfer Agreements was fulfilled and the Share Transfer Agreements took effect on 25 April 2011.

Prior to the acquisition of the Sale Shares, Tianye Holdings and parties acting in concert with it were interested in 202,164,995 Domestics Shares, representing approximately 38.91% of the entire issued share capital of the Company. Immediately after the Share Transfer Agreements becoming effective, Tianye Holdings and parties acting in concert with it became interested in an aggregate of 313,886,921 Domestic Shares, representing approximately 60.42% of the entire issued share capital of the Company.

* *For identification purposes only*

Pursuant to Rule 26.1 of the Takeovers Code, Tianye Holdings is required to make mandatory unconditional general offers in cash for all the outstanding Shares other than those already owned or agreed to be acquired by Tianye Holdings and parties acting in concert with it. As each of the Remaining Domestic Shareholders has provided an irrevocable undertaking to Tianye Holdings that each of them (i) will not accept an offer for its Domestic Shares; and (ii) will not sell, transfer or dispose of any of its Domestic Shares to Tianye Holdings or other third parties before the close of the H Share Offer or take such actions that will make any of its Domestic Shares available for acceptance, the mandatory unconditional cash offer will not be extended to the Domestic Shares. As Tianye Holdings is restricted from holding overseas listed foreign invested shares under the relevant rules and regulations in the PRC, Tianye Holdings, Ms. Chow and Long Thrive entered into an agreement dated 21 April 2011 to form a consortium, pursuant to which Long Thrive becomes a party acting in concert with Tianye Holdings and will make the H Share Offer. The said agreement between Tianye Holdings, Ms. Chow and Long Thrive stipulates, among others, the following major terms: (i) the sole purpose of establishing Long Thrive by Ms. Chow is to make the H Share Offer and assist Tianye Holdings in compliance with the requirements under the Takeovers Code and relevant PRC regulation; (ii) Ms. Chow and Long Thrive agree that except with the consent of Tianye Holdings, save for the acquisition of the H Shares under the H Share Offer, they shall not directly or indirectly hold, own, control or dispose of any relevant securities of the Company (or entering into any agreement or arrangement in respect of any relevant securities of the Company); (iii) except with the consent of Tianye Holdings, Long Thrive shall not (and Ms. Chow shall procure Long Thrive not to) carry on any business or activities (other than activities for fulfilling the obligations under the H Share Offer); and (iv) the H Share Offer to be made by Long Thrive will be financed by a loan facility to be granted by a financial institution in Hong Kong and the related costs, interests and expenses shall be borne by Tianye Holdings.

Goldin Equities is making the H Share Offer on behalf of Long Thrive for all the H Shares not already owned or agreed to be acquired by Tianye Holdings, Long Thrive and parties acting in concert with them.

This letter sets out, among others, the details of the H Share Offer, information on Tianye Holdings and Long Thrive and their intention regarding the Company. Further details of the terms of the H Share Offer are set out in this letter, Appendix I to the Composite Document and the accompanying Form of Acceptance.

## THE H SHARE OFFER

### Principal terms of the H Share Offer

Goldin Equities on behalf of Long Thrive is making the H Share Offer to acquire all the issued H Shares pursuant to Rule 26.1 of the Takeovers Code on the following basis:

For each H Share . . . . . . . . . . . . . . . . . HK$1.20 (equivalent to RMB1.00) in cash

The offer price per H Share to be made by Long Thrive is equivalent to RMB1.00, being the purchase price per Sale Share from the Vendors by Tianye Holdings under the Share Transfer Agreements, and converted into Hong Kong dollar, based on the exchange rate of RMB0.8363 to HK$1 quoted on The People's Bank of China as at 9 May 2011, being the date of the Joint Announcement.

The H Shares to be acquired under the H Share Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, declared, made or paid on or after the date of the Share Transfer Agreements becoming effective.

As at the Latest Practicable Date, the Company did not have any outstanding warrants or options or derivatives to acquire Shares or other securities which are convertible into Shares. Holders of H Shares and holders of Domestic Shares have the same voting rights and the right to receive dividend.

The H Share Offer is unconditional and therefore is not conditional upon any minimum level of acceptances being received nor subject to any other conditions. The procedures for acceptance and further terms of the H Share Offer are set out in Appendix I to the Composite Document.

**Comparison of value**

The offer price of HK$1.20 per H Share represents:

(i) a discount of approximately 29.82% to the closing price of HK$1.71 per H Share as quoted on the Stock Exchange on 21 April 2011, being the last trading day immediately before the date of the Joint Announcement;

(ii) a discount of approximately 35.83% to the closing price of HK$1.87 per H Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 31.43% to the average closing price of approximately HK$1.75 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 26.38% to the average closing price of HK$1.63 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 14.29% to the closing price of HK$1.40 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a discount of approximately 23.57% to the audited consolidated total equity attributable to the owners of the Company of approximately RMB1.31 (equivalent to approximately HK$1.57) per Share as at 31 December 2010, being the date which the latest audited financial results of the Group were made up.

**Highest and lowest H Share prices**

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the Relevant Period were HK$1.87 per H Share on 22 February 2011 and HK$1.02 per H Share on 8 September 2010, respectively.

**Value of the H Share Offer**

There are 202,400,000 H Shares subject to the H Share Offer. The H Share Offer is valued at approximately HK$242,880,000 based on the offer price of HK$1.20 per H Share.

**Financial resources sufficiency**

Long Thrive will finance the H Share Offer by a loan facility granted by a financial institution in Hong Kong. Goldin Financial, the financial adviser to Long Thrive, is satisfied that sufficient financial resources are available to Long Thrive to meet acceptances in full of the H Share Offer.

**Effects of accepting the H Share Offer**

By accepting the H Share Offer, the relevant Shareholders will sell their H Shares to Long Thrive free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, declared, made or paid on or after 25 April 2011, being the date of the Share Transfer Agreements becoming effective. As at the Latest Practicable Date, no dividend or other distribution has been declared by the Company, the payment of which will be made on or after 25 April 2011, being the Share Transfer Agreements becoming effective.

**Stamp duty**

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by Long Thrive in respect of the relevant acceptances of the H Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholder on acceptance of the H Share Offer. Long Thrive will arrange for payment of the seller's ad valorem stamp duty on behalf of accepting Shareholders and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the H Share Offer and the transfer of the H Shares.

**Payment**

Payment in cash in respect of acceptances of the H Share Offer will be made as soon as possible but in any event within 10 days of the date on which duly completed acceptances together with relevant documents of title are received by Long Thrive to render each such acceptance complete and valid.

**Dealing and interests in the Company's securities**

Details of the dealings in securities of the Company by Tianye Holdings, Long Thrive and persons acting in concert with them are set out in the section headed "7. Dealings in securities of the Company" in Appendix III to the Composite Document.

**Compulsory acquisition**

Tianye Holdings, Long Thrive and parties acting in concert with them do not intend to exercise any right which may be available to them to acquire compulsorily any Shares not tendered for acceptance under the H Share Offer.

## INFORMATION ON THE GROUP

The Group is principally engaged in the design, manufacture, installation and sale of irrigation system and equipment.

Certain information of the Company as extracted from the Company's audited financial results as disclosed in the annual report of the Company for the year ended 31 December 2010 is set out below:

| | For the year ended 31 December | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Turnover | 588,491 | 571,028 |
| Profit before taxation | 20,853 | 7,180 |
| Profit attributable to owners of the Company | 17,151 | 6,479 |
| Equity attributable to owners of the Company | 682,683 | 665,532 |

## INFORMATION ON TIANYE HOLDINGS AND LONG THRIVE

Tianye Holdings is a state-owned enterprise and is wholly-owned by SAAC of No.8 Division. Tianye Holdings is directly interested in approximately 43.27% of the registered capital of Tianye Company. Tianye Company is a company established in the PRC with its shares listed on the Shanghai Stock Exchange and is directly interested in approximately 38.91% of the entire issued share capital of the Company. Tianye Holdings is the holding company of Tianye Company and is the ultimate parent company of the Company. Tianye Holdings is principally engaged in production and sale of tomato paste, citric acid, vehicles and road transportation, production and sale of plastic products; sale of steel, building materials, textile, car accessories, livestock products, dried and fresh fruits, mechanical equipment and chemical industrial products; growing, cultivation, promotion of water saving agricultural technology, research on water saving agricultural projects, import and export business.

The board of directors of Tianye Holdings comprises eight directors, namely, Mr. Guo Qingren, Mr. Zhang Xinli, Mr. Huang Yangxin, Mr. Wu Bin, Ms. Song Xiaoling, Mr. An Zhiming, Mr. Wang Zheng and Mr. Hong Xianzhang.

The board of directors of Tianye Company comprises six directors, namely, Mr. Hou Guojun, Mr. Yu Tianchi, Ms. Song Xiaoling, Mr. Zhu Jiaji, Mr. Wang Zhiqiang and Mr. Zhang Li, and three independent directors, namely, Mr. Yi Liwei, Mr. Zhang Sen and Mr. Lin Tienian.

Long Thrive is a company incorporated in the BVI with limited liability on 20 January 2011, and is beneficially and wholly-owned by Ms. Chow. Except for the entering into of the agreement with Tianye Holdings on 21 April 2011 to form a consortium for the purpose of making the H Share Offer and the loan facility agreement (together with collateral documentation) with a financial institution on 25 April 2011, Long Thrive has not conducted any other business since its incorporation.

Ms. Chow is the sole director and shareholder of Long Thrive. She is also the financial controller, company secretary, qualified accountant and one of the authorised representatives of the Company. Ms. Chow has obtained her bachelor degree in accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chow worked for an international accounting firm for six years and she has over ten years of experience in the fields of professional accounting services, taxation, company secretarial and financial management.

**TIANYE HOLDINGS' AND LONG THRIVE'S INTENTION ON THE GROUP**

It is the intention of Tianye Holdings and Long Thrive that the Group will continue with its existing principal activities after the close of the H Share Offer. Tianye Holdings and Long Thrive do not intend to introduce any major changes to the existing operation or business of the Company or re-deploy the employees of the Group. Tianye Holdings and Long Thrive will conduct a review of the business operations and financial position of the Company after the close of the H Share Offer with a view to formulating a business plan and strategy suited for the Company. Subject to the result of the review, Tianye Holdings and Long Thrive may explore other business or investment opportunities which might enhance the Group's future development. In view of the foresaid, Tianye Holdings and Long Thrive are of the view that the H Share Offer is in its long-term commercial interest. Tianye Holdings and Long Thrive have no intention to dispose of or deploy the assets of the Group (other than those in its ordinary course of business). As at the Latest Practicable Date, Tianye Holdings and Long Thrive had no intention or plans for any acquisition or disposal of assets and/or business by the Group. Both Long Thrive and Ms. Chow confirm that save for the existing roles of Ms. Chow as the financial controller, company secretary, qualified accountant and one of the authorised representatives of the Company or such other roles as may be designated by the Board to Ms. Chow, they do not intend to participate in any other roles in the Company.

## BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the Board comprised six executive Directors and five independent non-executive Directors.

Tianye Holdings and Long Thrive do not intend to propose any change to the existing composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made by the Company accordingly.

## MAINTAINING THE LISTING STATUS OF THE COMPANY

Tianye Holdings and Long Thrive intend to maintain the listing of the H Shares on the Stock Exchange after the close of the H Share Offer. The Company, Tianye Holdings and Long Thrive have undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the H Share Offer to ensure that the minimum public float of not less than 25% of the Company's entire issued share capital as required under the Listing Rules will be restored or maintained (as applicable) following the close of the H Share Offer. The Company, Tianye Holdings and Long Thrive have considered that the appropriate course of actions to take shall include placing down of sufficient number of accepted H Shares to ensure there will be not less than 25% of the Company's entire issued share capital held by the public in compliance with the Listing Rules and the Takeovers Code. The Company, Tianye Holdings and Long Thrive will issue a separate announcement as and when necessary regarding the decision of any such placing down, if the circumstances warrant.

The Stock Exchange has stated that if, upon the close of the H Share Offer, the number of Shares held by the public is less than the minimum required percentage of the Company's issued share capital currently applicable to the Company is held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the H Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the H Shares.

## FURTHER TERMS OF THE H SHARE OFFER

Further terms of the H Share Offer, including the procedures for acceptance and settlement, and the acceptance period, are set out in Appendix I to the Composite Document and in the Form of Acceptance.

## GENERAL

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold H Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the H Share Offer.

The attention of Shareholders not resident in Hong Kong is drawn to the section headed "8. Overseas Shareholders" in Appendix I to the Composite Document.

All documents and remittance sent to the Independent Shareholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or, in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company, as applicable. None of the Company, Tianye Holdings, Long Thrive, Goldin Financial and Goldin Equities, nor any of their respective directors or any persons involved in the H Share Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

**ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices, which form part of the Composite Document.

Yours faithfully,
For and on behalf of
**Goldin Equities Limited**
**Ho Sin Cheung**
*Director*

# 新 疆 天 業 節 水 灌 溉 股 份 有 限 公 司
# XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*

*(a joint stock limited company incorporated in the PRC)*

**(Stock Code: 840)**

*Executive Directors:*
Mr. Hou Guo Jun *(Chairman)*
Mr. Shi Xiang Shen
Mr. Yin Xiu Fa
Mr. Li Shuang Quan
Mr. Zhu Jia Ji
Mr. Chen Lin

*Independent non-executive Directors:*
Mr. He Lin Wang
Mr. Gu Lie Feng
Mr. Xia Jun Min
Mr. Wang Yun
Mr. Mak King Sau

*Registered office:*
No. 36, Bei San Dong Road,
Shihezi Economic and Technological
Development Zone,
Shihezi,
Xinjiang,
PRC

*Principal place of business in Hong Kong:*
Unit 2209, 22/F
Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

26 May 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
GOLDIN EQUITIES LIMITED
ON BEHALF OF
LONG THRIVE HOLDINGS LIMITED
FOR ALL THE ISSUED H SHARES IN
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
XINJIANG TIANYE (GROUP) LIMITED*,
LONG THRIVE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH THEM)**

## INTRODUCTION

On 9 May 2011, Tianye Holdings, Long Thrive and the Company jointly announced that on 21 April 2011 (after trading hours), Tianye Holdings has entered into the Share Transfer Agreements with the respective Vendors, pursuant to which Tianye Holdings has conditionally agreed to acquire from the respective Vendors an aggregate of 111,721,926

* *For identification purpose only*

Domestic Shares, representing approximately 21.51% of the entire issued share capital of the Company as at the date of the Joint Announcement, for an aggregate consideration of RMB111,721,926.

The Share Transfer Agreements only take effect upon the obtaining of all consents and approvals of relevant government authorities of the PRC and such condition must be fulfilled and is incapable of being waived. The approvals by the Bureau of Commerce of Xinjiang Production & Construction Corps of the transfer of the Sale Shares from the respective Vendors to Tianye Holdings were granted on 25 April 2011. The condition of the Share Transfer Agreements was fulfilled and the Share Transfer Agreements took effect on 25 April 2011.

Prior to the acquisition of the Sale Shares, Tianye Holdings and parties acting in concert with it were interested in 202,164,995 Domestics Shares, representing approximately 38.91% of the entire issued share capital of the Company. As at the date of the joint announcement, Tianye Holdings and parties acting in concert with it became interested in an aggregate of 313,886,921 Domestic Shares, representing approximately 60.42% of the entire issued share capital of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, Tianye Holdings is required to make mandatory unconditional general offers in cash for all the outstanding Shares other than those already owned or agreed to be acquired by Tianye Holdings and parties acting in concert with it. As each of the Remaining Domestic Shareholders has provided an irrevocable undertaking to Tianye Holdings that each of them (i) will not accept an offer for its Domestic Shares; and (ii) will not sell, transfer or dispose of any of its Domestic Shares to Tianye Holdings or other third parties before the close of the H Share Offer or take such actions that will make any of its Domestic Shares available for acceptance, the mandatory unconditional cash offer will not be extended to the Domestic Shares. As Tianye Holdings is restricted from holding overseas listed foreign invested shares under the relevant rules and regulations in the PRC, Tianye Holdings, Long Thrive and Ms. Chow entered into an agreement dated 21 April 2011 to form a consortium, pursuant to which Long Thrive becomes a party acting in concert with Tianye Holdings and will make the H Share Offer.

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising Mr. He Lin Wang, Mr. Gu Lie Feng, Mr. Xia Jun Ming, Mr. Wang Yun and Mr Mak King Sau, all being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the H Share Offer. All members of the Independent Board Committee are independent in respect of the H Share Offer. Bridge Partners has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in respect of the H Share Offer. The appointment of Bridge Partners as the Independent Financial Adviser has been approved by the Independent Board Committee.

The purposes of the Composite Document is to provide you with, among other things, information relating to the Company, Tianye Holdings, Long Thrive and the H Share Offer, and to set out the letter from the Independent Board Committee containing its advice to the Independent Shareholders and the letter from Bridge Partners in respect of the H Share Offer.

The full text of the letter of advice from Bridge Partners addressed to the Independent Board Committee is set out in the Composite Document. Independent Shareholders are advised to read the letter of advice from Bridge Partners and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the H Share Offer.

## THE H SHARE OFFER

### Principal terms of the H Share Offer

Goldin Equities on behalf of Long Thrive is making the H Share Offer to acquire all the issued H Shares pursuant to Rule 26.1 of the Takeovers Code on the following basis:

For each H Share . . . . . . . . . . . . . . . . . HK$1.20 (equivalent to RMB1.00) in cash

The offer price per H Share to be made by Long Thrive is equivalent to RMB1.00, being the purchase price per Sale Share from the Vendors by Tianye Holdings under the Share Transfer Agreements, and converted into Hong Kong dollar, based on the exchange rate of RMB0.8363 to HK$1 quoted on The People's Bank of China as at 9 May 2011, being the date of the Joint Announcement.

The H Shares to be acquired under the H Share Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, declared, made or paid on or after the date of the Share Transfer Agreements becoming effective.

As at the Latest Practicable Date, the Company did not have any outstanding warrants or options or derivatives to acquire Shares or other securities which are convertible into Shares. Holders of H Shares and holders of Domestic Shares have the same voting rights and the right to receive dividend.

The H Share Offer is unconditional and therefore is not conditional upon any minimum level of acceptances being received nor subject to any other conditions. The procedures for acceptance and further terms of the H Share Offer are set out in Appendix I to the Composite Document.

**Comparison of value**

The offer price of HK$1.20 per H Share represents:

(i) a discount of approximately 29.82% to the closing price of HK$1.71 per H Share as quoted on the Stock Exchange on 21 April 2011, being the last trading day immediately before the date of the Joint Announcement;

(ii) a discount of approximately 35.83% to the closing price of HK$1.87 per H Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 31.43% to the average closing price of approximately HK$1.75 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 26.38% to the average closing price of HK$1.63 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 14.29% to the closing price of HK$1.40 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a discount of approximately 23.57% to the audited consolidated total equity attributable to the owners of the Company of approximately RMB1.31 (equivalent to approximately HK$1.57) per Share as at 31 December 2010, being the date which the latest audited financial results of the Group were made up.

**Highest and lowest H Share prices**

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the Relevant Period were HK$1.87 per H Share on 22 February 2011 and HK$1.02 per H Share on 8 September 2010, respectively.

**Value of the H Share Offer**

There are 202,400,000 H Shares subject to the H Share Offer. The H Share Offer is valued at approximately HK$242,880,000 based on the offer price of HK$1.20 per H Share.

**Further details of the H Share Offer**

Further details of the H Share Offer, including the terms and conditions of the H Share Offer and the procedures for acceptance of the H Share Offer, are contained in the letter from Goldin Equities of the Composite Document, in Appendix I to the Composite Document and in the Form of Acceptance.

## INFORMATION ON THE GROUP

The Group is principally engaged in the design, manufacture, installation and sale of irrigation system and equipment.

Certain information of the Company as extracted from the Company's audited financial results as disclosed in the annual report of the Company for the year ended 31 December 2010 is set out below:

| | For the year ended 31 December | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Turnover | 588,491 | 571,028 |
| Profit before taxation | 20,853 | 7,180 |
| Profit attributable to owners of the Company | 17,151 | 6,479 |
| Equity attributable to owners of the Company | 682,683 | 665,532 |

A summary of the audited consolidated results of the Group for each of the three financial years ended 31 December 2010 and the audited financial statements of the Group for the year ended 31 December 2010 are set out in Appendix II to the Composite Document.

## SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date.

| Name of Shareholder | As at the Latest Practicable Date | |
|---|---|---|
| | *Number of Shares* | *Approximate %* |
| ***Domestic Shares*** | | |
| Tianye Holdings and parties acting in concert with it | | |
| — Tianye Company | 202,164,995 | 38.91 |
| — Tianye Holdings | 111,721,926 | 21.51 |
| Sub-total | 313,886,921 | 60.42 |
| Remaining Domestic Shareholders | | |
| — 機械科學研究總院 (China Academy of Machinery Science and Technology*) | 2,410,123 | 0.46 |
| — 西北農林科技大學 (Northwest A&F University*) | 824,516 | 0.16 |
| ***H Shares*** | | |
| Public Shareholders | 202,400,000 | 38.96 |
| Total | 519,521,560 | 100.00 |

## INFORMATION ON TIANYE HOLDINGS AND LONG THRIVE

Your attention is drawn to the section headed "Information on Tianye Holdings and Long Thrive" in the letter from Goldin Equities as set out on pages 5 to 12 of the Composite Document.

## TIANYE HOLDINGS AND LONG THRIVE'S INTENTION ON THE COMPANY

Your attention is drawn to the section headed "Tianye Holdings' and Long Thrive's intention on the Company" in the letter from Goldin Equities as set out on pages 5 to 12 of the Composite Document.

The Board is pleased to note that it is the intention of Tianye Holdings and Long Thrive that the Group will continue its existing principal activities and will maintain the listing status of the Company on the Main Board of the Stock Exchange after closing of the H Share Offer, and that Tianye Holdings and Long Thrive have no intention to introduce any change to the existing composition of the Board or any major changes to the existing operation or business of the Company or re-deploy the employees of the Group after closing of the H Share Offer. The Board further notes that Tianye Holdings and Long Thrive will conduct a review on the business operations and financial position of the Company after the close of the H Share Offer with a view to formulating a business plan and strategy suited for the Company and subject to the result of the review, Tianye Holdings and Long Thrive may explore other business or investment opportunities which might enhance the Group's future development. The Board believes the intention of Tianye Holdings and Long Thrive in respect of the Company to be reasonable and is willing to render reasonable cooperation with Tianye Holdings and Long Thrive further which are of the interests of Company and the Shareholders as a whole.

## BOARD COMPOSITION OF THE COMPANY

The Directors note from the letter from Goldin Equities as set out in the Composite Document that Tianye Holdings and Long Thrive do not intend to propose any change to the existing composition of the board of the Company. Further announcement will be made by the Company in compliance with the requirements of the Listing Rules whenever there are changes in the composition of the Board.

## MAINTAINING THE LISTING STATUS OF THE COMPANY

Tianye Holdings and Long Thrive intend to maintain the listing of the H Shares on the Stock Exchange after the close of the H Share Offer. The Company, Tianye Holdings and Long Thrive have undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the H Share Offer to ensure that the minimum public float of not less than 25% of the Company's entire issued share capital as required under the Listing Rules will be restored or maintained (as applicable) following the close of the H Share Offer. The Company, Tianye Holdings and Long Thrive have considered that the appropriate course of actions to take shall include placing down of sufficient number of accepted H Shares to ensure there will be not less than 25% of the Company's entire issued share capital held by the public in compliance with the Listing Rules and the Takeovers Code. The Company, Tianye Holdings and Long Thrive will issue a separate announcement as and when necessary regarding the decision of any such placing down, if the circumstances warrant.

The Stock Exchange has stated that if, upon the close of the H Share Offer, the number of Shares held by the public is less than the minimum required percentage of the Company's issued share capital currently applicable to the Company is held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the H Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend dealings in the H Shares.

In this connection, it should be noted that upon completion of the H Share Offer, there may be insufficient public float of the H Shares and, therefore, trading in the H Shares may be suspended until a sufficient level of public float is attained.

## RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders which sets out its recommendation to the Independent Shareholders and the letter from Bridge Partners which sets out its advice to the

Independent Board Committee in relation to the H Share Offer and the principal factors considered by them in arriving at their recommendation as set out on pages 21 to 22 and pages 23 to 36 of the Composite Document respectively.

**ADDITIONAL INFORMATION**

In considering what action to take in connection with the H Share Offer, Independent Shareholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read the Composite Document together with the Form of Acceptance in respect of the acceptance and settlement procedures of the H Share Offer. Your attention is also drawn to the additional information contained in the appendices to the Composite Document.

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

*The following is the full text of a letter from the Independent Board Committee to the Independent Shareholders in relation to the H Share Offer prepared for inclusion in the Composite Document.*

**新疆天業節水灌溉股份有限公司**

**XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED***

*(a joint stock limited company incorporated in the PRC)*

**(Stock Code: 840)**

26 May 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
GOLDIN EQUITIES LIMITED
ON BEHALF OF
LONG THRIVE HOLDINGS LIMITED
FOR ALL THE ISSUED H SHARES IN
XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED*
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
XINJIANG TIANYE (GROUP) LIMITED*,
LONG THRIVE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH THEM)**

We refer to the composite offer and response document (the "Composite Document") dated 26 May 2011 jointly issued by Tianye Holdings, Long Thrive and the Company, of which this letter forms part. Capitalized terms used in the Composite Document shall have the same meanings in this letter unless the context otherwise requires.

As the Independent Board Committee, we have been appointed to advise the Independent Shareholders in connection with the H Share Offer, details of which are set out in the letter from the Board, the letter from Goldin Equities and the additional information contained in Appendix I to the Composite Document.

Bridge Partners Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect. Details of its recommendation and principal factors taken into consideration in arriving at its recommendation are set out in the letter from Bridge Partners on pages 23 to 36 of the Composite Document.

* *For identification purpose only*

Taking into consideration the advice given by Bridge Partners and the principal factors and reasons taken into consideration by it in arriving at its advice, we consider that the terms of the H Share Offer are not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders not to accept the H Share Offer.

Notwithstanding our recommendation, you are strongly advised that the decision to realize or to hold your investment in the Shares is subject to individual circumstances and investment objectives and should consider carefully the terms of the H Share Offer.

Yours faithfully,
Independent Board Committee
**He Lin Wang** **Gu Lie Feng** **Xia Jun Ming** **Wang Yun** **Mak King Sau**
*Independent non-executive Directors*

*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Bridge Partners prepared for the purpose of incorporation in the Composite Offer Document:*

寶橋 BRIDGE PARTNERS

**BRIDGE PARTNERS CAPITAL LIMITED**

Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

26 May 2011

*To the Independent Board Committee and the Independent Shareholders of Xinjiang Tianye Water Saving Irrigation System Company Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY GOLDIN EQUITIES LIMITED ON BEHALF OF LONG THRIVE HOLDINGS LIMITED FOR ALL THE ISSUED H SHARES IN XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED* (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY XINJIANG TIANYE (GROUP) LIMITED*, LONG THRIVE HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH THEM)**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the H Share Offer, details of which are set out in the composite document jointly issued by Tianye Holdings, Long Thrive and the Company to the Shareholders dated 26 May 2011 (the "Composite Offer Document"). Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as in the Composite Offer Document.

An Independent Board Committee comprising five independent non-executive Directors, namely Mr. He Lin Wang, Mr. Gu Lie Feng, Mr. Xia Jun Ming, Mr. Wang Yun and Mr. Mak King Sau, has been established to advise the Independent Shareholders in respect of the H Share Offer. We, Bridge Partners, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, in particular as to whether the terms of the H Share Offer is fair and reasonable, and to give a recommendation as regard to the acceptance of the H Share Offer and our appointment has been approved by the Independent Board Committee.

## BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the accuracy of the information supplied, opinions and representations contained or referred to in the Composite Offer Document and provided to us by the Company, the Directors and the management of the Company. We have also considered and analysed, among other things, (i) the annual reports of the Company for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010; (ii) historical price performance and trading volume of the H Shares from 3 May 2010 to the Latest Practicable Date and (iii) the information contained in the Composite Offer Document. We have assumed that all information, opinions and representations contained or referred to in the Composite Offer Document that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and up to the date throughout the Offer Period and should there be any material changes thereto, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Offer Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information available to us, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of these companies. Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Offer Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Directors jointly and severally accepted full responsibility for the accuracy of the information contained in the Composite Offer Document and confirmed, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document, the omission of which would make any statement in the Composite Offer Document misleading.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the H Share Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the H Share Offer and, if in any doubt, should consult their own professional advisers.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the terms of the H Share Offer, we have considered the following principal factors and reasons:

### (I) Background leading to and the terms of the H Share Offer

On 21 April 2011 (after trading hours), Tianye Holdings entered into the Share Transfer Agreements with the respective Vendors, pursuant to which Tianye Holdings has conditionally agreed to acquire and the respective Vendors have conditionally agreed to sell the Sale Shares, being 61,386,798 Domestic Shares from Mr. Guo and 50,335,128 Domestic Shares from Mr. Wang. The aggregate consideration for the Sale Shares is RMB111,721,926 in cash (equivalent to RMB1.00 per Sale Share). The Share Transfer Agreements took effect on 25 April 2011.

Prior to the acquisition of the Sale Shares, Tianye Holdings and parties acting in concert with it were interested in 202,165,995 Domestic Shares, representing approximately 38.91% of the entire issued share capital of the Company. Immediately after the Share Transfer Agreements becoming effective and as at the Latest Practicable Date, Tianye Holdings and parties acting in concert with it became interested in an aggregate of 313,886,921 Domestic Shares, representing approximately 60.42% of the entire issued share capital of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, Tianye Holdings is required to make mandatory unconditional general offers in cash for all the outstanding Shares other than those already owned or agreed to be acquired by Tianye Holdings and parties acting in concert with it. As each of the Remaining Domestic Shareholders has provided an irrevocable undertaking to Tianye Holdings that each of them (i) will not accept an offer for its Domestic Shares; and (ii) will not sell, transfer or dispose of any of its Domestic Shares to Tianye Holdings or other third parties before the close of the H Share Offer or take such actions that will make any of its Domestic Shares available for acceptance, the mandatory unconditional cash offer will not be extended to the Domestic Shares.

*Consortium arrangement between Tianye Holdings, Ms. Chow and Long Thrive*

According to the Letter from the Board, since Tianye Holdings is restricted from holding overseas listed foreign invested shares under the relevant rules and regulations in the PRC, Tianye Holdings, Ms. Chow and Long Thrive entered into an agreement dated 21 April 2011 to form a consortium, pursuant to which Long Thrive becomes a party acting in concert with Tianye Holdings and will make the H Share Offer. The said agreement between Tianye Holdings, Ms. Chow and Long Thrive stipulates, among others, the following major terms: (i) the sole purpose of establishing Long Thrive by Ms. Chow is to make the H Share Offer and assist Tianye Holdings to comply with the requirements under the Takeovers Code and relevant PRC regulation; (ii) Ms. Chow and Long Thrive agree that except with the consent of Tianye Holdings, save for the acquisition of the H Shares under the H Share Offer, they shall not directly or indirectly hold, own, control or dispose of any relevant securities of the Company (or entering into any agreement or arrangement in respect of any relevant securities of the Company); (iii) except with the consent of Tianye Holdings, Long Thrive shall not (and Ms. Chow shall procure Long Thrive not to) carry on any business or activities (other than activities for fulfilling the obligations under the H Share Offer) and (iv) the H Share Offer to be made by Long Thrive will be financed by a loan facility to be granted by a financial institution in Hong Kong and the related costs, interests and expenses shall be borne by Tianye Holdings.

As at the Latest Practicable Date, there are 202,400,000 H Shares subject to the H Share Offer, representing approximately 38.96% of the total issued Shares of the Company. The H Share Offer is valued at approximately HK$242,880,000 based on the offer price of HK$1.20 per H Share. According to the Letter from the Board, the Company did not have any outstanding warrants or options or derivatives to acquire Shares or other securities which are convertible into Shares as at the Latest Practicable Date. Holders of H Shares and holders of Domestic Shares have the same voting right and the right to receive dividend.

## (II) The H Share Offer

### *1. Business and financial performance of the Group*

The Group is principally engaging in design, manufacturing and sales of drip films, polyvinyl chloride ("PVC")/polyethylene ("PE") pipelines and drip assemblies used in water saving irrigation system in the PRC. The Group is also engaged in the provision of installation services of water saving irrigation system for its customer.

Set out below is a summary of the consolidated financial results of the Group for three years ended 31 December 2008, 31 December 2009 and 31 December 2010:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 588,491 | 571,028 | 664,248 |
| Profit before taxation | 20,853 | 7,180 | 6,532 |
| Profit attributable to owners of the Company | 17,151 | 6,479 | 6,694 |

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | 229,577 | 259,553 | 233,222 |
| Current assets | 792,592 | 711,229 | 770,402 |
| Current liabilities | 322,187 | 286,118 | 322,937 |
| Non-current liabilities | — | 600 | — |

*Source: Extracted from the annual report of the Company for the two years ended 31 December 2009 and 31 December 2010.*

*Year ended 31 December 2010 vs Year ended 31 December 2009*

As illustrated from the table above, the Group recorded a turnover of approximately RMB588 million for the year ended 31 December 2010, representing an increase of approximately 3.1% as compared with approximately RMB571 million for the year ended 31 December 2009. According to the annual report of the Company for the year ended 31 December 2010 (the "2010 Annual Report"), the net increase in turnover was primarily attributable to an increase in sales of PVC/PE pipelines of approximately RMB20 million.

The profit attributable to owners of the Company increased from approximately RMB6.5 million to approximately RMB17.1 million, representing an increase of approximately 164.72% from that of 2009, which was primarily due to improved gross profit margin from approximately 9.0% for the year ended 31 December 2009 to approximately 11.5% for the year ended 31 December 2010. According to the 2010 Annual Report, the improvement in gross profit margin was mainly due to the increase in selling price of PVC pipelines by approximate 6.4% during the year, which increased the overall gross profit margin for 2010.

The cash and cash equivalents of the Group had a significant increase of approximately 186.6%, from approximately RMB44 million as at 31 December 2009, to approximately RMB126 million as at 31 December 2010, which was primarily due to (i) the decrease in the trade and bill receivables from approximately RMB147.22 million in 2009 to approximately RMB102.58 million in 2010 and (ii) the increase in accruals and other payables from approximately RMB64.52 million in 2009 to approximately RMB140.41 million in 2010.

The total borrowings of the Group dropped from approximately RMB117 million as at 31 December 2009 to approximately RMB80 million as at 31 December 2010, which was mainly due to the fact that the Company had repaid the short-term bank borrowings in 2010. As at 31 December 2010, the audited consolidated net asset value of the Group was approximately RMB700 million, representing an increase of approximately 2.3% as compared to approximately RMB684 million as at 31 December 2009.

*Year ended 31 December 2009 vs Year ended 31 December 2008*

As illustrated from the table above, the Group recorded a turnover of approximately RMB571 million for the year ended 31 December 2009, representing a decrease of approximately 14.0% as compared with approximately RMB664 million for the year ended 31 December 2008. According to the annual report of the Company for the year ended 31 December 2009 (the "2009 Annual Report"), the net decrease in turnover was primarily attributable to the decrease in sales revenue of drip films and drip assemblies (decreased by approximately 16.7% year-on-year compared to that for the year ended 31 December 2008) and the decrease in sales revenue of PVC/PE pipelines (decreased by approximately 8.0% year-on-year).

The profit attributable to owners of the Company decreased from approximately RMB6.7 million to approximately RMB6.5 million, representing a decrease of approximately 3.21% from that of year 2008, which was primarily due to the decrease in sales revenue in 2009. As mentioned before, the reason for the decrease in sales revenue was mainly due to the decrease in sales revenue in both drip films and drip assemblies and PVC/PE pipelines.

The cash and cash equivalents of the Group decreased approximately 70.3%, from approximately RMB148 million as at 31 December 2008, to approximately RMB44 million as at 31 December 2009. According to the 2009 Annual Report, the total borrowings of the Group had decreased from approximately RMB189 million as at 31 December 2008 to RMB117 million as at 31 December 2009. The decrease in the cash and cash equivalents and the total borrowings of the Group was mainly due to the settlement of the bills payable of approximately RMB30 million and the repayment of the bank loans of approximately RMB72 million. As at 31 December 2009, the audited consolidated net asset value of the Group was approximately RMB685 million, representing an increase of approximately 0.6% as compared to approximately RMB681 million as at 31 December 2008.

*Future prospects of the Group*

As noted from the 2010 Annual Report, the management of the Group believed that the Chinese government fully recognizes the importance and urgency of strengthening the water saving construction following the frequent and severe floods and droughts occurred in China in recent years. Investments in developing the irrigation and water saving construction in China are expected to increase significantly with the support from the Chinese government. The management of the Group strongly believed that the Group will be the beneficiary with its industry-leading technologies and scale of agricultural water saving. As discussed with the Directors, the Company will grasp the business opportunity of China Western Area Development (西部大開發) and further expand the marketing network of the northern and southern part of China. The Group will also enhance the overall profits and core competitiveness through technology innovation and Tianye Holdings' research power in water saving agricultural services. We are of the view that the Group will benefit from the increasing demand for water saving projects due to the supporting policies from the PRC government and the synergistic benefits brought by Tianye Holdings to the Company.

### 2. *Valuation of the H Share Offer Price*

According to the Letter from the Board, the offer price of H Shares to be made by Long Thrive to the Shareholders is equivalent to RMB1.00, being the purchase price per Sale Share paid by Tianye Holdings to the Vendors under the Share Transfer Agreements, and converted into Hong Kong dollar, based on the exchange rate of RMB0.8363 to HK$1 quoted on The People's Bank of China as at 9 May 2011, being the date of the Joint Announcement. The offer price of HK$1.20 per H Share (the "H Share Offer Price") represents:

(a) a discount of approximately 29.82% to the closing price of HK$1.71 per H Share as quoted on the Stock Exchange on 21 April 2011, being the last trading day immediately before the date of the Joint Announcement;

(b) a discount of approximately 35.83% to the closing price of HK$1.87 per H Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 31.43% to the average closing price of approximately HK$1.75 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

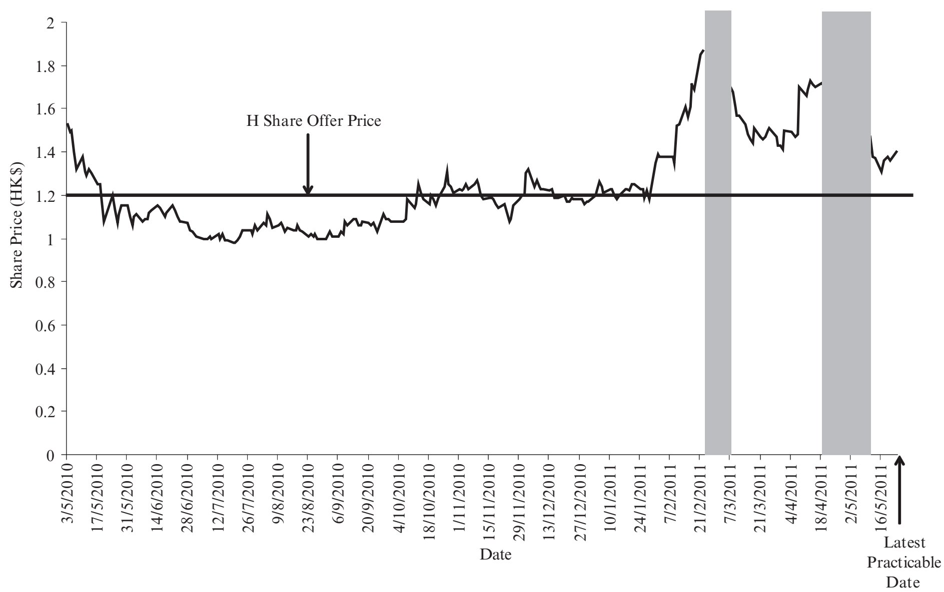
(d) a discount of approximately 26.38% to the average closing price of HK$1.63 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 14.29% to the closing price of HK$1.40 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(f) a discount of approximately 23.57% to the audited consolidated total equity attributable to the owners of the Company of approximately RMB1.31 (equivalent to approximately HK$1.57) per Share as at 31 December 2010, being the date which the latest audited consolidated financial results of the Group were made up.

*2.1 Historical H Share price performance*

For the purpose of comparing the H Share Offer Price of HK$1.20 per H Share with the market price of the H Shares, we plot the closing price level of the H Shares traded on the Stock Exchange from 3 May 2010 to 21 April 2011 (being the last trading day prior to the release of the Joint Announcement) and further up to the Latest Practicable Date (the "Review Period") as follows:




*Source: Website of the Stock Exchange (www.hkex.com.hk)*

*Note:* Trading in the H Shares was suspended from 23 February 2011 to 4 March 2011 (both days inclusive) and from 26 April 2011 to 9 May 2011 (both days inclusive).

As shown in the chart above, the highest and lowest closing prices of the H Shares during the Review Period were HK$1.87 on 22 February 2011 and HK$0.98 on 19 and 20 July 2010 respectively. The H Share Offer Price represents a discount of approximately 35.83% over and a premium of approximately 22.45% to such highest and lowest closing price per H Share during the Review Period respectively. During the Review Period, there were 130 trading days that were traded below the H Share Offer Price and 116 trading days traded at or well above the H Share Offer Price.

Trading in the H Shares was suspended from 23 February 2011 to 4 March 2011. On 7 March 2011, the Company announced that the board of directors of the Company has been informed by Tianye Holdings that Tianye Holdings is currently engaged in preliminary discussions with Mr. Guo and Mr. Wang regarding a possible acquisition of all the shares of the Company held by each of Mr. Guo and Mr. Wang. On 26 April 2011, the Company requested suspension in the trading in H Shares pending the release of an announcement pursuant to the Takeovers Code.

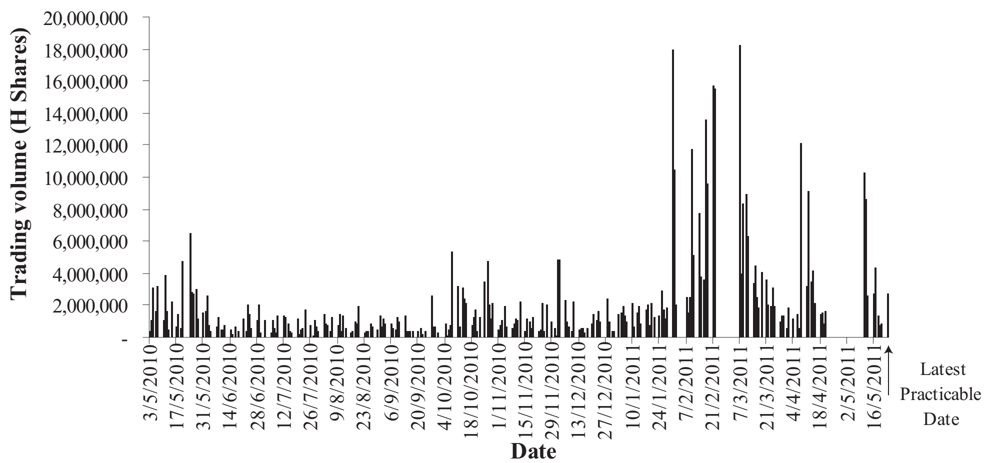
Given that the H Share Offer Price of HK$1.20 represents a discount of approximately 35.83% to the closing price of HK$1.87 per H Share on the Stock Exchange on the Last Trading Day and a discount of approximately 14.29% to the closing price of HK$1.40 per H Share on the Latest Practicable Date. We are of the view that the **H Share Offer Price is not attractive to the Independent Shareholders**.

Independent Shareholders should note that although the H Share Offer's average market price of HK$1.23 during the period from 3 May 2010 to the Latest Practicable Date was higher than the H Share Offer Price by approximately 2.44% and the H Share Offer Price represents a discount of approximately 35.83% to the closing price of HK$1.87 per H Share on the Last Trading Day, there is no assurance that the trading price of the H Shares will continue to sustain at high level and be significantly higher than the H Share Offer Price during the offer period. Independent Shareholders should be reminded to closely monitor the market price of the H Shares during the offer period.

*2.2 Liquidity of the H Shares*

The following chart shows the trading volume of the H Shares on the Stock Exchange during the Review Period:

**Trading volume of the H Shares during the Review Period**




*Source: Website of the Stock Exchange (www.hkex.com.hk)*

The following table also sets out (i) the total trading volume of the H Shares in each month; (ii) the average daily trading volume of the H Shares in each month and (iii) the percentage of the average daily trading volume of the H Shares in each month to the total number of H Shares in issue during the Review Period:

| | **Total trading volume of the H Shares in each month** *(H Shares)* | **Average daily trading volume of the H Shares in each month** *(H Shares)* | **Percentage of the average daily trading volume of the H Shares in each month to the total number of H Shares in issue** *(Note)* *(approximately)* |
|---|---|---|---|
| **2010** | | | |
| May | 43,851,000 | 2,192,550 | 1.08% |
| June | 20,048,260 | 954,679 | 0.47% |
| July | 16,141,500 | 768,643 | 0.38% |
| August | 18,211,125 | 827,778 | 0.41% |
| September | 15,399,260 | 733,298 | 0.36% |
| October | 38,025,000 | 1,901,250 | 0.94% |
| November | 22,260,000 | 1,011,818 | 0.50% |
| December | 29,008,000 | 1,318,545 | 0.65% |
| **2011** | | | |
| January | 49,397,000 | 2,352,238 | 1.16% |
| February | 105,565,423 | 7,540,387 | 3.73% |
| March | 78,892,023 | 4,152,212 | 2.05% |
| April | 44,806,400 | 3,200,457 | 1.58% |
| 1 May to the Latest Practicable Date | 34,340,000 | 3,815,556 | 1.89% |

*Source: Website of the Stock Exchange (www.hkex.com.hk)*

*Note:* Based on the total number of H Shares in issue at the then period.

The above table illustrated that the average daily trading volume of the H Shares per month was very thin during the Review Period. During the Review Period, the highest daily average trading volume amounted to approximately 7,540,387 H Shares in February 2011, representing approximately 3.73% of the total number of H Shares in issue and the lowest daily average trading volume amounted to approximately 733,298 H Shares in September 2010, representing approximately 0.36% of the total number of H Shares in issue. The trading volume of the H Shares on the Latest Practicable Date amounted to 2,670,000 H Shares, representing approximately 1.32% of the total number of H Shares in issue.

Given that the trading of the H Shares is relatively illiquid during the Review Period, any disposal of large block of H Shares held by the public Shareholders in the open market may trigger price slump of the H Shares. Independent Shareholders should note that if they wish to realize their investments in the Company, especially those with large block of shares, they might not be able to dispose the H Shares in the market without having an adverse impact on the market price level of the H Shares. Nevertheless, Independent Shareholders who intend to dispose part or all of their shareholdings should closely monitor the market price and the liquidity of the H Shares in the open market. However, the trading liquidity may still provide an open market for the Independent Shareholders who wish to realize their H Shares in the open market. The Independent Shareholders are reminded that, if they accept the H Share Offer, he/she will sell their H Shares at the H Share Offer Price at a discount of approximately 14.29% to the closing price of HK$1.40 per H Share on the Latest Practicable Date, which in our view the H Share Offer Price is not attractive.

*2.3 Valuation of the H Share Offer Price*

To further assess the fairness and reasonableness of the H Share Offer Price, we have researched companies listed on the Stock Exchange and overseas stock exchanges which their principal business activities that are substantially similar to that of the Company. However, we are unable to identify any listed companies which are engaged in the business that is substantially similar to that of the Company. As such, our analysis is mainly based on the historical share price performance and the trading liquidity of the H Shares as described above.

### 3. *Background of Tianye Holdings and Long Thrive and their intention regarding the future of the Group*

Tianye Holdings and parties acting in concert with it are interested in aggregate of 313,886,921 Domestic Shares, representing approximately 60.42% of the entire issued share capital of the Company. As mentioned in the Letter from the Board, Tianye Holdings is a state-owned enterprise and is wholly-owned by SAAC of No.8 Division. It is principally engaged in production and sale of tomato paste, citric acid, vehicles and road transportation, production and sale of plastic products; sale of steel, building, materials, textile, car accessories, livestock products, dried and fresh fruits, mechanical equipment and chemical industrial products; growing, cultivation, promotion of water saving agricultural technology, research on water saving agricultural projects, import and export business. Tianye Holdings is directly interested in approximately 43.27% of the registered capital of Tianye Company. Tianye Company is a company established in the PRC with its shares listed on the Shanghai Stock Exchange. As advised by the Company, Tianye Company is principally engaged in the manufacturing and sale of PVC, caustic soda and construction materials; construction installation and production and sale of tomato paste and citric acid. Prior to the acquisition of the Sale Shares, Tianye Company has been directly interested in approximately 38.91% of the entire issued share capital of the Company.

As the Tianye Holdings is engaged in the research of water saving agricultural services, we are of the view that Tianye Holdings, with its solid financial background and extensive industry expertise, could bring synergistic benefits to the Company. The business network and the clientele base of the Company can be further strengthened and expanded. The Company can also be benefited by the strong research capabilities in water saving agricultural projects from Tianye Holdings.

According to the Letter from the Board, it is the intention of Tianye Holdings and Long Thrive that the Group will continue with its existing principal activities after the close of the H Share Offer. Tianye Holdings does not intend to introduce any major changes to the existing operation or business of the Company or re-deploy the employees of the Group. The Company is engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system. It has also engaged in the installation services of water saving irrigation system. In the long run, the Group may utilise the advantage of the research of Tianye Holding in the water irrigation system in the PRC.

In view of the potential benefits and the synergies to be brought by Tianye Holdings to the Group as mentioned above, we are of the opinion that the Independent Shareholders shall continue to hold their H Shares in view of the growth potential of the Company and therefore not to accept the H Share Offer.

## RECOMMENDATION

In determining the fairness and reasonableness of the H Share Offer, we have noted the followings:

(i) the H Share Offer Price of HK$1.20 represents a discount of approximately 35.83% to the closing price of HK$1.87 per H Share on the Stock Exchange on the Last Trading Day and a discount of approximately 14.29% to the closing price of HK$1.40 per H Share on the Latest Practicable Date, and

(ii) the potential benefits and the synergies (as mentioned above) to be brought by Tianye Holdings to the Group after the acquisition of the Sale Shares.

We are of the view that the terms of the H Share Offer is not fair and reasonable so far as the Independent Shareholders are concerned, and accordingly recommend the Independent Board Committee to advise the Independent Shareholders **not to accept the H Share Offer**.

The Independent Shareholders, in particular those who intend not to accept the H Share Offer, should be aware of the possible fluctuation in the H Share price after release of the Composite Offer Document, and that there is no guarantee that the current market price will or will not sustain and will or will not be higher than the H Share Offer Price during and after the Offer Period. The Independent Shareholders who intend to accept the H Share Offer are reminded to closely monitor the market price and the liquidity of the H Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their H Shares in the open market, instead of accepting the H Share Offer, if the net proceeds from the sale of such H Shares would be higher than that receivable under the H Share Offer. The Independent Shareholders, in particular those who may wish to selling their H Shares in the open market, are thus reminded to closely monitor the market of the H Shares during the Offer Period.

Independent Shareholders are reminded that their decisions to dispose or hold their investment in the H Shares are subject to their individual circumstances and investment objectives. Independent Shareholders should read carefully the procedures for accepting the H Share Offer as detailed in the Composite Offer Document, the appendices to the Composite Offer Document and the form of acceptance, if they wish to accept the H Share Offer.

Yours faithfully,
For and on behalf of
**Bridge Partners Capital Limited**
**Monica Lin**
*Managing Director*

## 1. PROCEDURES FOR ACCEPTANCE

(a) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the H Share Offer, you must send the duly completed and signed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in any event not later than 4:00 p.m. on Thursday, 16 June 2011 or such later time and/or date as Tianye Holdings and Long Thrive may determine and announce in accordance with the Takeovers Code.

(b) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the H Share Offer in respect of your H Shares (whether in full or in part), you must either:

(i) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the H Share Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(ii) arrange for the H Shares to be registered in your name by the Company through the Registrar, and send the duly completed and signed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(iii) if your H Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the H Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your H Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System before the deadline set by HKSCC Nominee Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with HKSCC Nominees Limited for the timing on processing of your instruction and submit your instruction via the CCASS Phone System or CCASS Internet System as required by it.

(c) If the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the H Share Offer in respect of your H Shares (whether in full or in part), the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s) and/or transfer receipts) and/or other document(s) of title, you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the H Share Offer in respect of your H Shares, you should nevertheless complete the signed Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Goldin Equities and/or Long Thrive and/or the Company or their respective agent(s) to collect from the Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it/they were delivered to the Registrar with the relevant Form of Acceptance.

(e) Acceptance of the H Share Offer will be treated as valid only if the duly completed Form of Acceptance is received by the Registrar no later than 4:00 p.m. on Thursday, 16 June 2011 or such later time and/or date as Long Thrive may determine and announce in accordance with the Takeovers Code, and is:

(i) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant H Share; or

(ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(f) No acknowledgement of receipt of any Form of Acceptance, H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

(g) The address of the Registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

## 2. SETTLEMENT OF THE H SHARE OFFER

Provided that the Form of Acceptance and the relevant H Shares certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar by not later than 4:00 p.m. on the Closing Date or if the H Share Offer is revised, or extended, the closing date of the H Share Offer as revised or extended by Tianye Holdings and Long Thrive in accordance with the Takeovers Code, a cheque for the amount due to each accepting Shareholder in respect of the H Shares tendered by him under the H Share Offer less seller's ad valorem stamp duty will be despatched to each of them as soon as possible but in any event within 10 days of the date on which all the relevant documents which render such acceptance complete and valid are received by the Registrar.

The settlement of the consideration to which any accepting Shareholder(s) is/are entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Tianye Holdings and/or Long Thrive may otherwise be, or claim to be, entitled against such Shareholder(s).

## 3. ACCEPTANCE PERIOD AND REVISIONS

In accordance with the Takeovers Code, the H Share Offer must initially be open for acceptance for at least 21 days following the date on which the Composite Document is posted. If, in the course of the H Share Offer, Tianye Holdings and Long Thrive revise the terms of the H Share Offer, all Shareholders, whether or not they have already accepted the H Share Offer, will be entitled to the revised terms. The revised H Share Offer must be kept open for at least 14 days following the date on which the revised offer document is posted. Tianye Holdings and Long Thrive reserve the right to revise the terms of the H Share Offer after the despatch of the Composite Document until such day as it may determine and in accordance with the Takeovers Code. All Form of Acceptance must be received by the Registrar or the Company (as the case may be) by 4:00 p.m on Thursday, 16 June 2011 and the H Share Offer will close at the same time.

**4. ANNOUNCEMENTS**

(a) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on the Closing Date, Tianye Holdings and Long Thrive must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry of the H Share Offer. Tianye Holdings and Long Thrive must publish an announcement in accordance with the requirements of the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the H Share Offer and whether the H Share Offer has been revised or extended or has expired.

(b) The announcement must state the following:

(i) the total number of H Shares and rights over H Shares for which acceptances of the H Share Offer have been received;

(ii) the total number of H Shares and rights over H Shares held, controlled or directed by Tianye Holdings, Long Thrive or parties acting in concert with them before the Offer Period;

(iii) the details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which Tianye Holdings, Long Thrive or any person acting in concert with them has borrowed or lent, save for any borrowed Shares which have been either on lent or sold; and

(iv) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by Tianye Holdings, Long Thrive or parties acting in concert with them.

The announcement must specify the percentages of the issued share capital of the Company and the percentages of voting rights represented by these numbers of Shares.

(c) In computing the total number of H Shares represented by acceptances, only valid acceptances that are complete and in good order and which have been received by the Registrar or the Company (as the case may be) no later than 4:00 p.m. on Thursday, 16 June 2011, being the latest time and date for acceptance of the H Share Offer, shall be included.

(d) As required under Takeovers Code, all announcements in relation to the H Share Offer will be made in accordance with the requirements of the Listing Rules.

## 5. RIGHT OF WITHDRAWAL

(a) Acceptance of the H Share Offer tendered by the Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.

(b) If Tianye Holdings and Long Thrive are unable to comply with the requirements set out in the paragraph headed "Announcements" in this Appendix, the Executive may require that the Independent Shareholders who have tendered acceptances to the H Share Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

## 6. STAMP DUTY

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by Long Thrive in respect of the relevant acceptances of the H Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholder on acceptance of the H Share Offer. Long Thrive will arrange for payment of the seller's ad valorem stamp duty on behalf of accepting Shareholders in connection with the acceptance of the H Share Offer and the transfer of the H Shares.

## 7. TAXATION

Shareholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of their accepting the H Share Offer. None of the Company, Tianye Holdings, Long Thrive, Goldin Financial, Goldin Equities, or any of their respective directors, nor any persons involved in the H Share Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the H Share Offer.

The Composite Document does not include any information in respect of overseas taxation. Shareholders who may be subject to overseas tax are recommended to consult their tax advisers regarding the implications in the relevant jurisdiction of owning and disposing of the H Shares.

## 8. OVERSEAS SHAREHOLDERS

The making of the H Share Offer to persons resident in any jurisdiction outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Shareholders who are so resident should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person who is a citizen, resident or national of a jurisdiction outside Hong Kong and who wishes to accept the H Share Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent, exchange control and any registration or filing which may be required in compliance with all necessary formalities, taxation, regulatory and/or legal requirements. Any such persons shall be fully responsible for the payment of any transfer or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction. Acceptance of the H Share Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to accept the H Share Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

**9. GENERAL**

(a) All communications, notices, Form of Acceptance, certificate(s) of Shares, transfer receipt(s), other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the H Share Offer to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk. None of the Company, Tianye Holdings, Long Thrive, Goldin Financial, Goldin Equities, the Registrar, nor any of their respective directors or other parties involved in the H Share Offer or any of this respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.

(b) The provisions set out in the Form of Acceptance form part of the terms of the H Share Offer.

(c) The accidental omission to despatch the Composite Document and/or Form of Acceptance or any of them to any person to whom the H Share Offer are made will not invalidate the H Share Offer in any way.

(d) The H Share Offer are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.

(e) Due execution of the Form of Acceptance will constitute an irrevocable authority to any of the Company, Tianye Holdings or Long Thrive, any director of Tianye Holdings and Long Thrive, Goldin Equities or such person or persons as Long Thrive may direct to complete and execute any document on behalf of the person accepting the H Share Offer and to do any other act that may be necessary or expedient for the purpose of vesting in or Long Thrive, or such person or persons as it may direct, the H Shares in respect of which such person has accepted the H Share Offer.

(f) Acceptance of the H Share Offer by any person or persons holding H Shares will be deemed to constitute a warranty by such person or persons to Tianye Holdings, Long Thrive that the H Share acquired under the H Share Offer are fully paid and are sold by any such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, declared, made or paid on or after 25 April 2011, being the date of the Share Transfer Agreements becoming effective. As at the Latest Practicable Date, no dividend or other distribution has been declared by the Company the payment of which will be made on or after 25 April 2011, being the Share Transfer Agreements becoming effective. The settlement of the consideration to which any Shareholder is entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Long Thrive may otherwise be, or claim to be, entitled against such accepting Shareholder.

(g) Acceptance of the H Share Offer by any nominee will be deemed to constitute a warranty by such nominee to Long Thrive that the number of Shares in respect of which it is indicated in the Form of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owners who are accepting the H Share Offer.

(h) References to the H Share Offer in the Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof.

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited financial results of the Company for each of the three years ended 31 December 2010, as extracted from the audited financial statements of the Company as set out in the Company's annual reports for each of the three years ended 31 December 2010. No qualified opinion had been given in the auditors' reports issued by Pan-China (H.K.) CPA Limited for the year ended 31 December 2010 and by SHINEWING (HK) CPA Limited in respect of each of the two years ended 31 December 2009. There were no extraordinary items, or exceptional items during each of the three years ended 31 December 2010 based on the annual reports of the Company. No dividend has been declared by the Company during each of the three financial years ended 31 December 2010.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 588,491 | 571,028 | 664,248 |
| Cost of sales | (520,877) | (519,431) | (611,519) |
| Gross profit | 67,614 | 51,597 | 52,729 |
| Other operating income | 5,093 | 5,353 | 4,784 |
| Distribution costs | (25,640) | (24,168) | (22,294) |
| Administrative expenses | (21,846) | (16,322) | (16,916) |
| Other operating expenses | (1,212) | (1,679) | (1,203) |
| Finance costs | (3,156) | (7,601) | (10,568) |
| Profit before taxation | 20,853 | 7,180 | 6,532 |
| Taxation | (4,644) | (2,362) | (423) |
| Profit after taxation | 16,209 | 4,818 | 6,109 |
| Minority interests | (942) | (1,661) | (585) |
| Profit for the year attributable to owners of the Company | 17,151 | 6,479 | 6,694 |
| | *RMB cents* | *RMB cents* | *RMB cents* |
| Earnings per share — Basic and diluted | 3.3 | 1.2 | 1.2 |

## 2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below are the audited financial statements of the Company for the year ended 31 December 2010 together with the accompanying notes, which are extracted from the annual report of the Company for the year ended 31 December 2010.

**Consolidated Statement of Comprehensive Income**
*For the year ended 31 December 2010*

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Turnover | 6 | 588,491 | 571,028 |
| Cost of sales | | (520,877) | (519,431) |
| Gross profit | | 67,614 | 51,597 |
| Other operating income | 6 | 5,093 | 5,353 |
| Distribution costs | | (25,640) | (24,168) |
| Administrative expenses | | (21,846) | (16,322) |
| Other operating expenses | | (1,212) | (1,679) |
| Profit from operations | | 24,009 | 14,781 |
| Finance costs | 7 | (3,156) | (7,601) |
| Profit before taxation | 8 | 20,853 | 7,180 |
| Taxation | 10 | (4,644) | (2,362) |
| **Profit and total comprehensive income for the year** | | 16,209 | 4,818 |
| **Profit and total comprehensive income attributable to:** | | | |
| Owners of the Company | | 17,151 | 6,479 |
| Non-controlling interests | | (942) | (1,661) |
| | | 16,209 | 4,818 |
| **Dividends** | 12 | — | — |
| **Earnings per share** | | | |
| — Basic and diluted | 13 | RMB3.3 cents | RMB1.2 cents |

**Consolidated Statement of Financial Position**
*As at 31 December 2010*

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| *Non-Current Assets* | | | |
| Property, plant and equipment | 14 | 216,133 | 246,033 |
| Prepaid lease payments | 15 | 13,346 | 13,315 |
| Deposit paid for acquisition of property, plant and equipment | 16 | — | 107 |
| Goodwill | 17 | 98 | 98 |
| | | 229,577 | 259,553 |
| *Current Assets* | | | |
| Inventories | 19 | 468,635 | 443,796 |
| Trade and bill receivables | 20 | 102,575 | 147,219 |
| Prepayments, deposits and other receivables | 21 | 95,581 | 72,917 |
| Prepaid lease payments | 15 | — | 329 |
| Tax refundable | | — | 858 |
| Deposit in a non-banking financial institution | 22 | — | 2,216 |
| Bank balances and cash | 23 | 125,801 | 43,894 |
| | | 792,592 | 711,229 |
| **Total Assets** | | 1,022,169 | 970,782 |
| **EQUITY** | | | |
| Share capital | 29 | 519,522 | 519,522 |
| Reserves | 30 | 163,161 | 146,010 |
| Equity attributable to owners of the Company | | 682,683 | 665,532 |
| Non-controlling interests | | 17,299 | 18,532 |
| **Total Equity** | | 699,982 | 684,064 |

| | Notes | 2010<br>*RMB'000* | 2009<br>*RMB'000* |
|---|---|---|---|
| **LIABILITIES** | | | |
| *Non-Current Liability* | | | |
| Deferred income | 24 | — | 600 |
| *Current Liabilities* | | | |
| Trade payables | 25 | 93,763 | 103,539 |
| Accruals and other payables | 26 | 140,405 | 64,517 |
| Tax payables | | 5,895 | 1,054 |
| Short-term bank borrowings | 27 | 80,000 | 117,000 |
| Derivative financial liabilities | 28 | 2,124 | 8 |
| | | 322,187 | 286,118 |
| **Total Liabilities** | | 322,187 | 286,718 |
| **Total equity and liabilities** | | 1,022,169 | 970,782 |
| **Net current assets** | | 470,405 | 425,111 |
| **Total assets less current liabilities** | | 699,982 | 684,664 |
| **Net assets** | | 699,982 | 684,064 |

**Statement of Financial Position**
*As at 31 December 2010*

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| *Non-Current Assets* | | | |
| Property, plant and equipment | 14 | 137,046 | 175,659 |
| Prepaid lease payments | 15 | 7,068 | 7,070 |
| Deposit paid for acquisition of property, plant and equipment | 16 | — | 107 |
| Investment in subsidiaries | 18 | 120,255 | 120,255 |
| | | 264,369 | 303,091 |
| *Current Assets* | | | |
| Inventories | 19 | 343,992 | 336,918 |
| Trade and bill receivables | 20 | 87,356 | 116,304 |
| Prepayments, deposits and other receivables | 21 | 72,825 | 63,460 |
| Prepaid lease payments | 15 | — | 153 |
| Amounts due from subsidiaries | 18 | 75,819 | 85,163 |
| Deposit in a non-banking financial institution | 22 | — | 2,216 |
| Bank balances and cash | 23 | 105,592 | 12,420 |
| | | 685,584 | 616,634 |
| **Total Assets** | | 949,953 | 919,725 |
| **EQUITY** | | | |
| Share capital | 29 | 519,522 | 519,522 |
| Reserves | 30 | 160,745 | 143,624 |
| **Total Equity** | | 680,267 | 663,146 |

| | Notes | 2010<br>*RMB'000* | 2009<br>*RMB'000* |
|---|---|---|---|
| **LIABILITIES** | | | |
| *Non-Current Liability* | | | |
| Deferred income | 24 | — | 600 |
| *Current Liabilities* | | | |
| Trade payables | 25 | 64,038 | 81,784 |
| Other payables and Accruals | 26 | 107,666 | 42,537 |
| Amounts due to subsidiaries | 18 | 13,355 | 15,876 |
| Tax payables | | 2,503 | 774 |
| Short-term bank borrowings | 27 | 80,000 | 115,000 |
| Derivative financial liabilities | 28 | 2,124 | 8 |
| | | 269,686 | 255,979 |
| **Total Liabilities** | | 269,686 | 256,579 |
| **Total equity and liabilities** | | 949,953 | 919,725 |
| **Net current assets** | | 415,898 | 360,655 |
| **Total assets less current liabilities** | | 680,267 | 663,746 |
| **Net assets** | | 680,267 | 663,146 |

## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2010*

| | Share capital | Share premium | Statutory reserve fund | Other reserve | Retained profits | Attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *Note 30(i)* | *Note 30(ii)* | *Note 30(iii)* | | | | |
| At 1 January 2009 | 519,522 | 10,296 | 23,042 | — | 106,056 | 658,916 | 21,771 | 680,687 |
| Profit and total comprehensive income for the year | — | — | — | — | 6,479 | 6,479 | (1,661) | 4,818 |
| Acquisition of additional interest in a subsidiary | — | — | — | 137 | — | 137 | (1,341) | (1,204) |
| Deregistration of subsidiaries | — | — | — | — | — | — | (6,237) | (6,237) |
| Capital contribution from minority shareholders of subsidiaries | — | — | — | — | — | — | 6,000 | 6,000 |
| Transfer | — | — | 1,252 | — | (1,252) | — | — | — |
| At 31 December 2009 and 1 January 2010 | 519,522 | 10,296 | 24,294 | 137 | 111,283 | 665,532 | 18,532 | 684,064 |
| Profit and total comprehensive income for the year | — | — | — | — | 17,151 | 17,151 | (942) | 16,209 |
| Dividend paid by subsidiaries to minority shareholders | — | — | — | — | — | — | (291) | (291) |
| Transfer | — | — | 2,236 | — | (2,236) | — | — | — |
| At 31 December 2010 | 519,522 | 10,296 | 26,530 | 137 | 126,198 | 682,683 | 17,299 | 699,982 |

**Consolidated Statement of Cash Flows**
*For the year ended 31 December 2010*

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Operating activities** | | |
| Profit before taxation | 20,853 | 7,180 |
| Adjustments for: | | |
| Amortisation of prepaid lease payments | 319 | 325 |
| Bank interest income | (274) | (513) |
| Depreciation of property, plant and equipment | 35,862 | 28,273 |
| Impairment loss recognised on trade receivables | 12 | 229 |
| Interest expenses | 3,156 | 7,601 |
| Loss on deregistration of subsidiaries | — | 363 |
| (Gain)/Loss on disposal of property, plant and equipment | (507) | 380 |
| Net loss on changes in fair value of derivative financial instruments | 2,116 | 8 |
| Reversal of impairment for inventories | — | (564) |
| Waiver of long outstanding other payables | — | (688) |
| Operating cash flow before movements in working capital | 61,537 | 42,594 |
| Increase in inventories | (24,839) | (43,194) |
| Decrease/(Increase) in trade and other receivables | 21,968 | (5,371) |
| Increase/(Decrease) in deposit in non-banking financial institution | 2,216 | (2,216) |
| Decrease/(Increase) in deposit paid for acquisition of property, plant and equipment | 107 | (107) |
| Increase in trade and other payables | 66,112 | 65,044 |
| Decrease in bills payable | — | (30,000) |
| Decrease in deferred income | (600) | — |
| Cash generated from operations | 126,501 | 26,750 |
| Tax refunded/(paid) | 1,054 | (1,724) |
| Net cash from operating activities | 127,555 | 25,026 |

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (19,084) | (60,744) |
| Acquisition of addition equity interest in a subsidiary | — | (1,144) |
| Additions of prepaid lease payments | (21) | (453) |
| Decrease in deposit paid for acquisition for property, plant and equipment | — | 5,793 |
| Interest received | 274 | 513 |
| Dividend paid by subsidiaries to minority shareholders | (291) | — |
| Proceeds on disposal of property, plant and equipment | 13,630 | 82 |
| Net cash used in investing activities | (5,492) | (55,953) |
| **Financing activities** | | |
| Repayment of bank loans | (117,000) | (259,000) |
| Interest paid | (3,156) | (7,601) |
| Bank loans raised | 80,000 | 187,000 |
| Capital contributions from minority shareholders of subsidiaries | — | 6,000 |
| Receipt of government grants | — | 600 |
| Net cash used in financing activities | (40,156) | (73,001) |
| **Net increase/(decrease) in cash and cash equivalents** | 81,907 | (103,928) |
| Cash and cash equivalents at 1 January | 43,894 | 147,822 |
| **Cash and cash equivalents at 31 December** | 125,801 | 43,894 |
| **Analysis of balances of cash and cash equivalents** | | |
| Bank balances and cash | 125,801 | 43,894 |

**Notes to Consolidated Financial Statements**
*For the year ended 31 December 2010*

### 1. GENERAL INFORMATION

新疆天業節水灌溉股份有限公司 Xinjiang Tianye Water Saving Irrigation System Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 27 December 1999. On 28 February 2006, the Company's H Shares were listed on the Growth Enterprise Marchet ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 23 January 2008. On 24 January 2008, the Company's H shares are listed on the Main Board of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporation Information" of the Company's annual report.

The Company's immediate holding company is Xinjiang Tianye Company Limited ("Tianye Company") (新疆天業股份有限公司), a company established in the PRC with its shares listed on the Shanghai Securities Exchange. Xinjiang Tianye (Group) Limited ("Tianye Holdings") (新疆天業(集團)有限公司), a private limited company established in the PRC, is the holding company of the Tianye Company and is the ultimate holding company of the Company.

The Company and its subsidiaries are engaged in the design, manufacture, installation and sale of irrigation system and equipment. Details of its subsidiaries are set out in Note 18.

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

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

The consolidated financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 18 March 2011.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs)

In the current year, the Group has adopted the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKIPCA") which are relevant to and effective for the Group's financial period beginning on 1 January 2010, except for the early adoption of HKAS 24 (Revised):

| | |
|---|---|
| HKFRSs (Amendment) | Improvements to HKFRSs |
| HKFRS 3 & HKAS 27 (as revised in 2008) | Business Combinations & Consolidated and Separate Financial Statements |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKAS 24 (Revised) | Related Party Disclosures |
| HK(IFRIC) 17 | Distributions of Non-cash Assets to Owners |
| HK — INT 4 | Leases-Determination of the Length of Lease Term in respect of Hong Kong Leases (Revised in December 2009) |
| HK — INT 5 | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Other than discussed below, the adoption of the new and revised HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

**HKFRS 3 (as revised in 2008) — Business Combination**

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

a) HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' shares of recognised identifiable net assets of the acquiree.

b) HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognised in profit or loss.

c) HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

d) HKFRS 3(as revised in 2008) requires acquisition-related cost to be accounted for separately from the business combination, generally leading to those costs being recognised as an expenses in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 (as revised in 2008) was amended to clarify that the measurement choice regarding non-controlling interest at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of Improvements to HKFRSs issued in 2010, HKFRS 3 (as revised in 2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquire that are not replaced should be measured in accordance with HKFRS 2 Share-based Payment at the acquisition date ('market-based measure').

The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

**HKAS 17 (Amendments) — Leases**

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has reassessed the classification of leasehold land of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and concluded that the classification of such leases as operating leases continues to be appropriate.

**HKAS 24 (Revised) — Related Party Disclosures**

The Group has early applied HKAS 24 (Revised) for the current year's consolidated financial statements in advance of its effective date on 1 January 2011. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party.

As at the date of authorisation of these consolidated financial statements, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective, and have not been early adopted by the Group:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28[1] |
| HKFRS 7 (Amendments) | Disclosures — Transfer of financial assets[7] |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[5] |
| HKAS 32 (Amendments) | Classification of Rights Issues[6] |
| HKFRS 9 | Financial Instruments[4] |
| HK(IFRIC) — INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) — INT 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1. Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2. Effective for annual periods beginning on or after 1 July 2010.
3. Effective for annual periods beginning on or after 1 January 2011.
4. Effective for annual periods beginning on or after 1 January 2013.
5. Effective for annual periods beginning on or after 1 January 2012.
6. Effective for annual periods beginning on or after 1 February 2010.
7. Effective for annual periods beginning on or after 1 July 2011.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Specifically, under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of HKFRS 9 will have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the Group's results and the financial position of the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The consolidated financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

In the Company's statement of financial position, subsidiaries are carried at cost less impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

*Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

*Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010*

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

**3.3 Business combination**

*Business combinations that took place on or after 1 January 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquire or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

*Business combinations that took place prior to 1 January 2010*

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

**3.4 Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**3.5 Property, plant and equipment**

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less any recognised impairment loss. Costs include all construction costs and other direct cost attributable to such projects. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets on the same basis as other property assets, commences when the assets are ready for their intended uses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

**3.6 Prepaid lease payments**

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

**3.7 Government grants**

Government grants are recognised in profit or loss on a systematic basis over the period in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**3.8 Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*3.8.1 Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

*3.8.2 Financial assets at FVTPL*

Financial assets at FVTPL includes financial assets is either held for trading or it is designated as at FVTPL.

Financial assets are classified as held for trading if: (i) it has been acquired principally for the purpose of selling it in the near future; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (iii) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

*3.8.3 Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*3.8.4 Available-for-sale financial investment (AFS financial assets)*

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified as financial assets at FVTPL, loans and receivables or held-for-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

*3.8.5 Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*3.8.6 Impairment of financial assets*

At the end of each reporting period, financial assets other than at FVTPL are reviewed to determine whether there is any objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be an objective evidence of impairment.

Objective evidence of impairment of other financial assets could include: significant financial difficulty of the issuer or counterparty; or a breach of contract, such as a default or delinquency in interest or principal payments; or it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

When AFS financial investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. Impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

**Financial liabilities**

Debt and equity instruments based by a group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

*3.8.7 Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*3.8.8 Effective interest method*

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

*3.8.9 Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if: it has been acquired principally for the purpose of repurchasing it in the near term; on initial recognition it is part of a portfolio of identified financial instruments that the Group manages tighter and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

*3.8.10 Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

*3.8.11 Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**3.9 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

**3.10 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**3.11 Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

**3.12 Revenue recognition**

Revenue is recognised at the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of discounts and sales related taxes.

— Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and title has passed.

— Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount on initial recognition.

**3.13 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

**3.14 Income taxes**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in equity if they relate to items that are charged or credited directly to equity.

**3.15 Retirement benefit costs**

Pursuant to the relevant regulations of the government of the People's Republic of China except Hong Kong and Macau (the "PRC"), subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to profit or loss as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

**3.16 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

**3.17 Provisions, contingent liabilities and contingent assets**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**3.18 Related parties**

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 4.1 Estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment of trade receivables*

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. During the year ended 31December 2010, the Group recognised impairment loss of approximately RMB12,000 (2009: RMB229,000).

*Allowance for inventories*

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items. During the year ended 31 December 2009 and, 2010, no impairment loss has been recognised in respect of raw materials and finished goods to write-down the inventories to their net realisable values.

*Taxation*

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

## 5. SEGMENT INFORMATION

The chief executive officer, being the chief operating decision maker of the Group, regularly reviews revenue analysis by business operations, including the design, manufacture, installation and sale of irrigation system and equipment. However, other than revenue analysis, no operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The chief executive officer assesses segment profit using a measure of operating profit. The measurement policies that the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs. Segment assets and liabilities under HKFRS 8 are the same as the assets and liabilities reported in the financial statements under HKFRSs which are all attributable to the design, manufacture, installation and sale of irrigation system and equipment.

**Geographical information**

The Group's operations are substantially located in PRC. The direct export sales made by the Group contributed to less than 10% of the total revenues and results of the Group for both years. Further, the segment assets and capital expenditure by geographical area in which the assets are located are substantially located in the PRC. Accordingly, no geographical segment is presented.

**Information about major customers**

The Group's customer base includes two (2009:one) customers with whom transactions have exceeded 10% of the Group's revenues. In 2010, revenues from these customers amount to approximately RMB 154,711,000 (2009: RMB 85,420,000).

## 6. REVENUE AND OTHER OPERATING INCOME

Turnover is measured at the fair value of the consideration received or receivable from goods sold to external customers, net of value added tax, returns and discounts during the year, and is analysed as follows:

| | | **Group** | |
|---|---|---|---|
| | | **2010** | **2009** |
| | | *RMB'000* | *RMB'000* |
| (a) | Revenue | | |
| | Drip film and drip assemblies* | 365,569 | 368,541 |
| | PVC/PE pipelines | 222,922 | 202,487 |
| | | 588,491 | 571,028 |
| (b) | Other operating income: | | |
| | Gain from futures contracts transactions | 1,937 | 1,576 |
| | Government grants *(Note 24)* | — | 1,495 |
| | Waiver of long outstanding other payables | — | 688 |
| | Reversal of impairment for inventories | — | 564 |
| | Gain on disposal of property, plant and equipment | 507 | — |
| | Reversal of impairment losses on trade receivables | 2,144 | — |
| | Bank interest income | 274 | 513 |
| | Others | 231 | 517 |
| | | 5,093 | 5,353 |
| | Total revenue | 593,584 | 576,381 |

* 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.

## 7. FINANCE COSTS

| | Group 2010 | Group 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank loans and overdrafts wholly repayable within one year | 3,156 | 7,601 |

## 8. PROFIT BEFORE TAXATION

Profit before income tax is arrived at after charging/(crediting):

| | Group 2010 | Group 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of inventories sold | 426,984 | 441,003 |
| Amortisation of prepaid lease payments | 319 | 325 |
| Depreciation of property, plant and equipment | 35,862 | 28,273 |
| Operating lease payments in respect of land and buildings | 1,464 | 1,464 |
| Auditors' remuneration | 650 | 650 |
| Staff costs (including directors' and supervisors remuneration) | | |
| — Wages and salaries | 32,828 | 27,642 |
| — Defined contribution scheme | 3,150 | 3,273 |
| Research and development costs | 302 | 131 |
| Impairment loss recognised on trade receivables | 12 | 229 |
| Loss on deregistration of subsidiaries | — | 363 |
| (Gain)/Loss on disposal of property, plant and equipment | (507) | 380 |
| Net loss on change in fair value of derivative financial instruments | 2,116 | 8 |

## 9. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

Emolument of the directors, supervisors and employees disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

### (a) Emolument of directors and supervisors

| | Group 2010 | Group 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Directors and supervisors | | |
| — fee | 151 | 143 |
| — salaries and other benefits | 647 | 501 |
| — retirement benefit scheme contributions | 112 | 51 |
| | 910 | 695 |

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

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Name of executive directors:** | | |
| Mr. Hou Guo Jun *(Note 1)* | — | — |
| Mr. Yin Xiu Fa *(Note 1)* | — | — |
| Mr. Chen Lin *(Note 1)* | — | — |
| Mr. Shi Xiang Shen *(Note 2)* | — | — |
| Mr. Li Shuang Quan *(Note 3)* | 316 | 223 |
| Mr. Zhu Jia Ji *(Note 4)* | 161 | 194 |
| Mr. Guo Qing Ren *(Note 5)* | — | — |
| | 477 | 417 |
| **Name of independent non-executive directors:** | | |
| Mr. He Lin Wang *(Note 6)* | 30 | 30 |
| Mr. Xia Jun Min *(Note 6)* | 30 | 30 |
| Mr. Gu Lie Feng *(Note 6)* | 30 | 30 |
| Mr. Mak King Sau *(Note 6)* | 51 | 53 |
| Mr. Wang Yun *(Note 6, 7)* | 10 | — |
| | 151 | 143 |
| **Name of supervisors:** | | |
| Mr. He Jie *(Note 8)* | 30 | 30 |
| Mr. Huang Jun Lin *(Note 8)* | 30 | 30 |
| Ms. Ni Mei Lan *(Note 9)* | 111 | 75 |
| Mr. Zhou Qian *(Note 10)* | 111 | — |
| | 282 | 135 |
| | 910 | 695 |

*Notes:*

1. Mr. Hou Guo Jun, Mr. Yin Xiu Fa and Mr. Chen Lin appointed as the executive director on 18 August 2010. Their salary and retirement benefit were paid by Tianye Company. The Group was not required to reimburse the salary and retirement benefit paid by Tianye Company.

2. Mr. Shi Xiang Shen obtained his salary and entitlement of retirement benefit from Tianye Holdings. Therefore, Mr. Shi does not entitle to any retirement benefit of the Group and the Group was not required to reimburse the salary and retirement benefit paid by Tianye Holdings.

3. The amount included retirement benefit scheme contributions for the year ended 31 December 2010 amounted to approximately RMB26,000 (2009: RMB18,000).

4. The amount included retirement benefit scheme contributions for the year ended 31 December 2010 amounted to approximately RMB36,000 (2009: RMB18,000).

5. Mr. Guo Qing Ren resigned as executive director on 18 August 2010. The salary and retirement benefit of Mr. Guo Qing Ren were paid by Tianye Company. The Group was not required to reimburse the salary and retirement benefit paid by Tianye Company.

6. The independent non-executive directors entitle their respective retirement benefits from the respective organisations or companies which they are serving. Therefore, they do not entitle to any retirement benefits of the Group.

7. Mr. Wang Yun appointed as the independent non-executive director of the Company on 18 August 2010.

8. Mr. He Jie and Mr. Huang Jun Lin are the independent supervisors of the Group and they received retirement benefits from their respective organisation or companies which they are serving. Therefore, they do not entitle to any retirement benefits of the Group.

9. The amount included retirement benefit scheme contributions for the year ended 31 December 2010 amounted to approximately RMB25,000 (2009: RMB15,000).

10. Mr. Zhou Qian appointed as supervisor of the Group on 18 August 2010. The amount included retirement benefit scheme contributions for the year ended 31 December 2010 amounted to approximately RMB25,000.

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

**(b) Employee's emoluments**

Of the five individuals with the highest emoluments in the Group, there are two directors for the year ended 31 December 2010 (2009: two) whose emoluments are included in Note 9(a). The emoluments of the remaining three (2009: three) individuals were as follows:

| | **2010** | **2009** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 898 | 858 |
| Retirement benefits scheme contributions | 67 | 46 |
| | 965 | 904 |

The emoluments of each of the three individuals (2009: three individuals) fall within the band of Nil to HKD1,000,000 (equivalent to Nil to RMB848,000).

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

## 10. TAXATION

| | **2010** | **2009** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Charge for the year | 4,652 | 2,342 |
| (Over)/Under provision in previous years | (8) | 20 |
| | 4,644 | 2,362 |

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

During the two years ended 31 December 2010, pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax ("EIT") of 25%, except for subsidiaries disclosed below.

| **Name of entity** | *Notes* | **2010** | **2009** |
|---|---|---|---|
| The Company | (i) | 11% | 10% |
| 甘肅天業節水器材有限公司 ("Gansu Tianye") | (ii) | 15% | 15% |
| 新疆阿拉爾天農節水灌溉有限責任公司 ("Alaer Tiannong') | (ii) | 15% | 15% |
| 哈密天業紅星節水灌溉有限責任公司 ("Hami Tianye") | (iv) | 15% | 15% |

*Notes:*

(i) Pursuant to "Approval Notice of the State Council Concerning the Implementation of Transitional Preferential policies for the Enterprise Income Tax", Gan Qu Kuo Shui Pi Zi [2007] No. 039 (甘區國稅批字[2007]39號) 《國務院關於實施企業所得稅過渡優惠政策通知》), the Company qualified with a reduced EIT tax rate of 20% for the year ended 31 December 2009, 22% for the year ended 31 December 2010 and 24% for the year ending 31 December 2011.

Pursuant to "Approval Notice of Exemption from EIT regarding Xinjiang Tianye Water Saving Irrigation System Company Limited', Kai Guo Shui Ban [2006] No. 72 (開國稅辦[2006] 72號《關於新疆天業節水灌溉股份有限公司減免企業所得稅的通知》), issued by the State Administration of Taxation of Shihezi Economic and Technology Development Zone Shuhezi (石河子經濟技術開發區國家稅務局), the Company was granted a 50% reduction in EIT for the period from 1 January 2009 to 31 December 2011.

(ii) Pursuant to Notice No. 202 and Approval Application Document [2002] No. 44 issued by the State Administration of Taxation of Gansu Province (甘肅省國家稅務局[2002]44號批文), Gansu Tianye was granted a reduced EIT Tax rate of 15% for the period from 1 January 2002 to 31 December 2010.

(iii) Pursuant to "Approval Application Document [2008] No. 76 issued by the State Administration of Taxation of the Alaer Region (阿拉爾國稅辦[2008] 76號批文). Alaer Tiannong was granted a reduced EIT tax rate of 15% from 1 January 2008 to 31 December 2010.

(iv) Pursuant to "Approval of EIT Exemption of State Administration of Taxation of Hami Region to Hami Tianye Hongxing Water Saving Irrigation Company Limited", Ha Gui Shui Ban [2007] No. 527 (哈國稅辦[2007]572號《哈密地區國家稅務局關於減徵哈密天業紅星節水灌溉有限責任公司減徵企業所得稅的批覆》 issued by State Administration of Taxation of Hami Region (哈密地區國家稅務局), Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1 January 2008 to 31 December 2010.

A reconciliation of the tax expense and profit per consolidated statement of comprehensive income are as follows:

| | Group | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Profit before income tax | 20,853 | 7,180 |
| Tax at the statutory tax rates | 5,213 | 1,795 |
| Tax effect on income not taxable for tax purposes | (134) | (215) |
| Tax effect on expenses not deductible for tax purpose | 1,434 | 234 |
| Tax effect on tax losses not recognised | 1,295 | 1,697 |
| Effect of tax exemption and reduction granted to the Group | (3,156) | (1,169) |
| Under-provision of tax in previous years | (8) | 20 |
| Tax charge at the Group's effective rate | 4,644 | 2,362 |

At the end of the reporting period, the Group had unrecognised tax losses of approximately RMB18,956,000 (2009: RMB13,776,000) available to offset against future profit. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams. Such unrecognised tax losses will be carried forward for five years from respective dates of origination.

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 include a profit of approximately RMB17,121,000 (2009: RMB11,414,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2010 (2009: Nil).

## 13. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the Group's profit attributable to the owners of the Company of approximately RMB17,151,000 (2009: RMB6,479,000) and on the weighted average number of 519,521,560 (2009: 519,521,560) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there had been no dilutive potential ordinary shares in both years.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Construction in progress | Buildings | Plant and machinery | Motor vehicles | Furniture, fixtures and equipment | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At cost:** | | | | | | |
| At 1 January 2009 | 67,661 | 28,720 | 252,061 | 3,274 | 5,589 | 357,305 |
| Additions | 50,967 | 3,734 | 5,353 | 573 | 117 | 60,744 |
| Disposals | — | (369) | (805) | (89) | (14) | (1,277) |
| Transfer | (56,510) | 39,721 | 15,110 | — | 1,679 | — |
| At 31 December 2009 and at 1 January 2010 | 62,118 | 71,806 | 271,719 | 3,758 | 7,371 | 416,772 |
| Additions | 6,616 | 395 | 10,644 | 159 | 1,270 | 19,084 |
| Transfers | (57,579) | 23,280 | 34,299 | — | — | — |
| Disposals | — | — | (11,814) | — | (2,997) | (14,811) |
| At 31 December 2010 | 11,155 | 95,481 | 304,848 | 3,917 | 5,644 | 421,045 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2009 | — | 4,430 | 135,899 | 2,254 | 698 | 143,281 |
| Depreciation expense | — | 1,507 | 26,036 | 273 | 457 | 28,273 |
| Eliminated on disposals | — | (84) | (637) | (87) | (7) | (815) |
| At 31 December 2009 and at 1 January 2010 | — | 5,853 | 161,298 | 2,440 | 1,148 | 170,739 |
| Depreciation expense | — | 4,909 | 29,920 | 354 | 679 | 35,862 |
| Eliminated on disposals | — | — | (1,539) | — | (150) | (1,689) |
| At 31 December 2010 | — | 10,762 | 189,679 | 2,794 | 1,677 | 204,912 |
| **Net carrying value:** | | | | | | |
| **At 31 December 2010** | 11,155 | 84,719 | 115,169 | 1,123 | 3,967 | 216,133 |
| At 31 December 2009 | 62,118 | 65,953 | 110,421 | 1,318 | 6,223 | 246,033 |

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **Construction in progress** | **Buildings** | **Plant and machinery** | **Motor vehicles** | **Furniture, fixtures and equipment** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At cost:** | | | | | | |
| At 1 January 2009 | 62,648 | 4,867 | 206,725 | 1,395 | 1,965 | 277,600 |
| Additions | 31,889 | 3,087 | 4,783 | 558 | 51 | 40,368 |
| Disposals | — | (369) | (775) | (89) | (14) | (1,247) |
| Transfer | (40,839) | 24,455 | 14,704 | — | 1,680 | — |
| At 31 December 2009 and at 1 January 2010 | 53,698 | 32,040 | 225,437 | 1,864 | 3,682 | 316,721 |
| Additions | 3,077 | — | — | 128 | 929 | 4,134 |
| Transfers | (49,157) | 14,858 | 34,299 | — | — | — |
| Disposals | — | — | (11,580) | — | (2,968) | (14,545) |
| At 31 December 2010 | 7,618 | 46,898 | 248,156 | 1,992 | 1,646 | 306,310 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2009 | — | 109 | 116,555 | 1,434 | 286 | 118,384 |
| Depreciation expense | — | 352 | 22,989 | 85 | 67 | 23,493 |
| Eliminated on disposals | — | (84) | (637) | (87) | (7) | (815) |
| At 31 December 2009 and at 1 January 2010 | — | 377 | 138,907 | 1,432 | 346 | 141,062 |
| Depreciation expense | — | 3,345 | 26,125 | 149 | 253 | 29,872 |
| Eliminated on disposals | — | — | (1,537) | — | (133) | (1,670) |
| At 31 December 2010 | — | 3,722 | 163,495 | 1,581 | 466 | 169,264 |
| **Net carrying value:** | | | | | | |
| **At 31 December 2010** | 7,618 | 43,176 | 84,661 | 411 | 1,180 | 137,046 |
| At 31 December 2009 | 53,698 | 31,663 | 86,530 | 432 | 3,336 | 175,659 |

The following annual rates are used for the depreciation of property, plant and equipment on a straight-line basis after considering their respective useful lives:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Plant and machinery | 8 to 14 years |
| Motor vehicles | 6 years |
| Furniture, fixtures and equipment | 5 years |

The buildings of the Group are situated in the PRC under medium-term leases.

The construction in progress of the Group represents buildings, plant and machinery under construction which are situated in the PRC.

## 15. PREPAID LEASE PAYMENTS

Prepaid lease payments represent the Group's interest in lands in the PRC, and are amortised over the terms of the respective land use right on a straight-line basis. The movements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At cost:** | | | | |
| At 1 January 2010/2009 | 14,393 | 13,940 | 7,730 | 7,720 |
| Additions | 21 | 453 | — | 10 |
| At 31 December 2010/2009 | 14,414 | 14,393 | 7,730 | 7,730 |
| **Accumulated amortisation:** | | | | |
| At 1 January 2010/2009 | 749 | 424 | 507 | 343 |
| Amortisation charges | 319 | 325 | 155 | 164 |
| At 31 December 2010/2009 | 1,068 | 749 | 662 | 507 |
| **Net carrying value:** | | | | |
| At 31 December 2010/2009 | 13,346 | 13,644 | 7,068 | 7,223 |
| **Classified as:** | | | | |
| Current assets | — | 329 | — | 153 |
| Non-current assets | 13,346 | 13,315 | 7,068 | 7,070 |
| | 13,346 | 13,644 | 7,068 | 7,223 |

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

**Group and Company**

As at 31 December 2009, the deposit was paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities and machineries that are under construction. There was no such deposit paid as at 31 December 2010.

## 17. GOODWILL

| | Group | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| **Cost:** | | |
| At 1 January 2010/2009 and at 31 December 2010/2009 | 98 | 98 |

Goodwill has been allocated for impairment testing purposes to the cash-generating units ("CGU") of design, manufacture, installation and sale of irrigation system and equipment, which is the sole reporting segment of the Group. The recoverable amount of the CGU is determined based on a value in use calculation which uses cash flow projections based on financial forecasts approved by the directors covering a five-year period, with a discount rate of 15% per annum (2009: 15 per annum) and a growth rate of 10% per annum (2009: 8% per annum). The key assumptions include stable gross profit margins, which have been determined based on past performance. The discount rate used is pre-tax and based on the PRC risk free interest rate adjusted by the specific risk associated with the CGU.

In the opinion of the directors, no impairment provision is considered necessary for the carrying amount of the Group's goodwill for the year (2009: Nil). The directors also believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the CGU.

## 18. INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Unlisted shares, at cost | 120,255 | 120,255 |

The amounts due from/(to) subsidiaries are unsecured, interest free and recoverable/repayable on demand.

Particulars of the principal subsidiaries are as follows:

| Name | Place of establishment and operations | Paid-up share and registered capital | Percentage of equity interests attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 石河子天業物業回收有限責任公司 | The PRC | RMB2,500,000 | 98% | — | Recycling of used materials |
| 甘肅天業節水器材有限公司 | The PRC | RMB30,000,000 | 100% | — | Trading of PVC pipes |
| 石河子開發區天業節水工程安裝有限責任公司 | The PRC | RMB10,000,000 | 95% | — | Installation of irrigation |
| 新疆阿拉爾天農節水灌溉有限責任公司 | The PRC | RMB10,000,000 | 51% | — | Manufacture and sale of irrigation system and equipment |
| 奎屯天屯節水有限責任公司 | The PRC | RMB12,000,000 | 60% | — | Manufacture and sale of irrigation system and equipment |
| 北京天業華潤節水灌溉技術有限公司 | The PRC | RMB3,000,000 | 80% | — | Trading of drip films |
| 阿克蘇天業節水有限公司 | The PRC | RMB40,000,000 | 51% | — | Manufacture and sale of irrigation system and equipment |
| 石河子市天誠節水器材有限公司 | The PRC | RMB15,000,000 | 60% | — | Manufacture and sale of irrigation system and equipment |
| 哈密惠民回收有限責任公司 | The PRC | RMB500,000 | — | 100% | Recycling of used materials |
| 哈密天業紅星節水灌溉有限責任公司 | The PRC | RMB19,000,000 | 65% | — | Manufacture and sale of irrigation system and equipment |

## 19. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 224,974 | 235,664 | 172,381 | 192,763 |
| Finished goods | 243,661 | 208,132 | 171,611 | 144,155 |
| | 468,635 | 443,796 | 343,992 | 336,918 |

During the year ended 31 December 2010, no reversal of impairment for inventories has been recognised in the consolidated financial statements (2009: RMB564,000).

## 20. TRADE AND BILL RECEIVABLES

The fair values of trade and bill receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 107,196 | 155,211 | 90,136 | 120,195 |
| Bill receivables | 909 | 69 | 909 | 69 |
| Less: Provision for impairment of trade receivables | (5,530) | (8,061) | (3,689) | (3,960) |
| | 102,575 | 147,219 | 87,356 | 116,304 |

Sales to farmer unions are normally on cash basis. The credit term to other customers is normally one year. The Group's trade and bill receivables (less impairment) with the following aging analysis presented based on the invoice date:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 79,604 | 128,208 | 69,856 | 90,258 |
| 1–2 years | 22,971 | 19,011 | 17,500 | 26,046 |
| | 102,575 | 147,219 | 87,356 | 116,304 |

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010/2009 | 8,061 | 8,114 | 3,960 | 3,960 |
| Amount written off during the year | (399) | (282) | — | — |
| Amount recovered during the year | (2,144) | — | (271) | — |
| Impairment loss recognised | 12 | 229 | — | — |
| At 31 December 2010/2009 | 5,530 | 8,061 | 3,689 | 3,960 |

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB22,971,000 (2009: RMB19,011,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Receivables that were past due but not impaired were all aged over one year but within two years and related to a number of individual customers that have a good track record with the Group and were state-controlled entities which have good creditability. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Bill receivables aged within one year from the respective reporting dates. The directors consider that the carrying amounts of bill receivable approximated their fair values because of their short-term of maturities.

### 21. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables and prepayments | 40,422 | 24,272 | 45,874 | 19,713 |
| Prepayments to suppliers | 41,213 | 34,526 | 18,378 | 31,459 |
| Value added tax ("VAT") | 13,946 | 14,119 | 8,573 | 12,288 |
| | 95,581 | 72,917 | 72,825 | 63,460 |

Prepayments to suppliers of the Group include prepayments paid to Tianye Holdings Group of approximately RMBNil (2009: RMB441,000), for sourcing and supply of raw materials. All balances aged within one year from the respective reporting date.

The PRC tax authorities initiated VAT inquiries for the years of assessment since the year ended 31 December 2007 on the Company in May 2009. Assessment for additional VAT of approximately RMB14,119,000 ("Additional VAT") was issued to the Company for the year ended 31 December 2009 and objections were lodged with the PRC tax authority by the Company. During the year ended 31 December 2010, the Additional VAT was agreed by the PRC tax authorities to set off the VAT incurred by the Group.

### 22. DEPOSIT IN A NON-BANKING FINANCIAL INSTITUTION

**Group and Company**

As at 31 December 2009, the deposit in a non-banking financial institution was for trading in future contracts. The deposit did not carry any interest. There was no such deposit as at 31 December 2010.

### 23. BANK BALANCES AND CASH

**Group and Company**

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

## 24. DEFERRED INCOME

**Group and Company**

During the year ended 31 December 2009, the Group received government grants of RMB1,200,000 towards a construction project for the production of wooden pallets used for storage of inventories (the "Construction Project") and RMB295,000 as compensation expenses. All conditions in respect of such government grants had been fulfilled and such government grants were recognised as income during the year 2009 as other operating income.

During the year ended 31 December 2009, the Group further received government grants of RMB600,000 towards the Construction Project. Since the conditions in respect of such government grants had not yet been fulfilled up to the reporting date and thus deferred income has been recognised in the consolidated statement of financial position.

During the year ended 31 December 2010, the Construction Project has been discontinued and the related government grants were subsequently returned and recognised in other operating expenses.

## 25. TRADE PAYABLES

An aging analysis of trade payables as at the reporting date, based on invoice date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–180 days | 49,043 | 68,330 | 43,929 | 53,973 |
| 181–360 days | 25,271 | 21,955 | 11,822 | 17,341 |
| 1–2 years | 13,706 | 12,104 | 7,553 | 9,561 |
| Over 2 years | 5,743 | 1,150 | 734 | 909 |
| | 93,763 | 103,539 | 64,038 | 81,784 |

## 26. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other payables and accruals | 61,453 | 27,055 | 63,363 | 16,700 |
| Deposits and prepayment received from customers | 78,952 | 37,462 | 44,303 | 25,837 |
| | 140,405 | 64,517 | 107,666 | 42,537 |

As at 31 December 2009, included in other payables were an amount due to Tianye Holdings Group of approximately RMB5,047,000. There was no such amount as at 31 December 2010. The amount was unsecured, non-interest bearing and repayable on demand.

### 27. SHORT-TERM BANK BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current** | | | | |
| Bank loans — unsecured | 80,000 | 117,000 | 80,000 | 115,000 |

At 31 December 2010 and 2009, certain bank borrowings of the Group are guaranteed by Tianye Holdings Group, details of which are set out in Note 37(b).

The Group's bank borrowings of RMB67,000,000 as at 31 December 2009 were at fixed interest rates ranging from 4.78% to 5.31% per annum.

The Group's bank borrowings of RMB80,000,000 as at 31 December 2010 (2009: RMB50,000,000) carries interest at the rate of the People's Bank of China minus 10% (2009: the rate of the People's Bank of China) per annum.

The above bank borrowings are all contracted for a term of one year.

### 28. DERIVATIVE FINANCIAL LIABILITIES

| | Group and Company | |
|---|---|---|
| | 2010 | 2009 |
| | *RMB'000* | *RMB'000* |
| Commodity futures contracts, at fair value | 2,124 | 8 |

Major terms of futures contracts outstanding at 31 December 2010:

| **Currency** | **Quantity** | **Maturity** | **Commodity forward prices** |
|---|---|---|---|
| RMB | 10,100 tons PVC | Feb 2011 | Sell at 7,830 per ton |

### 29. SHARE CAPITAL

| | Company | |
|---|---|---|
| | Number of shares | Amount |
| **Registered shares of RMB1.00 each** | *'000* | *RMB'000* |
| Registered, issued and fully paid: | | |
| At 1 January 2009, 31 December 2009, at 1 January 2010 and 31 December 2010 | | |
| — Domestic shares | 317,122 | 317,122 |
| — H shares | 202,400 | 202,400 |
| | 519,522 | 519,522 |

Domestic shares and H shares are both ordinary shares in the registered share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

The Company did not adopt any share option scheme as at 31 December 2010 and 2009.

## 30. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

**Company**

| | **Share capital** | **Share premium** | **Statutory reserve fund** | **Retained profits** | **Total** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *Note (i)* | *Note (ii)* | | |
| At 1 January 2009 | 519,522 | 10,296 | 22,408 | 99,506 | 651,732 |
| Profit and total comprehensive income for the year | — | — | — | 11,414 | 11,414 |
| Transfer | — | — | 1,142 | (1,142) | — |
| At 31 December 2009 and 1 January 2010 | 519,522 | 10,296 | 23,550 | 109,778 | 663,146 |
| Profit and total comprehensive income for the year | — | — | — | 17,121 | 17,121 |
| Transfer | — | — | 1,905 | (1,905) | — |
| At 31 December 2010 | 519,522 | 10,296 | 25,455 | 124,994 | 680,267 |

(i) Share premium represents premium arising from the issue of shares issued at a price in excess of their par value per share.

(ii) As stipulated by the relevant laws and regulations in the PRC, the Company and its subsidiaries are required to set aside 10% of its net profit, as determined in accordance with accounting standards and regulations of the PRC to a statutory reserve fund (except where the reserve balance has reached 50% of the contributed capital of the relevant entity).

The statutory reserve fund can be used to:

- set-off against prior periods' losses; and
- convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory reserve fund does not fall below 25% of the contributed capital of the relevant entity.

(iii) Other reserve represented reserve arising from transactions with non-controlling interests.

## 31. CAPITAL COMMITMENTS

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital expenditure of the Group in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | — | 793 |

## 32. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The Group's and the employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement benefit schemes (the "Schemes") operated by the PRC government. During the year ended 31 December 2010, the Group is required to contribute 20% (2009: 20%) of the applicable payroll costs of permanent employees to the Schemes to fund the benefits. The only obligation of the Group with respect to the Schemes is to make the required contributions under the Schemes.

## 33. OPERATING LEASE COMMITMENT

At the end of the reporting period, the Group had commitments for future minimum lease payment under non-cancellable operating lease which fall due as follows:

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | *RMB'000* | *RMB'000* |
| Within one year | 732 | 1,626 |
| In second to fifth year inclusive | — | 856 |
| | 732 | 2,482 |

Operating lease payments mainly represent rental payables by the Group for the factory premise and office premise. Leases are negotiated for an average term of three years and rental are fixed for an average of three years.

## 34. FINANCIAL INSTRUMENTS

### a) Categories of financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| — Loan and receivables (including bank balances and cash) | 323,957 | 217,601 | 341,592 | 279,563 |
| **Financial liabilities** | | | | |
| — Other financial liabilities at amortised cost | 320,063 | 247,595 | 267,562 | 255,197 |
| — Derivative financial liabilities | 2,124 | 8 | 2,124 | 8 |

### b) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Foreign currency risk*

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cashflows. The management considers the Group is not exposed to significant foreign currency risk as majority of its operations and transactions are in the PRC with their functional currency of RMB. Therefore, no sensitivity analysis has been presented.

*(ii) Cash flow and fair value interest rate risk*

Other than deposits held in banks and other financial institutions, the Group does not have significant interest-bearing assets. Any change in the interest rate from time to time is not considered to have significant impact to the Group's performance.

The Group's interest rate risk which affects its results and operating cash flows mainly arises from bank borrowings. The bank borrowings were at fixed rates and expose the Group to fair value interest rate risk.

The sensitivity analyses below have been determined based on the exposure to interest rate of non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would increase/decrease by approximately RMB400,000 (2009: increase/decrease by RMB133,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

***Credit risk***

As at 31 December 2010, the Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

As at 31 December 2010, the Group has certain concentration of credit risk as 13% (2009: 15%) of the total trade and bills receivables were due from the Group's largest trade debtor.

With respect to credit risk arising from the other financial assets of the Group which comprise of bank balances, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances/deposits from these entities.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of short-term bank borrowings and ensures compliance with loan covenants. As at 31 December 2010 and 2009, other financial liabilities including trade and other payables and short-term bank borrowings of the Group are all due for settlement contractually within one year.

**c) Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

— the fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

— the fair value of derivative instruments are calculated using quoted prices.

***Fair value measurements recognised in the consolidated statement of financial position***

— Level 1 fair value measurements are those derived from quoted (unadjusted) in active markets for identical assets or liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2010, the financial instrument measured at fair value of the Group is the commodity futures contracts entered into by the Group, which is classified as derivative financial liabilities and measured by the quoted price, and included in level 1.

Other than set out in the consolidated financial statements, the directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements appropriate their fair values.

**35. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes short-term bank borrowings, bank balances and cash and equity attributable to shareholders of the Company, which comprises issued equity and reserves. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new borrowings or repayment of existing borrowings.

The Group monitors capital risk using a gearing ratio. This ratio is calculated as total borrowings. divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheets, plus net debt. As at 31 December 2010, the Group's equity ratio was 11.43% (2009: 17.64%). The directors are of the opinion that the Group's capital risk is low.

## 36. DEREGISTRATION OF SUBSIDIARIES

During the year ended 31 December 2009, the Group deregistered two of its subsidiaries, Zhaoqing Tianye and Tianrui.

The net assets of Zhaoqing Tianye and Tianrui at the respective dates of deregistration were as follows:

| | Zhaoqing Tianye | Tianrui | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Net assets at the date of deregistration: | | | |
| Trade and other receivables | 6,000 | 600 | 6,600 |
| Minority shareholders | (5,857) | (380) | (6,237) |
| Net assets | 143 | 220 | 363 |
| Loss on deregistration | (143) | (220) | (363) |
| | — | — | — |

The deregistered subsidiaries during the year recorded a loss of approximately RMB1,605,000 and paid approximately RMB1,204,000 to the Group's net operating cash flows. The deregistered subsidiaries had no significant impact on the Group's investing and financing cash flows.

## 37. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had entered into the following significant transactions with Tianye Holdings Group which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary and usual course of the Group's business:

| | | Group | |
|---|---|---|---|
| | | 2010 | 2009 |
| **Nature of transactions/business** | *Notes* | *RMB'000* | *RMB'000* |
| Sales of finished goods | (i) | 4,256 | 8,558 |
| Purchase of raw materials | (i) | 69,564 | 68,535 |
| Purchase of property, plant and equipment | (i) | — | 15 |
| Rentals of premises | (ii) | 1,464 | 1,464 |

*Notes:*

(i) These transactions were carried out based on normal commercial terms and with reference to prevailing market prices under the sale/purchase agreements.

(ii) Pursuant to an agreement entered into by the Company and Tianye Company in 2002 which expires on 31 October, 2012, the Company is obliged to pay an annual rental to Tianye Company for the use of a piece of land on which certain of the Company's buildings are erected. The agreement was terminated effective from 1 January 2006 and replaced by a new rental agreement for use of certain buildings and the land for a period up to 30 June 2008. The rental agreement was further extended on 1 July 2008 to a period up to 30 June 2011.

(iii) A trademark license agreement dated 1 June 2004 entered into between the Company and Tianye Company whereby Tianye Company granted to the Company the right to use a trademark for the period from 1June 2003 to 1June 2006 at nil consideration. On 25 May 2006, the trademark licence agreement has been renewed for a period from 1 June 2006 to 13 February 2011 at nil consideration.

**(b) Corporate guarantees**

As at 31 December 2010, the Group's borrowing amounted to RMB80,000,000 (2009: RMB115,000,000) are secured by the corporate guarantees given by Tianye Holdings Group.

All guarantees as at 31 December 2010 provided by Tianye Holdings Group will be released on or before 13 December 2011.

**(c)** Details of the balances with related parties are set out on the consolidated statement of financial position and Notes 21.

**(d) Compensation to key management personnel**

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

| | **Group** | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Short-term benefit | 1,929 | 1,284 |
| Post-employment benefits | 247 | 62 |
| Total | 2,176 | 1,346 |

Details of the remuneration paid to the directors and supervisors are set out in Note 9. The remuneration to the key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Tianye Holdings which is controlled by the PRC government. Apart from the transactions with Tianye Holdings Group as disclosed in Note 37 above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transaction/balances with other state-controlled entities are as follows:

**(a) Material transactions**

| Nature of transaction | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Sales of goods | 109,130 | 242,614 |
| Purchase of raw material | 118,009 | 144,327 |
| Interest expenses | 3,156 | 14,512 |
| Interest income | 274 | 32 |

**(b) Material balances**

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Bank balances | 125,801 | 57,676 |
| Trade and other receivables | 29,115 | 125,012 |
| Trade and other payables | 901 | 4,148 |
| Short-term bank borrowings | 80,000 | 117,000 |

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

## 4. STATEMENT OF INDEBTEDNESS

At the close of business on 31 March 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group had short term secured bank loan of RMB80,000,000 which were secured by corporate guarantee by Tianye Holdings Group.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 March 2011, the Group did not have any outstanding bank overdrafts, loans indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or material contingent liabilities.

As at the date of business on 31 March 2011, the Group did not have any debt securities issued and outstanding and authorised or otherwise created but unissued, and term loans.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 March 2011.

## 5. MATERIAL CHANGES

The Directors have confirmed that, save and except for the below, there has been no material changes in the financial or trading position or outlook of the Company since 31 December 2010, being the date to which the latest audited financial statement of the Company were made up, up to and including the Latest Practicable Date:

### (a) First quarterly results for the three months ended 31 March 2011 ("First Quarterly Results")

As disclosed in the First Quarterly Results, the Group recorded an unaudited consolidated revenue of approximately RMB165.34 million for the three months ended 31 March 2011, representing an increase of approximately 52.74% from the same period in 2010; an unaudited consolidated net profit of the Company of approximately RMB6.02 million for the three months ended 31 March 2011, representing an increase of approximately 6.8 times; and an unaudited consolidated net asset of approximately RMB705.15 million. The cash and cash equivalents of the Company decreased from approximately RMB125.80 million as at 31 December 2010 to approximately RMB86.40 million as at 31 March 2011. The decrease in cash and cash equivalents of the Company was mainly attributable to the increase in the purchase of raw materials of approximately RMB46.5 million during the first quarter of 2011.

### (b) Material contract

As disclosed in the First Quarterly Results, on 6 March 2011, the Company entered into a sales agreement with 吉林省節水灌溉發展有限公司, pursuant to this, the Company secured a water-saving irrigation system contract in China which covers one-time implementation of approximately 100,000 acres of farmland. The Directors believe that the successful fulfillment of the contract will be helpful to promote large-scale applications of the Group's products in China.

## 1. RESPONSIBILITY STATEMENT

The Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group, Tianye Holdings, Long Thrive and the H Share Offer.

All Directors jointly and severally accept full responsibility for the accuracy of information contained in the Composite Document (other than the information in relation to Tianye Holdings and Long Thrive and their intention on the Group and parties acting in concert with them) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by Tianye Holdings and Long Thrive) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

All directors of Tianye Holdings jointly and severally accept full responsibility for the accuracy of information contained in the Composite Document (other than those relating to the Company and Long Thrive) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Company and Long Thrive) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

The sole director of Long Thrive accepts full responsibility for the accuracy of information contained in the Composite Document (other than those relating to the Company and Tianye Holdings) and confirms, having made all reasonable inquiries, that to the best of her knowledge, opinions expressed in the Composite Document (other than those expressed by the Company and Tianye Holdings) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

## 2. SHARE CAPITAL

| | Registered, issued and fully paid | | | | | |
|---|---|---|---|---|---|---|
| | **Domestic Shares** | | **H Shares** | | **Total** | |
| | *No. of shares* | *RMB'000* | *No. of shares* | *RMB'000* | *No. of shares* | *RMB'000* |
| As at the Latest Practicable Date | 317,121,560 | 317,121,560 | 202,400,000 | 202,400,000 | 519,521,560 | 519,521,560 |

All the Domestic Shares and H Shares are fully paid up or credited as fully paid and holders of Domestic Shares and H Shares have the same voting rights and interests in capital and the right to receive dividend except that dividends to holders of H Shares are declared in Renminbi but paid in Hong Kong dollars.

As at the Latest Practicable Date, the Company did not have any outstanding warrants or options or derivatives to acquire Shares or other securities which are convertible into Shares.

The issued Shares are listed and traded on the Main Board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchange.

The Company has not issued any Shares since 31 December 2010 being the end of the last financial year of the Company, and up to the Latest Practicable Date.

## 3. DISCLOSURE OF INTERESTS

### Directors, Supervisors and chief executive of the Company

*Directors', Supervisors' and chief executives' interests in Shares, underlying Shares and debentures of the Company or its associated corporations*

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

| Name of Director/ Supervisor | Name of company/ associated corporation | Capacity | Number and class of securities *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Shi Xiang Shen *(Director)* | Tianye Company *(Note 2)* | Beneficial owner | 34,864 Domestic Shares (L) | 0.008% |
| Huang Jun Lin *(Supervisor)* | Tianye Company | Beneficial owner | 53,248 Domestic Shares (L) | 0.012% |

*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 9 June 1997, and 438,592,000 A shares of which are listed in the Shanghai Stock Exchange.

(b) As at the Latest Practicable Date, 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 corporations.

**Substantial Shareholders of the Company**

*(A) Substantial Shareholders*

As at the Latest Practicable Date, 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 the Directors, Supervisors or chief executives of the Company) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

| Name | Capacity | Number of Shares held *(Note 1)* | Class of Shares | Approximate percentage of the total issued share capital of the Company *(Note 2)* | Approximate percentage of H Shares |
|---|---|---|---|---|---|
| Tianye Company | Beneficial owner | 202,164,995 (L) | Domestic Shares | 38.91% | |
| Tianye Holdings | Interest in controlled corporation | 313,886,921 (L) *(Notes 3 and 4)* | Domestic Chares | 60.42% | |
| Thames River Capital LLP | Investment manager | 12,000,000 (L) | H Shares | | 5.93% |
| JPMorgan Chase & Co. | Investment manager | 10,744,000 (L)<br>10,744,000 (P) | H Shares | | 5.31% |
| Norges Bank | Investment manager | 10,744,000 (L) | H Shares | | 5.31% |

*Notes:*

1. "L" — long position;

   "S" — short position;

   "P" — lending pool.

2. The approximately percentage of shareholding is calculated with reference to the total issued Share of 519,521,560 Shares (including Domestic Shares and H Shares).

3. Tianye Holdings' interest in the Shares comprises 111,721,926 Domestic Shares (acquired under the Share Transfer Agreements) held by it and the 202,164,995 Domestic Shares held by Tianye Company, which are deemed to be interested by it.

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 the Latest Practicable Date, save for the persons or entities disclosed in subsection (A) above, no other persons or entities (other than the 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.

As at the Latest Practicable Date, 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.

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's Shares or underlying Shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 4. INTERESTS OF TIANYE HOLDINGS AND/OR LONG THRIVE AND/OR THEIR RESPECTIVE DIRECTORS AND/OR ANY PARTIES ACTING IN CONCERT WITH EITHER OF THEM IN THE COMPANY

As at the Latest Practicable Date, apart from 202,164,995 Domestic Shares beneficially owned by Tianye Company and the Sale Shares acquired by Tianye Holdings under the Share Transfer Agreements, none of Tianye Holdings, Long Thrive or any parties acting in concert with either of them or any of their respective directors owned or controlled any Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares.

## 5. INTERESTS OF THE COMPANY AND/OR ITS DIRECTORS IN THE SECURITIES OF TIANYE HOLDINGS AND/OR LONG THRIVE

As at the Latest Practicable Date, none of the Company, any member of the Group, any Directors or any pension fund of the Company had any interest in any shares of Tianye Holdings or Long Thrive, options, convertible notes, derivatives, warrants or other securities convertible into shares of Tianye Holdings or Long Thrive.

## 6. OTHER INTERESTS

As at the Latest Practicable Date,

i. none of the professional advisers named under the paragraph headed "Experts and consents" below in this appendix owned or controlled any Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares;

ii. no Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;

iii. no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;

iv. no Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares were managed on a discretionary basis by fund managers connected with the Company;

v. no Director(s) has interest in any Shares;

vi. there were no Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares which any Directors or the Company had borrowed or lent; and

vii. no person has irrevocably committed to accepting or rejecting the H Share Offer.

## 7. DEALINGS IN SECURITIES OF THE COMPANY

During the Relevant Period,

i. none of the Directors had dealt in any Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares;

ii. save for the acquisition of Sale Shares, none of Tianye Holdings, Long Thrive, any of their directors or any parties acting in concert with either of them had dealt in any Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares;

iii. no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Tianye Holdings or Long Thrive or any parties acting in concert with either of them;

iv. there were no Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares which Tianye Holdings or Long Thrive or any parties acting in concert with either of them has borrowed or lent;

v. no person, if any, with whom the Company has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and no person, if any, who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code had dealt in the Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares;

vi. none of the subsidiaries of the Company or any pension fund of any member of the Group or any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code had dealt in any Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares;

vii. no fund managers connected with the Company who managed funds on a discretionary basis had dealt in the Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares; and

viii. no person had an arrangement of the kind referred to in the third paragraph Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over the Shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing) with Tianye Holdings or Long Thrive or any parties acting in concert with either of them had dealt in the Shares, options, convertible notes, derivatives, warrants or other securities convertible into Shares.

## 8. DEALINGS IN SECURITIES OF TIANYE HOLDINGS AND/OR LONG THRIVE

During the Relevant Period, none of the Directors and the Company had dealt in any share of Tianye Holdings and/or Long Thrive, options, convertible notes, derivatives, warrants or other securities convertible into shares of Tianye Holdings and/or Long Thrive.

## 9. OTHER DEALINGS AND ARRANGEMENTS

i. There was no agreement, arrangement or understanding that the securities acquired in pursuance of the H Share Offer will be transferred, charged or pledged to any other persons; and unless otherwise required by the Listing Rules with regard to the public float requirements, Tianye Holdings and Long Thrive, or any parties acting in concert with any of them have no intention to transfer any such securities acquired in pursuance of the H Share Offer.

ii. None of Tianye Holdings and Long Thrive, or any parties acting in concert with any of them, has any arrangement of the kind referred to in the third paragraph in Note 8 to Rule 22 of the Takeovers Code with any other person.

iii. As at the Latest Practicable Date, no benefit (other than statutory compensation) has been and will be given to any Director as compensation for loss of office or otherwise in connection with the H Share Offer.

iv. As at the Latest Practicable Date, save for the Share Transfer Agreements and the agreement dated 21 April 2011 between Tianye Holdings, Long Thrive and Ms. Chow to form a consortium for the purpose of making the H Share Offer, there was no agreement, arrangement or understanding (including any compensation arrangement) between Tianye Holdings, Long Thrive or any party acting in concert with any of them and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the H Share Offer.

v. As at the Latest Practicable Date, there were no agreements or arrangements to which Tianye Holdings and/or Long Thrive was a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the H Share Offer.

vi. As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the H Share Offer or otherwise connected with the H Share Offer.

vii. As at the Latest Practicable Date, there was no material contract entered into by Tianye Holdings and/or Long Thrive in which any Director has a material personal interest.

## 10. SERVICE CONTRACTS

Under the service agreement entered into between Mr. Hou Guo Jun and the Company dated 18 August 2010, Mr. Hou will accept such offices in the Group for a term of 3 years and is not entitled to any fixed annual emolument (which is subject to variation by Shareholders in general meeting) but only a discretionary bonus determined based on the financial performance of the Group and Mr. Hou's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Shi Xiang Shen and the Company dated 18 August 2010, Mr. Shi will accept such offices in the Group for a term of 3 years and is not entitled to any fixed annual emolument (which is subject to variation by Shareholders in general meeting) but only a discretionary bonus determined based on the financial performance of the Group and Mr. Shi's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Yin Xiu Fa and the Company dated 18 August 2010, Mr. Yin will accept such offices in the Group for a term of 3 years and is not entitled to any fixed annual emolument (which is subject to variation by Shareholders in general meeting) but only a discretionary bonus determined based on the financial performance of the Group and Mr. Yin's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Li Shuang Quan and the Company dated 18 August 2010, Mr. Li will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB220,000 (which is subject to variation by Shareholders in general meeting) and also a discretionary bonus determined based on the financial performance of the Group and Mr. Li's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Zhu Jia Ji and the Company dated 18 August 2010, Mr. Zhu will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB190,000 (which is subject to variation by Shareholders in general meeting) and also a discretionary bonus determined based on the financial performance of the Group and Mr. Zhu's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Chen Lin and the Company dated 18 August 2010, Mr. Chen will accept such offices in the Group for a term of 3 years and is not entitled to any fixed annual emolument (which is subject to variation by Shareholders in general meeting) but only a discretionary bonus determined based on the financial performance of the Group and Mr. Chen's performance during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Gu Lie Feng and the Company dated 18 August 2010, Mr. Gu will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB30,000 (which is subject to variation by Shareholders in general meeting) during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Wang Yun and the Company dated 18 August 2010, Mr. Wang will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB30,000 (which is subject to variation by Shareholders in general meeting) during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Mak King Sau and the Company dated 18 August 2010, Mr. Mak will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of HK60,000 (which is subject to variation by Shareholders in general meeting) during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. He Lin Wang and the Company dated 18 August 2010, Mr. He will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB30,000 (which is subject to variation by Shareholders in general meeting) during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

Under the service agreement entered into between Mr. Xia Jun Min and the Company dated 18 August 2010, Mr. Xia will accept such offices in the Group for a term of 3 years and is entitled to a fixed annual emolument of RMB30,000 (which is subject to variation by Shareholders in general meeting) during the term of service. Such agreement will expire on 17 August 2013, subject to renewal.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which:

(i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period;

(ii) were continuous contracts with a notice period of 12 months or more; or

(iii) were fixed term contracts with more than 12 months to run irrespective of the notice period.

## 11. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contract (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by members of the Group after the date two years preceding 7 March 2011 and up to the Latest Practicable Date, and are or may be material:

(a) A sale and purchase agreement dated 3 November 2009 entered into between Xinjiang Shihezi Zhongfa Chemical Company Limited, Gao Jin Ming, Wang Hong Tao, Chen Wei Zhong, collectively as sellers and the Company as purchaser in relation to the purchase of the equity interest in Gansu Tianye Water Saving Equipment Company Limited for a total consideration of approximately RMB1,204,000.

## 12. LITIGATION

As at the Latest Practicable Date, the Company was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Company.

## 13. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given their opinion or advice which is contained in the Composite Document:

| Name | Qualifications |
|---|---|
| Bridge Partners | a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities |
| Goldin Equities | a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities |
| Goldin Financial | a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity |

Each of Bridge Partners, Goldin Equities and Goldin Financial has given and has not withdrawn its written consent to the issue of the Composite Document with the inclusion of its letter and/or references to its name in the form and context in which they appear.

## 14. MARKET PRICE

The table below shows the closing price of the H Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period and ending on the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last trading day immediately before the date of the Joint Announcement; and (iv) the Latest Practicable Date:

| Date | Closing price per H Share *HK$* |
|---|---|
| 30 September 2010 | 1.08 |
| 29 October 2010 | 1.21 |
| 30 November 2010 | 1.20 |
| 31 December 2010 | 1.17 |
| 31 January 2011 | 1.35 |
| 22 February 2011 (being the Last Trading Day) | 1.87 |
| 28 February 2011 | Suspended |
| 31 March 2011 | 1.41 |
| 21 April 2011 (being the last trading day immediately before the date of the Joint Announcement) | 1.71 |
| 29 April 2011 | Suspended |
| 23 May 2011 (being the Latest Practicable Date) | 1.40 |

The highest and lowest closing market prices of the H Shares during the Relevant Period were HK$1.87 on 22 February 2011 and HK$1.02 on 8 September 2010 respectively.

## 15. MISCELLANEOUS

(a) The registered office of the Company in the PRC is at No. 36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

(b) The principal place of business of the Company in Hong Kong is at Unit 2209, 22/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

(c) The registered address of Tianye Holdings and the correspondence address of its directors is at No. 36, East of North 3 Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

(d) The registered address of Tianye Company and the correspondence address of its directors is at No. 36, East of North 3 Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC.

(e) The registered address of Long Thrive is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI and the correspondence address of Long Thrive is 29/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(f) The registered address of Goldin Equities is at 23rd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(g) The registered address of Goldin Financial is at 23rd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(h) The registered address of Bridge Partners is Unit 605, 6/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong.

(i) The H Share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(j) Unless otherwise stated, in the event of inconsistency, the English text of the Composite Document and Form of Acceptance shall prevail over the Chinese text.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the office of D.S. Cheung & Co., 29/F., Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the Company's website (http://www.tianyejieshui.com.cn) during the period the H Share Offer are open for acceptance:

(a) the articles of association of the Company;

(b) the articles of association of Tianye Holdings;

(c) the memorandum and articles of association of Long Thrive;

(d) the annual reports of the Company for the two years ended 31 December 2009 and 31 December 2010 respectively;

(e) the letter from Goldin Equities, the text of which is set out on pages 5 to 12 of the Composite Document;

(f) the letter from the Board, the text of which is set out on pages 13 to 20 of the Composite Document;

(g) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of the Composite Document;

(h) the letter of advice from Bridge Partners, the text of which is set out on pages 23 to 36 of the Composite Document;

(i) the written consents referred to in the section headed "Experts and consents" in this appendix;

(j) copies of the material contracts as referred to under the paragraph headed "Material contracts" in this appendix; and

(k) copies of the service contracts as referred to under the paragraph headed "Service contracts" in this appendix.